



CENTRAL BANK OF CYPRUS  
EUROSYSTEM

# ANNUAL REPORT 2018

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1

Governor's  
Introduction

2

Management and  
Organisation  
of the Bank

3

Economic  
Developments

4

Functions  
of the Bank

5

Financial  
Statements  
2018

6

Annex

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## CONTENTS

<b>1. Governor's introduction</b>	<b>9</b>
<b>2. Management and Organisation of the Bank</b>	<b>11</b>
2.1 Board of Directors	11
2.2 Senior Management Team	15
2.3 Organisational Chart	16
<b>3. Economic Developments</b>	<b>17</b>
External developments	17
Domestic developments	17
Inflation	17
Monetary developments	17
Interest rates	19
National accounts	19
Labour market, productivity and labour costs	20
Balance of payments	20
Real estate sector	21
Public finances	21
Forecasts	22
<b>4. Functions of the Bank</b>	<b>24</b>
<b>4.1 Regulation and Supervision of the Banking Sector</b>	<b>24</b>
Developments in the regulatory framework of banking supervision and operation of credit institutions	24
Prevention and suppression of money laundering activities	24
On-site supervision SSM	25
Supervision of institutions outside the SSM scope	25
Developments in the banking sector	25
<b>4.2 Resolution of Credit Institutions and Investment Firms</b>	<b>26</b>
Administration of the Deposit Guarantee, Resolution and Investor Compensation Funds	27
Deposit Guarantee and Resolution of Credit and Other Institutions Scheme	27
Investor Compensation Fund for Clients of Banks (ICF)	28
<b>4.3 Financial Stability</b>	<b>28</b>
Aggregate data and financial indicators for the banking sector	28
Main macroprudential policy decisions	28
Financial Stability Report	29
Participation in EU committees and working groups	29
National Financial Stability Committee (NFSC)	29
<b>4.4 Financial Market Infrastructures and Payments</b>	<b>29</b>
4.4.1 Payment, clearing and securities settlement systems and payment instruments in Cyprus	30
<i>Real-time Gross Settlement System</i>	30
<i>Retail Payment Systems (RPS)</i>	30
4.4.2 The CBC as the banker of the government for payment purposes	31
4.4.3 Other activities	32
Central Information Register for Issuers of Dishonoured Cheques (CIR)	32
Financial market infrastructures policy and oversight	32

<b>4.5 Euro Banknotes and Coins</b>	<b>33</b>
Cash cycle	33
Counterfeit euro banknotes and coins detected in Cyprus during 2018	34
Numismatic matters	34
• <i>Collector set</i>	34
• <i>Collector coin</i>	34
<b>4.6 Activities in the Financial Markets</b>	<b>34</b>
4.6.1 Management of reserves and other activities	34
Net financial assets	35
Participation in the management of the foreign exchange reserves of the ECB	35
4.6.2 Monetary policy implementation	35
Participation in private and public sector asset purchase programmes	37
<b>4.7 Financial Risk Management</b>	<b>37</b>
Investment operations	37
Market risk	38
<i>Interest rate risk</i>	38
<i>Foreign exchange risk</i>	38
Credit risk	38
Liquidity risk	38
Monetary policy risks	39
Risk provisioning	39
<b>4.8 Economic Analysis and Research</b>	<b>39</b>
Economic Bulletin	39
Governor support, participation in committees and working groups and visits by foreign experts	39
Other research and related activities	40
<b>4.9 Statistics</b>	<b>41</b>
Money and banking statistics	41
Financial accounts	42
Securities statistics	42
External statistics	43
General economic and government finance statistics	43
Statistical publications	43
<b>4.10 Information Technology</b>	<b>44</b>
IT systems implementation and maintenance projects	44
Information systems infrastructure management	45
Information systems security	45
<b>4.11 Human Resources</b>	<b>45</b>
Organisational development	46
Health and safety	47
Corporate social responsibility	47
<b>4.12 Legal Issues</b>	<b>48</b>
Investigation Team for the economy	48
International arbitration on investment disputes	48
Pending litigation	48
CBC's compliance with the legal framework for data protection	48

<b>4.13 General Administration Services</b>	<b>49</b>
4.13.1 Administrative Services	49
4.13.2 Security and premises	49
<b>5. Audited Financial Statements for the year 2018</b>	<b>50</b>
Balance Sheet as at 31 December 2018	51
Profit and Loss Account, 2018	53
Notes to the Financial Statements	54
Independent Auditor's Report to the Board of Directors of the Central Bank of Cyprus	78
<b>6. Annex: Committees of the CBC</b>	<b>81</b>



## TABLES AND CHARTS

## TABLES

3.1	Balance of payments (main categories)	21
3.2	Accounts of general government	22
4.1	Participants in TARGET2-CY	30

## CHARTS

3.1	GDP in selected countries	17
3.2	Inflation in selected countries	17
3.3	Inflation in Cyprus	18
3.4	Loans to the domestic private sector	18
3.5	Deposits of the domestic private sector	18
3.6	MFI interest rates on euro-denominated loans (new business) to euro area residents	19
3.7	Euro area MFI interest rates on euro-denominated deposits (new business) by euro area residents	19
3.8	Weighted contributions to GDP growth by economic activity	20
3.9	Unemployment and employment	20
3.10	Compensation per employee, productivity and unit labour costs	20
3.11	General government consolidated gross debt	22
4.1	TARGET2-CY cross-border payments 2014-2018	30
4.2	TARGET2-CY domestic payments 2014-2018	30
4.3	CCH cheque clearing	31
4.4	SEPA direct debits cleared in the domestic payment system SDD	31
4.5	Value of broader public sector payments through CBC	32
4.6	Annual average monthly listings in the main register and the preliminary register	32

## BOX

1	Purchases of Cyprus Government Bonds	36
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## ABBREVIATIONS AND CONVENTIONS

## ABBREVIATIONS

ACI	Authorised Credit Institution
CBC	Central Bank of Cyprus
CCH	Cyprus Clearing House
CCyB	Countercyclical Capital Buffer
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
DGS	Deposit Guarantee and Resolution of Credit and Other Institutions Scheme
EBA	European Banking Authority
ECB	European Central Bank
EFC	Economic and Financial Committee
ESCB	European System of Central Banks
ESRB	European Systemic Risk Board
EU	European Union
Eurostat	Statistical Office of the European Union
FSC	Financial Stability Committee
GDP	Gross Domestic Product
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
MFI	Monetary Financial Institutions
NPLs	Non-Performing Loans
RMS	Records Management System
SEPA	Single Euro Payments Area
SMP	Securities Markets Programme
SPEs	Special Purpose Entities
SSM	Single Supervisory Mechanism
TARGET2	Trans-European Automated Real-time Gross settlement Express Transfer system - second generation

## CONVENTIONS

€	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 2019.



## 1. Governor's introduction

GDP continued its positive trend in 2018, albeit with a slight deceleration mainly reflecting the increase in domestic demand. During the first nine months of 2018 (for which data was available at the time of preparation of this Report) GDP recorded an increase of 3,8%, compared with 4,5% in the same period of the previous year. Economic growth was broadly based, with the exception of the financial and insurance activities sector which exhibited a decline due to the ongoing deleveraging of loans. The positive performance of the economy is also reflected in the upgrade of sovereign bonds to investment grade by three international rating agencies at the end of 2018.

For the year as a whole, GDP growth is estimated at 3,8% compared with 4,2% in 2017 and 4,8% in 2016. The small slowdown in GDP was expected after its strong corrective rebound in the previous two years. According to the Labour Force Survey (LFS), the strong economic activity resulted in a reduction in the unemployment rate. In 2018Q3, unemployment fell to 7,8% from 10% in 2017Q3, demonstrating the strength in the recovery of the labour market.

Domestic inflation (Harmonised Index of Consumer Prices) recorded a slight increase, reaching 0,8% in 2018, compared with 0,7% in 2017. Inflation remained below expected levels, *inter alia*, due to increased competition and lower prices of imported goods. A moderate upward impact on inflation was exerted by higher oil prices and a slight increase in wages.

As regards public finances, they were affected by the impact of the Cyprus Cooperative Bank (CCB) transaction, which caused the budget balance to become negative, reaching -3,5% of

GDP in the first nine months of 2018. Adjusted, however, for this non-recurring expenditure, it recorded a budget surplus of 3,8% until November 2018, with the primary surplus reaching 5,9%, compared with 2,4% and 4,8%, respectively, a year earlier. Based on the above, public debt has followed a downward path. However, the recent demands by various groups for higher public spending need to be resisted.

In 2018 the main development regarding the domestic banking sector's consolidation process, was the purchase of the assets and liabilities of the CCB by Hellenic Bank and the transfer of the CCB's NPEs off the banks' balance sheet. As a result, in September 2018 there was a dramatic drop in the level of NPEs in the banking system. NPE sales and the reclassification of loans as debt securities available for sale also contributed to this reduction. Despite significant progress, the NPEs remain at levels significantly higher than those in other countries of the euro area, limiting the lending ability of the banking sector. Due to the strengthening of the legislative framework that took place in 2018, continued strong economic growth and the implementation of the forthcoming ESTIA scheme, a further reduction in NPEs is expected in the future.

Regarding monetary developments in 2018, the number of new lending contracts stabilised but demand for new loans continued to record an increase amid growing economic activity and a historically low interest rate environment. However, the increased repayments, the settlements of past debts through debt-for-asset swaps and the strict lending criteria greatly dampened the growth of net total loans. This process of



deleveraging of corporate and household balance sheets is important because of the need to reduce the excessively high level of private debt. Meanwhile, deposit inflows from domestic residents continued in 2018, albeit at a slower pace, due to the uncertainty created in connection with the CCB in the middle of the year.

The rise in GDP in 2018 and the positive developments in the banking sector should not lead to

a loosening of fiscal discipline or a slowdown in structural reforms that are underway. The path to sustainable growth and full employment has not reached the desired levels. Many of the effects of the crisis have yet to be fully corrected, thus there is no room for complacency.

**Chrystalla Georghadji**  
**Governor**

## 2. MANAGEMENT AND ORGANISATION OF THE BANK

### 2.1 BOARD OF DIRECTORS



**Chrystalla  
Georghadji**



**Constantinos  
Herodotou**



**Stavros  
Evagorou**

#### **Chrystalla Georghadji**

Governor and Chairperson from 11 April 2014.

#### **Constantinos Herodotou**

Constantinos Herodotou graduated from University College London (UCL) in 1996 with a Bachelor of Science (BSc) in Economics (First Class Honours and an award for his performance). In 2001, he completed a Master in Business Administration (MBA) with Distinction (top 10% of the year's class) at London Business School.

He joined UBS Investment Bank in 2001 in London, where he worked for almost all of his investment banking career and rose through the ranks to head concurrently two sectors for the investment bank. He was Head of Shipping for Europe, Middle East and Africa and simultaneously Headed Infrastructure & Concessions / Project Finance for Central & Eastern Europe. He relaunched both sectors and developed them into multi-million annual revenue businesses. He has advised governments as well as private sector conglomerates and companies on major financial transactions and strategy, totalling an approximate value of over €50 billion. His experience includes structuring and heading complex negotiations, mergers and acquisitions, project concessions,

listing companies on stock exchanges (NASDAQ and NYSE), structuring and raising equity and debt (bank financing as well as bonds) capital, corporate and financial restructurings and project finance. In June 2014 he relocated to Cyprus to take up the role of Commissioner of Privatisations and in March 2017 he was appointed as an executive member of the CBC Board.

#### **Stavros Evagorou**

Stavros Evagorou received a Bachelor of Science (BSc) and a Master's degree in Economics from the University of Economics, Prague in the Czech Republic (1979-1984). In 1993, he completed an Applied Economics research programme in the US.

From 1984-1985, he served as District Manager in the Famagusta Area for Photis Photiou Estates Ltd. From 1985-1987, he served as Accountant and Payroll Officer in Dome Hotel, Ayia Napa and from 1987-2016 he was Head of the Economic and Social Research Advisory Office of AKEL. He also held the posts of member of the Nicosia Municipal Council (1991-2001), member of the Nicosia Sewerage Board (1991-2001), member of the Nicosia Water Board (1996-2001), Member of Parliament (2001-2016), Chairman of the House of Representatives Standing Committee on Crime and on the Fight



**Makis  
Keravnos**



**Andreas  
Persianis**

Against Drugs and Addictive Substances (2006-2011), Head of the Delegation of the House of Representatives to the Parliamentary Assembly of the Organisation for Security and Co-operation in Europe (OSCE) (2003-2009), member of the House of Representatives Standing Committee on Financial and Budgetary Affairs (2001-2016) and Deputy Parliamentary Spokesman (2011-2016). Furthermore, he has been a member of the Board of Directors of Eurocypria Airlines Ltd (1993-1998), member of the Board of Directors of Cyprus Airways Public Ltd (1998-2001) and Chairman of Demetra Investment Public Ltd (2005-2009). He has published many articles in economic magazines and newspapers, as well as the book on “The Future of Cooperative Banks in the European Union”. He was appointed as a non-executive member of the CBC Board in March 2017.

#### **Makis Keravnos**

Makis Keravnos studied Economics at the University of Athens (1973-1977). He then completed his post-graduate studies in Development Economics (1978-1979) and in Industrial Relations (1986). With a scholarship granted by the United Nations Development Programme, he attended Oxford Brookes University where he studied New Technology and Human Resource Management. In addition, he underwent professional training in the area of Human Resource Management and the provision of consultancy services for small to medium-sized enterprises, through the ETP programme of the European Foundation for Management Development.

For a number of years, he worked in managerial positions in large companies in Cyprus and abroad. Between 1983 and 2003, he served as senior officer in the Training and Development Directorate and the Research and Planning Directorate at the Human Resource Development Authority of Cyprus. In March 2003, he was appointed Minister of Labour and Social Insurance and from May 2004 until the end of 2005 he served as Minister of Finance. In September 2005, he was appointed CEO and member of the Board of Directors of Hellenic Bank, where he served until September 2014. From 2006 until 2009, he served as Chairman of the Board of Directors of the Cyprus Broadcasting Corporation and from 2008 until 2014 he served as Chairman of the Board of Directors of HellenicAlico Life Insurance Company. He was a founder member of the Pancyprian Association of Economists where he served as President for over three decades. Since 2015, he has been a freelance consultant in the fields of finance, management, strategic planning and business development. He has lectured at the University of Cyprus and the Centre for European and International Affairs of the University of Nicosia and has been a speaker at international conferences. He has published a number of articles in academic journals and newspapers. He was appointed as a non-executive member of the CBC Board in October 2018.

#### **Andreas Persianis**

Andreas Persianis graduated from the University of Cambridge in 1986 with an undergraduate





**Yiannis Savvides**



**Ioannis Charilaou**

(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.

#### **Yiannis Savvides**

Yiannis Savvides received a Bachelor of Arts (BA) in Business Studies from The Philips College. Simultaneously, he received a Diploma in Marketing from the Chartered Institute of Marketing and a Master of Business Administration (MBA) from the University of Newcastle-Upon Tyne. He is a member of the Association of Chartered Certified Accountants (ACCA) and a member of the Institute of Certified Public Accountants of Cyprus (ICPAC).

Between 1997 and 2009, he served as Financial Controller in various private and public companies covering a wide range of sectors such as trading, manufacturing, insurance underwriting and car

dealership. He gained in-depth experience in financial re-engineering, company re-structuring, special IT projects and the listing of companies. In 2009 he joined Aphrodite Hills Resort Ltd, one of the biggest resorts in the Middle East, where he worked as Financial Controller. Between 2015 and 2017 he served as the company's Group Chief Financial Officer (CFO) as well as Executive Director of its subsidiaries. From 2014 until 2016, he served as a non-executive Director on the Board of the Cyprus Ports Authority and as a member of the internal auditing committee. Since 2017 he has been serving as a partner in the audit firm A.V. Savvides & Partners Ltd. He was appointed as a non-executive member of the CBC Board in October 2018.

#### **Ioannis Charilaou**

Ioannis Charilaou received a Master in Business Administration (MBA) from the University of Leicester. He is a Chartered Certified Accountant, member of the Association of Chartered Certified Accountants (FCCA) of the UK, member of the Association of International Accountants (FAIA) of the UK, member of the Institute of Certified Public Accountants of Cyprus (ICPAC) and member of the Association of Certified Fraud Examiners (CFE) of the US. He was elected as Chairman of ICPAC from 2013 until 2015 and, prior to that, he served as member, secretary and Vice-Chairman of the same Institute for a consecutive number of years.

From 1988 until 1997, he worked in the Internal Audit Department of the Cyprus Telecommunications Authority. From 1997 until September 2003,



he worked at the Central Ecclesiastical Fund and at the Audit Department of the Church of Cyprus. Since September 2003, he has been the Chief Executive Officer of the Central Ecclesiastical Fund and the Auditor General of the Church of Cyprus. Between 2005 and 2014, he served on the Board of Hellenic Bank and, for a consecutive number of years, he was a member and then Chairman of the bank's Risk Management Committee as well as member of the Audit Committee. From 2005 until recently, he was a member of Pancyprian Insurance

Company Ltd, holding at times the post of Chairman and Vice-Chairman of the Company's Board of Directors. From June 2015 until recently, he served as the first Chairman of the Governmental Examination Committee for Insolvency Practitioners. Additionally, he is a member of the Board of Directors of KEO Public Limited Company as well as a member of the Board of Directors of various companies belonging to the Hellenic Mining Company Group. He was appointed as a non-executive member of the CBC Board in October 2016.

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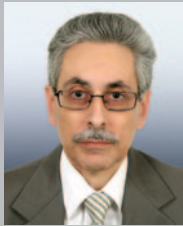
**Members of the Board who left in 2018:**

Michalis Polydorides - 25 July 2018.  
George Syrichas - 18 September 2018.  
Philippos Mannaris - 15 October 2018.

## 2.2 SENIOR MANAGEMENT TEAM



**Chrystalla Georghadji**  
Governor



**C. Papadopoulos**  
Senior Director



**P. Frank**  
Senior Director



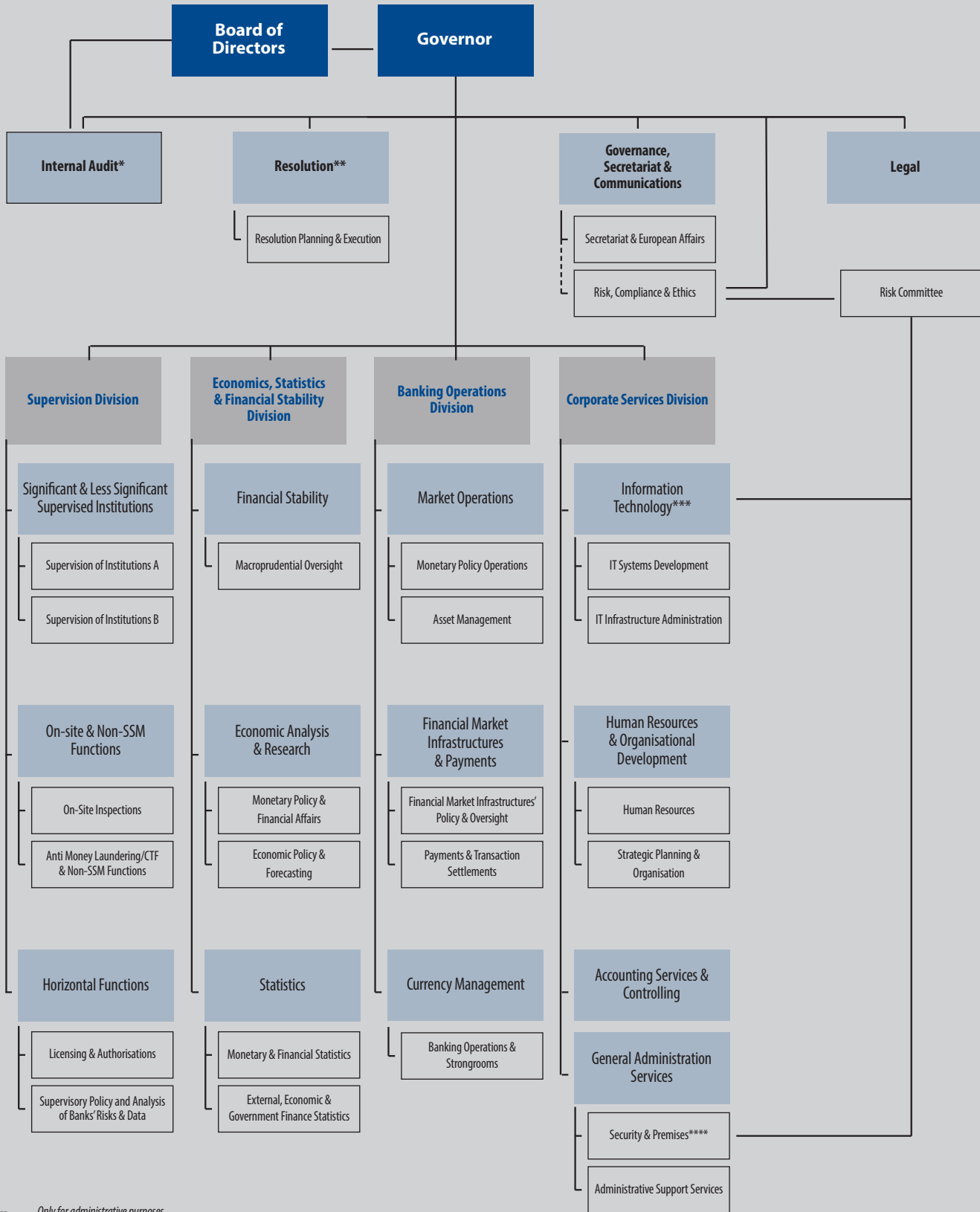
**Y. Demetriou**  
Acting Senior Director



**K. Stavrou**  
Acting Senior Director



2.3 ORGANISATIONAL CHART



--- Only for administrative purposes

\* Internal Audit reports to the Governor as per article 119(3) of the Constitution and to the Board's Audit Committee as per article 60(A) of the CBC Laws.

\*\* Includes the Administration of Deposit Protection & Investor Clients of Banks' Compensation Funds

\*\*\* Includes, only for administrative purpose, IT Security, which reports directly to the Risk Committee for horizontal issues

\*\*\*\* Reports directly to the Risk Committee on horizontal issues

Department      Section



### 3. Economic Developments

#### External developments

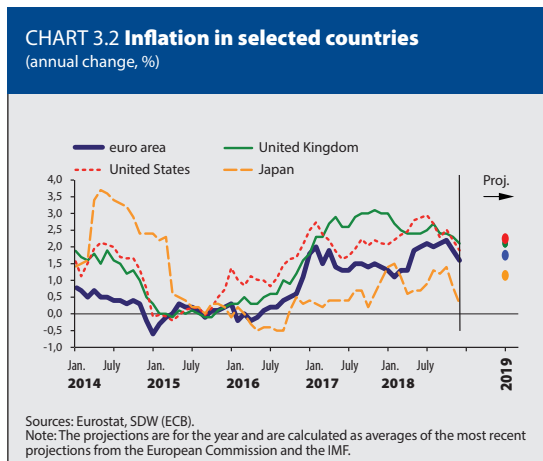
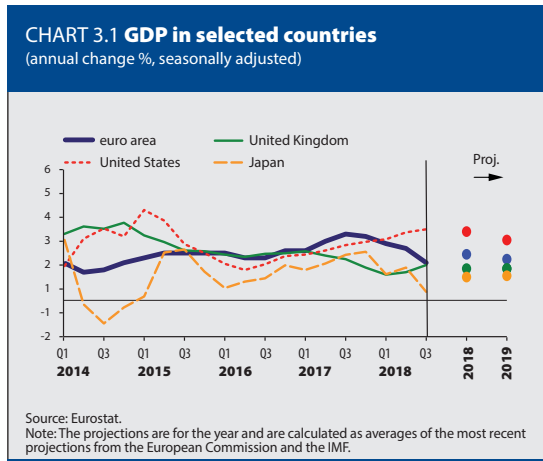
While global economic activity remained strong in 2018, there were signs of a deceleration by the end of the year. The maturing global economic cycle, the reduction of monetary support in advanced economies and the impact of the imposition of tariffs on traded goods between the United States and China have restrained global economic activity. As a result, GDP growth is expected to slow down in 2019 and stabilise over the next two years (Chart 3.1).

Global inflation recorded a small increase in 2018 compared with 2017, mainly due to the upward impact of energy prices. According to the projections of international institutions and analysts, global inflation in most major developed countries is expected to stabilise or slightly decelerate in 2019, mainly due to the expected decline in oil prices (Chart 3.2).

#### Domestic developments

##### Inflation

Domestic headline inflation, as measured by the Harmonised Index of Consumer Prices (HICP), registered a marginal increase, reaching 0,8% in 2018 compared with 0,7% in 2017. The higher oil prices and the small increase in wages had a moderate positive impact on inflation. In contrast, the decline in non-energy industrial goods prices contributed negatively to overall inflation, on the back of increased competition and a decrease in the prices of imports. As a result, both inflation



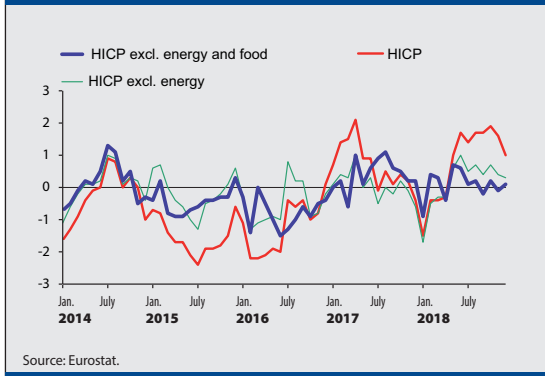
excluding energy and inflation excluding energy and food (core inflation) were only marginally positive in 2018 (Chart 3.3, p. 18).

##### Monetary developments<sup>1,2</sup>

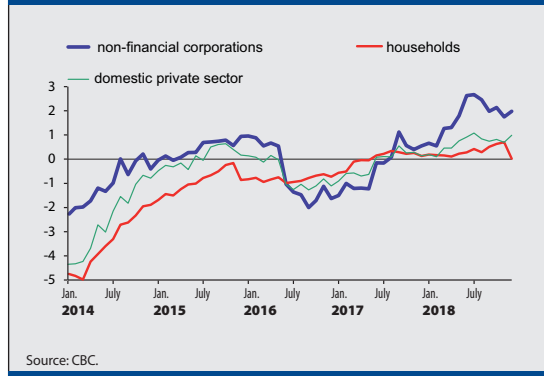
Further consolidation in the domestic financial sector in 2018 resulted from the transfer of certain assets and liabilities of the Cyprus Co-operative Bank (CCB) to Hellenic Bank and the subsequent transfer of the CCB's non-performing facilities (NPFs) to an asset management company. As a result, by September 2018 (latest available data) there was a

1. All monetary data, including interest rates, unless otherwise indicated, refer to data excluding the CBC and/or the Eurosystem. It should also be noted that data referring to residents of Cyprus and analysed in this section exclude special purpose entities (SPEs).
2. For details on the calculation of transactions and annual growth rates, please refer to the CBC's *Monetary and Financial Statistics*, which is available on the CBC website (<https://www.centralbank.cy>).

**CHART 3.3 Inflation in Cyprus**  
(annual change, %)



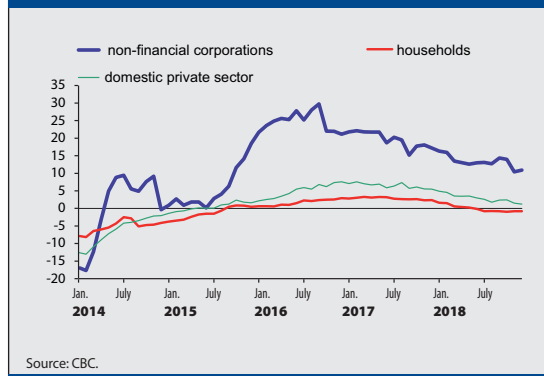
**CHART 3.4 Loans to the domestic private sector**  
(annual change, %)



sharp decrease in the level of NPFs. Factors such as the sale of NPFs and the reclassification of loans as debt instruments held for sale also contributed to this drop. Despite significant progress, the level of NPFs remains high compared with the respective euro area levels and it continues to impair the domestic banking sector and restrict the supply of new lending. Looking ahead, further reductions in NPFs are expected due to the strengthening of the relevant legislative framework and the forthcoming implementation of the ESTIA<sup>3</sup> scheme.

Regarding monetary developments, a stabilisation in new loan contracts was observed in 2018, despite increased demand for new lending driven by robust growth in economic activity and the prevailing historically low interest rate environment. Increased loan repayments, the use of debt settlements with alternative means and tightened lending criteria all acted as a constraint on the growth rate of net total loans. Specifically, loans to the domestic private sector recorded an annual increase of 1% at the end of 2018 compared with a marginal annual increase of 0,1% at the end of 2017 (Chart 3.4).

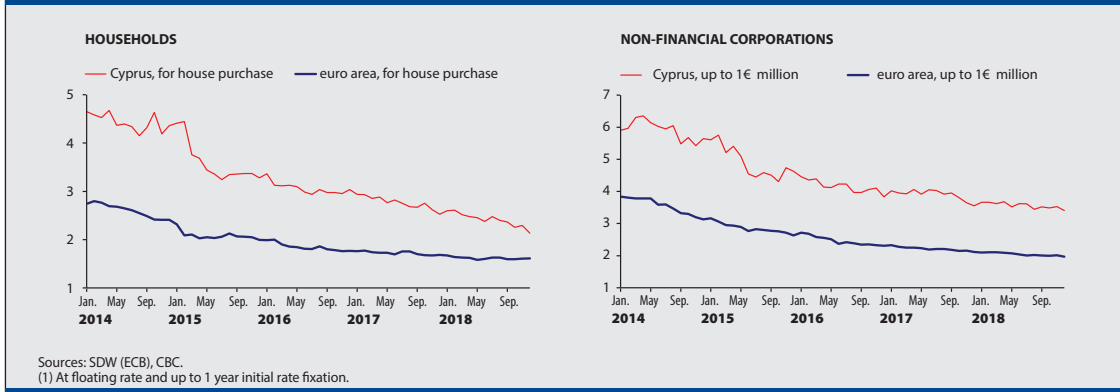
**CHART 3.5 Deposits of the domestic private sector**  
(annual change, %)



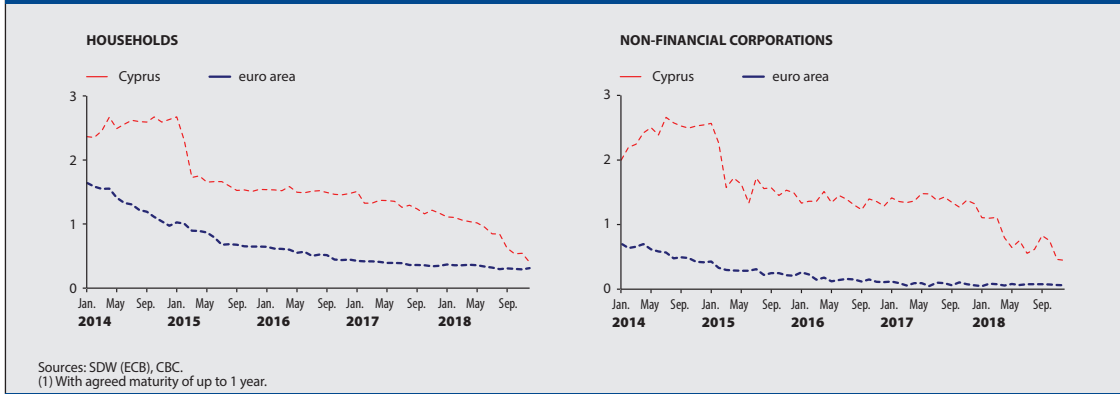
At the same time, the inflow of deposits by domestic residents continued in 2018, albeit at a slower pace, due to the uncertainty over the CCB. The annual growth rate in domestic private sector deposits reached 1,2% at end-2018, compared with 5,5% at end-2017 (Chart 3.5). Non-resident deposits (including SPEs), on the other hand, declined on an annual basis by 12,7% in December 2018 from -2,1% in December 2017, partly due to the stricter guidelines issued to banks within the context of strengthening anti-money laundering practices.

3. The ESTIA scheme, which targets NPFs collateralised by primary residence, will provide fiscal support to non-performing borrowers that meet certain eligibility criteria. The scheme is envisaged to be operational during 2019.

**CHART 3.6 MFI interest rates on euro-denominated loans (new business) to euro area residents<sup>(1)</sup>**  
(% per annum, period averages)



**CHART 3.7 Euro area MFI interest rates on euro-denominated deposits (new business) by euro area residents<sup>(1)</sup>**  
(% per annum, period averages)



**Interest rates**

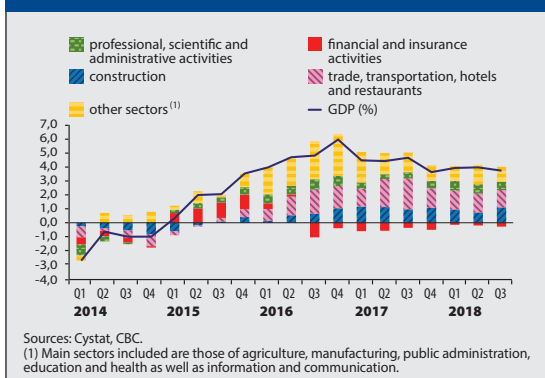
Interest rates in Cyprus declined for the fifth year in a row amid increased competition between banks and the ECB’s continued expansionary monetary policy.

Specifically, lending interest rates decreased by 34 basis points and 35 basis points for NFCs and households, respectively (Chart 3.6), whereas deposit interest rates decreased by 61 basis points and 46 basis points, respectively (Chart 3.7). The downward trend of domestic interest rates, coupled with favourable macroeconomic conditions, have

supported robust economic activity and the ongoing deleveraging efforts of the private sector.

**National accounts**

GDP in Cyprus continued its positive path, albeit at a decelerated rate, mainly driven by the increase in domestic demand and a positive contribution from most productive sectors. In the first nine months of 2018, it recorded an increase of 3,8% compared with 4,5% in the corresponding period last year. Adjusted for the impact of SPEs, economic growth was driven by private consumption as well as

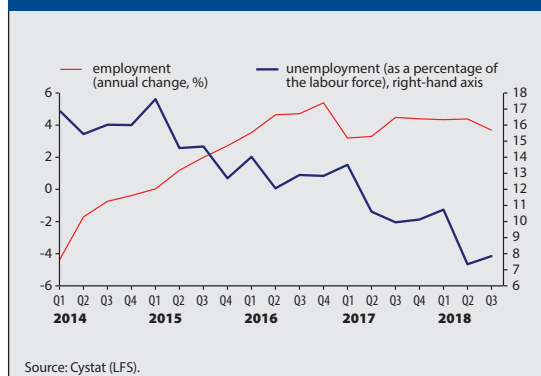
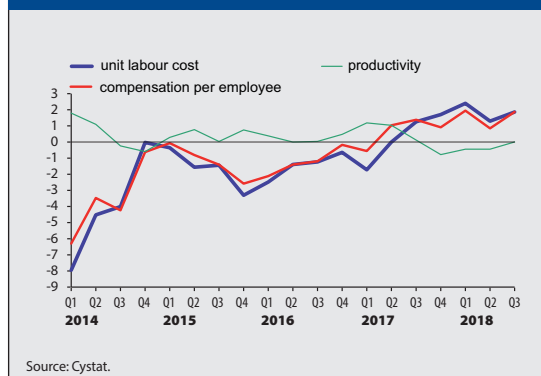
**CHART 3.8 Weighted contributions to GDP growth by economic activity**  
(percentage points)

private gross fixed capital formation. From the production side (Chart 3.8), the trade, transport, hotels and restaurants sectors as well as construction contributed significantly to GDP growth. The financial and insurance activities sector contracted, and contributed negatively by 0,2 percentage points in the first nine months of 2018, mainly due to the ongoing deleveraging of loans.

#### Labour market, productivity and labour costs

Employment recorded an annual increase of 4,1% in the first nine months of 2018 (Chart 3.9). According to the Labour Force Survey (LFS), the unemployment rate decreased to 8,6% in the period under review. In 2018Q3, the unemployment rate stood at 7,8%, against 10% in the corresponding quarter of 2017 (Chart 3.9). The long-term unemployment rate with a duration of six months and more declined to 3,6% in 2018Q3, compared with 5,9% in the same quarter of the previous year, thus reflecting the dynamics of the corrective trend in unemployment.

Compensation per employee recorded an annual increase of 1,5% in the first nine months of

**CHART 3.9 Unemployment and employment****CHART 3.10 Compensation per employee, productivity and unit labour costs**  
(annual change, %)

2018, due to increases in the public sector and specific segments of the private sector. Productivity declined by 0,3% and, as a result, unit labour costs increased by 1,8% on an annual basis. The total cumulative decrease for the period 2013-2018Q3 reached 10,4%, thus contributing to the improvement in the competitiveness of the Cypriot economy (Chart 3.10).

#### Balance of payments<sup>4</sup>

In the first nine months of 2018, the current account deficit improved to € 339,1 million (2,2%

4. The external statistics data are significantly affected by the classification of SPEs as residents of Cyprus and, in particular, by those which are considered as economic owners of mobile transport equipment (mainly ships). The transactions of SPEs do not affect nor are affected substantially by the domestic economic cycle.

of GDP) compared with € 446,4 million (3,1% of GDP) in the corresponding period of the previous year. The improvement was mainly driven by SPEs and was recorded despite the increase in imports of goods for home consumption (Table 3.1). Adjusted for the impact of SPEs, the current account deficit in the first nine months of 2018 amounted to €330,3 million (2,2% of GDP) compared with a deficit of €253,3 million (1,7% of GDP) in the corresponding period of 2017. This was also driven by the increase in oil imports and imports of intermediate, capital and consumer goods due to increased domestic demand, which widened the goods balance. At the same time, the services balance recorded an increased surplus, mainly due to lower imports of services and, to a lesser extent, to higher exports of services. The primary income deficit deteriorated from €360,1 million in the first nine months of 2017 to €377,9 million in the period under review.

In the first nine months of 2018 the current account deficit was mainly covered by private sector borrowing and, to a lesser extent, by the issuance of government bonds.

The net International Investment Position (IIP) of Cyprus was negative reaching € 21,5 billion or -104,4% of GDP in the first nine months of 2018. However, when adjusted for the impact of SPEs, it is reduced to -€6,2 billion or -30,1% of GDP. It also recorded an improvement compared to the corresponding period of 2017, which stood at -€ 9 billion (-45,8% of GDP).

### Real estate sector

The real estate sector in Cyprus continued to recover in 2018, in line with a broad based growth

**Table 3.1 Balance of payments (main categories)**

	2017 Jan.-Sep. (€ million)	2018 Jan.-Sep. (€ million)	Change (€ million)
<b>Current account balance</b>	<b>-446,4</b>	<b>-339,1</b>	<b>107,3</b>
<b>Goods and services balance</b>	<b>226,0</b>	<b>338,6</b>	<b>112,6</b>
<b>Trade balance</b>	<b>-2.820,7</b>	<b>-2.818,2</b>	<b>2,5</b>
Exports of goods	2.067,0	2.607,6	540,6
Imports of goods	4.887,7	5.425,8	538,1
<b>Services balance</b>	<b>3.046,7</b>	<b>3.156,8</b>	<b>110,1</b>
<b>Exports of services</b>	<b>7.462,4</b>	<b>7.483,2</b>	<b>20,8</b>
<i>of which:</i>			
Transport	1.985,7	2.029,3	43,6
Travel	2.304,6	2.357,3	52,7
Financial services	1.611,5	1.530,3	-81,2
Telecommunications, computer and information services	1.222,8	1.261,0	38,2
Other business services	116,8	125,3	8,5
<b>Imports of services</b>	<b>4.415,7</b>	<b>4.326,4</b>	<b>-89,3</b>
<i>of which:</i>			
Transport	1.343,1	1.410,8	67,7
Travel	927,3	977,4	50,1
Financial services	672,8	712,6	39,8
Telecommunications, computer and information services	774,0	627,7	-146,3
Other business services	384,1	285,6	-98,5
<b>Primary income (net)</b>	<b>-360,1</b>	<b>-377,9</b>	<b>-17,8</b>
<b>Secondary income (net)</b>	<b>-312,3</b>	<b>-299,8</b>	<b>12,5</b>
<b>Current account balance (% of GDP)</b>	<b>-3,1</b>	<b>-2,2</b>	
<b>Current account balance adjusted for the impact of SPEs (% of GDP)</b>	<b>-1,7</b>	<b>-2,2</b>	

Sources: Cystat, CBC.

and the ongoing consolidation of the banking system. The sector is mainly financed by foreign investment, new domestic borrowing and domestic financing (including pre-sales). The increase in prices (mainly apartments) and the recent rent increases in the district of Limassol are indicative of the strong demand from foreign investors.

### Public finances

The financial impact of the CCB transaction pushed the fiscal balance into a deficit of the order

Table 3.2 Accounts of general government

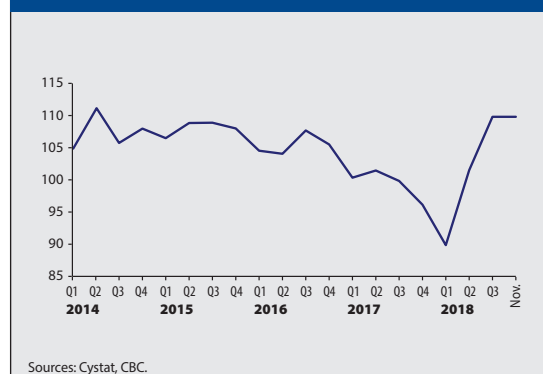
	2017 Jan.-Nov. (€ million)	2018 Jan.-Nov. (€ million)	Change (%)
<b>EXPENDITURE</b>			
Intermediate consumption	576,8	636,2	10,3
Compensation of employees	2.002,3	2066	3,2
Social transfers	2.264,6	2355,3	4,0
Interest	457,3	431,4	-5,7
Subsidies	33,1	47,1	42,3
Other current expenditure	399,9	408,5	2,2
Gross fixed capital formation	295,0	294,9	0,0
Other capital expenditure	45,7	45,9	0,4
<b>Total expenditure</b>	<b>6.074,7</b>	<b>6.285,3</b>	<b>3,5</b>
<b>Total expenditure as a % of GDP</b>	<b>31,0</b>	<b>30,5</b>	
<b>REVENUE</b>			
Taxes on production and imports	2.732,3	2.969,0	8,7
Current taxes on income, wealth, etc	1.468,9	1.547,0	5,3
Social contributions	1.521,2	1.656,5	8,9
Other current resources	172,8	187,2	8,3
Sales	476,1	533,2	12,0
Capital transfers received	71,8	98,5	37,2
Property income	108,7	73,5	-32,4
<b>Total revenue</b>	<b>6.551,8</b>	<b>7.064,9</b>	<b>7,8</b>
<b>Total revenue as a % of GDP</b>	<b>33,5</b>	<b>34,3</b>	
<b>Primary balance</b>	<b>934,4</b>	<b>1.211,0</b>	
<b>Primary Balance as a % of GDP</b>	<b>4,8</b>	<b>5,9</b>	
<b>Surplus (+) / Deficit (-)</b>	<b>477,1</b>	<b>779,6</b>	
<b>Surplus (+) / Deficit (-) % of GDP</b>	<b>2,4</b>	<b>3,8</b>	

Sources: Cystat, CBC.  
Note: Data on expenditure does not include the amount of €1,5 billion associated with the fiscal impact of the statistical treatment in relation to the sale process of parts of the assets of the Cyprus Cooperative Bank (CCB).

of 3,5% of GDP in the first nine months of 2018. Adjusted for the above-mentioned effect, a fiscal surplus of 3,8% was recorded until November 2018 while the primary surplus reached 5,9%, compared with 2,4% and 4,8%, respectively in the corresponding period of last year. Government revenue increased by 7,8% (including non-recurring revenue from unsettled taxes), while public expenditure recorded an increase of 3,5% during the period under review (Table 3.2).

General government consolidated gross

CHART 3.11 General government consolidated gross debt (as a percentage of GDP)



debt as a percentage of GDP reached around 110% in November 2018, recording an increase of about 14 percentage points since December 2017 (Chart 3.11). This was mainly due to the special issuance of bonds for the CCB. Public debt is expected to resume its previously declining path in the coming years, reflecting strong fiscal surpluses.

### Forecasts

The CBC revised marginally downwards its projections for the Cypriot economy in December 2018 relative to June 2018. This was due to the significant upward revision in historical data, indicating that the recovery of GDP had, to a large extent, already taken place. In this respect, the intertemporal growth dynamics have been slightly revised. In 2018 growth is expected to reach 3,8%, with a gradual slowdown to 3,2% by 2020. For the year 2021, a growth rate of 3,3% is projected, which includes a conservative estimate of the impact from the full operation of the casino. The expected path of GDP reflects the positive trend of

domestic demand, in particular from private sector investments. Inflation is expected to increase to 0,8% in 2018, rising gradually to 1,7% by 2021, in line with the projected positive path

of domestic economic activity and an increase in the cost of services. Risks to GDP relative to the central scenario are on the upside, while for inflation these are considered balanced<sup>5</sup>.

5. For more analysis on December 2018 forecasts see the *Economic Bulletin*.



## 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

During 2018 a number of harmonising and other new laws and CBC directives were introduced regarding credit institutions, payment institutions and other entities supervised by the CBC:

- *The Provision and Use of Payment Services and Access to Payment Systems Law, 2018*. This law relates to credit institutions, electronic money institutions and payment institutions and lays down rules concerning the transparency of conditions as well as the information requirements for payment services. In addition, it lays down the respective rights and obligations of payment service users and payment service providers in relation to the provision of payment services as a regular occupation or business activity.
- *The Comparability of Fees Related to Payment Accounts, Payment Account Switching and Access to Payment Accounts Law, 2017*. Pursuant to this law, the CBC has issued The Final List of the Most Representative Services Linked to a Payment Account Directive of 2018 based on which credit institutions and/or payment institutions provide information on the fees charged for such services. Following the issuance of this Directive, the Ministry of Finance has set up a web-based platform for the comparison of fees for the most representative payment services ([www.mof.gov.cy/feecomparison](http://www.mof.gov.cy/feecomparison) - in Greek only).

- *The Securitisation Law, 2018* introduces arrangements regarding the securitisation of credit facilities or other claims and/or exposures, involving entities subject to supervision by the CBC or other competent authority.
- *The Sale of Credit Facilities and Related Matters (Amending) Law, 2018* introduces provisions intended to improve the functionality of the Law and facilitate the transactions relating to the acquisition of credit facilities.
- Three amendments to the *Business of Credit Institutions Law* have been enacted. The most significant amendment concerns section 29 on bank secrecy, where clauses have been added to facilitate the disclosure of data within the scope of outsourcing, by the credit institution to an associate and/or a third party in the process of negotiations and/or for the conclusion of a bona fide commercial transaction. Other minor amendments were mainly for purposes of harmonisation and improvement.

The CBC carries out additions/amendments to the regulatory framework on an on-going basis, for purposes of adopting European and other best practices and achieving harmonisation and alignment with the European regulatory framework. During 2018, the CBC adopted guidelines issued by the European Banking Authority on issues relating to credit institutions and other supervised entities. The guidelines are posted on the CBC website.

#### Prevention and suppression of money laundering activities

The CBC is designated as the competent authority



in accordance with article 59(1)(a) of the *Prevention and Suppression of Money Laundering Activities Law, 2007-2018* for credit, payment and electronic money institutions as well as all other institutions licensed by the CBC. The CBC implements off-site and on-site supervisory programmes and organises actions aimed at improving the effectiveness of supervisory programmes.

Updates to the relevant legal and regulatory framework are of the utmost importance and for this purpose the CBC takes into consideration the assessments, decisions and recommendations of various bodies, such as the European Banking Authority, the European Commission, the Moneyval Committee of the Council of Europe, the Financial Action Task Force (FATF), etc.

In April 2018, the House of Representatives enacted Law 13(I), transposing into domestic legislation the provisions of Directive (EU) 2015/849 of 20 May 2015 on the Prevention of the Use of the Financial System for the Purposes of Money Laundering or Terrorist Financing. In drafting this law, the CBC collaborated with other competent authorities.

Following the enactment of Law 13(I), the CBC worked on revising its relevant directive to credit institutions, which was submitted to the credit institutions for consultation in November 2018. This fifth edition of the CBC directive aims to guide institutions on policies, procedures and control systems with a view to implementing effectively the provisions of the law. It is expected that the final text of the directive will be issued in 2019Q1. Similar directives addressed to other types of institutions will also be issued.

### On-site supervision SSM

The CBC participated in a number of on-site inspection missions in significant credit institutions in Cyprus and abroad, which were conducted in accordance with the relevant SSM framework.

### Supervision of institutions outside the SSM scope

The CBC exercises prudential supervision over institutions that fall outside the scope of the SSM and includes branches of credit institutions from third countries, payment and e-money institutions. The supervisory framework is applied by means of off-site and on-site examinations on the basis of the existing laws and regulations.

In accordance with the *Provision of Investment Services, the Exercise of Investment Activities and the Operation of Regulated Markets Law, 2017*, which came into force on 3 January 2018, the CBC developed the processes for the supervision of the investment activities by credit institutions and adopted relevant Guidelines issued by the European Securities and Markets Authority. In the first year of activities under the above mentioned framework, the CBC focused its prudential supervision on the correct implementation of the requirements by off-site monitoring of the actions taken by the control functions of the credit institutions.

### Developments in the banking sector

A significant development in 2018 was the sale of certain assets and liabilities of Cyprus Co-operative Bank to Hellenic Bank and the conversion of the former into a credit acquisition company. The credit acquisition company will have to manage approximately €7 billion of NPLs not transferred to Hellenic. The transfer of the NPLs to the credit

acquisition company significantly reduces the amount of NPLs in the banking system.

During 2018 the Bank of Cyprus accelerated the reduction of its distressed loans through the sale of €2,8 billion of NPLs to foreign investors, which further de-risked the banking system and improved the NPL ratio of the bank as well. Also noteworthy was the merger of USB and AstroBank, which further consolidates the banking sector.

As regards the companies acquiring Cypriot NPLs, these have to be licenced by the CBC for acquiring loan facilities below €1 million. This is to ensure that a) borrowers maintain the same rights as those with banks and b) the arrears management directive issued by the CBC applies. It is noted that no capital adequacy and liquidity requirements exist for the credit acquiring companies.

#### 4.2 Resolution of Credit Institutions and Investment Firms

The main duties of the CBC in its capacity as the national resolution authority during 2018, included the monitoring of the implementation of the resolution measures of Cyprus Popular Bank Public Co Ltd (CPB), the preparation of resolution plans, on a prudential basis, for less significant institutions in Cyprus and its participation in the drafting, by the Single Resolution Board (SRB), of resolution plans, on a prudential basis, for Cyprus's systemic credit institutions. Other tasks of the CBC during 2018 included the preparation for the transposition of EU Directives into national law and the participation in the committees of EU institutions for resolution issues.

The resolution measures implemented for CPB concern the sale of its remaining assets which mostly comprise investments in foreign subsidiary banks, as well as equity participation in Bank of Cyprus acquired as a consideration for the net fair value of the assets which were transferred to the bank on 29 March 2013. During July 2018, the agreement for the sale of Marfin Bank Romania, which took place during 2017, was effected. Furthermore, in August 2018, a sale agreement for the sale of the bank's equity share in Lombard Bank Malta, was signed and executed. Finally, in October 2018 a sale agreement for Greek subsidiaries IBG, CPB ASSET MANAGEMENT ΑΕΔΑΚ and Laiki Factors & Forfeited S.A. was signed and is expected to be effected beginning of 2019.

As part of the operating framework of the Single Resolution Mechanism (SRM), the Single Resolution Board (SRB), in cooperation with the CBC, drafts annual resolution plans for the systemic banks under its direct remit (i.e. Bank of Cyprus, Hellenic Bank and RCB). In addition, the SRB is proceeding to calculate for every systemic bank under its direct remit a ratio of minimum eligible own funds and liabilities with a maturity of more than a year (MREL ratio) that they have to comply with in order to safeguard their resolvability capacity. The SRB allows banks a transitional period to comply with the MREL ratio once set.

Draft resolution plans for the less significant institutions were also prepared during 2018 which, following internal discussion, will be submitted in early 2019 to the SRB for consultation. These draft plans will then be submitted to the CBC's Board of Directors, in its capacity as the Resolution Authority, for approval.



The CBC's Resolution Department participated in a working group set up by the Ministry of Finance for the preparation of the draft law for the transposition of Directive (EU) 2017/2399 into national law. The Directive amends Directive 2014/59/EU regarding the ranking of unsecured debt instruments in insolvency hierarchy. The same working group prepared proposals of draft laws on the framework of preventing and managing financial crises.

Finally, the same CBC Department participated in working groups of the SRB and the European Banking Authority for the drafting of standards and guidelines on resolution issues while providing support to the Ministry of Finance for resolution issues discussed at the European Council.

### **Administration of the Deposit Guarantee, Resolution and Investor Compensation Funds**

#### **Deposit Guarantee and Resolution of Credit and Other Institutions Scheme**

The Deposit Guarantee and Resolution of Credit and Other Institutions Scheme (DGS) has been established and operating in the Republic of Cyprus since 2000. Its purpose is twofold: (i) the compensation of the depositors covered under the DGS in the event that a credit institution is unable to repay its deposits and (ii) the funding of the implementation of resolution measures.

The DGS is constituted as a separate legal entity. The exercise of powers of the DGS and the administration of the funds which constitute the Scheme is carried out by a management committee. The committee consists of representatives from the Ministry of Finance and the CBC.

Participation in the DGS is compulsory for all banks and licensed credit institutions (LCIs). These include their branches operating in other EU member states and branches of foreign credit institutions from non-EU member states, provided that they do not have equivalent protection by deposit guarantee schemes in their home jurisdictions. The DGS provides coverage of up to €100,000 for the aggregate amount of deposits held with a particular credit institution by a natural or, with certain exemptions, a legal person.

During 2018 the DGS continued and completed in November the payout of compensation to the eligible depositors of FBME Bank Ltd - Cyprus Branch (FBME). The compensation of the covered depositors of FBME was made on the basis of a decision taken by the DGS Management Committee on 9 April 2016, following information from the CBC that the deposits at FBME had been rendered unavailable.

In accordance with the relevant legislation, FBME depositors claimed compensation within a period of 2 years as of the date on which their deposits had been rendered unavailable, i.e. until 11 April 2018. Overall, 1,481 depositors of FBME were compensated with a total amount of approximately €83 million.

Regarding developments at the European level, intense discussions for the creation of the European Deposit Insurance Scheme (EDIS), the third pillar of the Banking Union, continued in 2018.

With regard to resolution financing arrangements, it is noted that as of 1 January 2016, LCIs contribute to the Single Resolution Fund, which is administered by the SRB. The national resolution fund covers only investment firms, with certain

exemptions, and the branches of credit institutions from non-EU member states.

### **Investor Compensation Fund for Clients of Banks (ICF)**

The ICF, which has been operating since 2004 under the auspices of the CBC, continued its operation in 2018 with 12 members.

The ICF provides additional security to clients of banks regarding claims they might have in connection with the provision of investment services. Participation is obligatory for all LCIs which offer investment services and have been incorporated in the Republic of Cyprus or have been established in third countries and operate in Cyprus through branches. The maximum amount of compensation payable to each covered investor cannot exceed €20,000.

### **4.3 Financial Stability**

The CBC is the designated macroprudential authority of Cyprus. Macroprudential oversight focuses on the monitoring and assessment of the stability of the financial system of Cyprus, as well as on the implementation of macroprudential policy tools. The CBC, through its macroprudential 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 the accumulation of systemic risks, which could potentially pose a threat to the stability of the financial system. The main focus is on the banking sector, which constitutes the largest component of the broader domestic finan-

cial system and the primary channel for the propagation of risks within the financial system and the real economy. Developments in the non-bank financial sector are also monitored, especially in the insurance sector, the investment services sector, the investment funds sector and the occupational retirement funds sector. Macroeconomic and financial developments are analysed by focusing on macroeconomic conditions and macroeconomic imbalances, the households sector, the non-financial corporations sector, the real estate sector and public finances.

### **Aggregate data and financial indicators for the banking sector**

In 2018 the CBC continued to regularly compile and publish on its website, aggregate data and financial indicators for the banking sector, which are used for macroprudential analysis. The consolidated banking data (CBD) and data regarding the compilation of financial soundness indicators (FSIs) for the Cyprus banking sector, are submitted quarterly to the ECB and the IMF, respectively.

### **Main macroprudential policy decisions**

In 2018 the CBC:

- (a) Set the capital buffers for systemic credit institutions and systemic investment firms.
- (b) Set on a quarterly basis, the countercyclical capital buffer (CCyB) rate for credit institutions and certain investment firms.
- (c) Continued the monitoring of the national macroprudential measure that it activated in November 2017, which required credit institutions to maintain additional liquidity for 2018.

### Financial Stability Report

The 2017 *Financial Stability Report (FSR)*, which was published in May 2018, presents the CBC's assessment of the stability of the financial system. The FSR promotes awareness of issues that are relevant for safeguarding financial stability. In the FSR, the CBC presented its assessment of the vulnerabilities that have been identified as the main sources of risk for the Cyprus financial system, i.e.

- (a) The low asset quality of credit institutions, due to the excessive exposure of the banking sector to NPLs.
- (b) The weak outlook for profits in the banking sector.
- (c) The excessive debt of the non-financial private sector.

Furthermore, in the half-yearly *Household and Non-Financial Corporations Indebtedness Report*, the CBC presents a concise analysis of the non-financial private sector's indebtedness.

### Participation in EU committees and working groups

The CBC 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 financial stability.

The CBC also 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.

Furthermore, the CBC 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 discussions of the Economic and Financial Affairs Council on financial stability matters.

### National Financial Stability Committee (NFSC)

The CBC chairs the NFSC and provides secretariat support. The main task of the NFSC, is to discuss financial stability issues at the national level and exchange views among its members, i.e. the competent authorities of the financial sector and the Ministry of Finance.

### 4.4 Financial Market Infrastructures and Payments

The responsibilities of the CBC in the field of financial market infrastructures and payments are derived from the *Central Bank of Cyprus Law, 2002 - 2017*. Under this law, the CBC:

- 1) participates in domestic and cross-border payment systems;
- 2) oversees payment systems and securities settlement systems operating in the Republic of Cyprus;
- 3) is involved in the innovation and integration of domestic payments systems as well as the ESCB's financial market infrastructures (FMIs);
- 4) chairs the National Payments Committee (NPC);
- 5) acts as a banker and representative of the Republic of Cyprus for financial matters.

Table 4.1 Participants in TARGET2-CY

Authorised credit institutions	19
of which:	
Direct participants	16
Indirect participants	3
Ancillary systems (CDCR, Domestic SDD, CCH)	3

Source: CBC.

**4.4.1 Payment, clearing and securities settlement systems and payment instruments in Cyprus**

In 2018 the following systems were operating in Cyprus:

**Real-time Gross Settlement System**

**TARGET2-CY**

TARGET2-CY is the Cyprus component of TARGET2, which is the Eurosystem's Trans-European Automated Real-time Gross settlement Express Transfer and Settlement System in central bank money.

The CBC acts as a Participating Bank as well as the Operator of TARGET2-CY, in line with Guideline ECB/2012/27 and the TARGET2-CY CBC Directive. The revised 2018 guideline clarifies and modifies aspects of ECB/2012/27 in light of the launch of the service for the settlement of credit transfers of TIPS (Target Instant Payment Settlement).

Since the system's commencement of operations on 19 November 2007, TARGET2 has become one of the main large-value payment systems worldwide and settles, on average, 342.000 daily payments with a total value €1,7 trillion, while through TARGET2-CY 705 payments are settled daily with a total value of €272 million.

The composition of participants in TARGET2-CY is set out in the Table 4.1.

CHART 4.1 TARGET2-CY cross-border payments 2014-2018

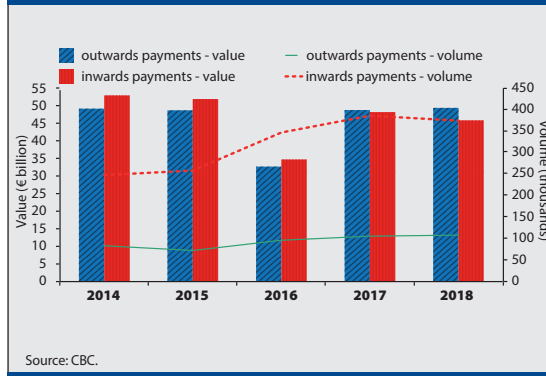
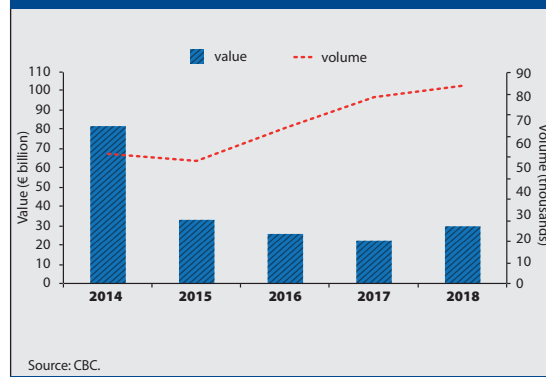


CHART 4.2 TARGET2-CY domestic payments 2014-2018



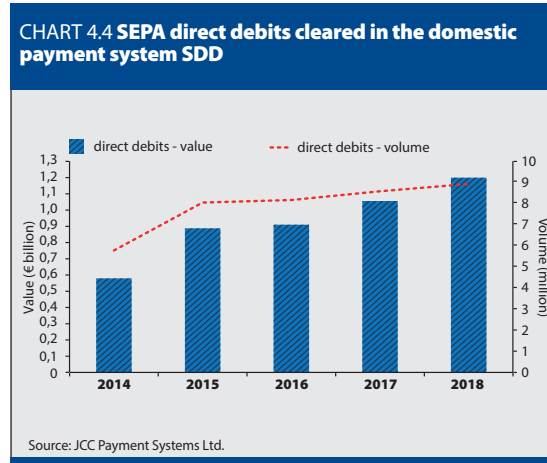
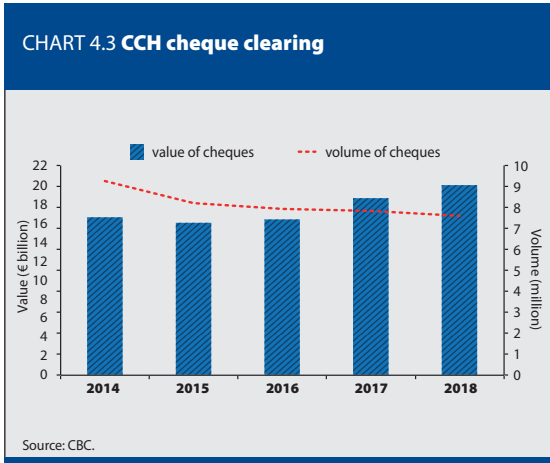
The number and value of cross-border and domestic payments settled in TARGET2-CY are illustrated in Charts 4.1 and 4.2, respectively.

**Retail Payment Systems (RPS)**

**(a) TIPS-CY**

The ECB has developed an innovative pan-European instant payments service for settlement in less than 10 seconds, in central bank money. The TIPS service was launched on 30 November 2018 and the CBC, in its capacity as Operator of TARGET2-CY, stands ready to provide support to





domestic ACIs and other potential participants, for their participation in TIPS.

It is noted that most domestic ACIs, have declared their intent to join the TIPS service in 2019. The Government has also expressed its intention to join TIPS so as to use instant payments as a tool to enhance efficiency in the collection of receivables.

**(b) Cyprus Clearing House (CCH)**

The CCH has been operating since 1964 and aims at harmonising the procedures for the clearing and settlement of interbank cheques. For implementation of last year’s oversight recommendations, the CCH Plenary explored various options to modernise the system with the aim of gradually implementing a new operational and governance framework that is expected to be adopted in 2019.

**Chart 4.3** indicates the number and value of cheques cleared in the Electronic Cheque Clearing System (ECCS) platform for the period 2014-2018.

**(c) Domestic SEPA Direct Debits Payment System**

The domestic SEPA Direct Debits (SDDs) Payment System commenced operations in 2014 and has 12 ACIs as participants. There has been a steady increase in the value of direct debits cleared therein, though the cumulative market share of the SDDs Payment system is not considered significant compared to the rest of the RPS (**Chart 4.4**).

**4.4.2 The CBC as the banker of the government for payment purposes**

The CBC participates in domestic and cross-border payment systems to provide banking services to the Cyprus government and other corporate bodies governed by public law. To this end, the CBC, in close cooperation with the aforementioned bodies, promotes the adoption of electronic payments as a means of payment and collection of government receivables. For example, in 2018 the collection of VAT through electronic payments amounted to 40% of the total VAT receipts through ACIs.

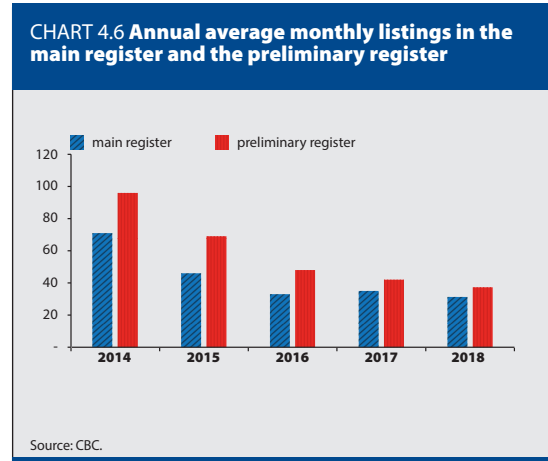
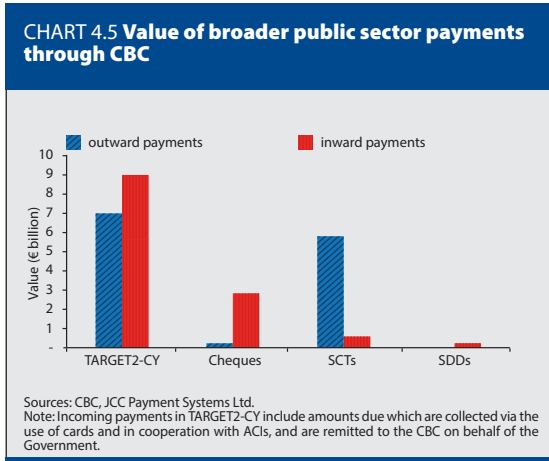


Chart 4.5 illustrates the use of payment instruments for incoming and outgoing government payments via the CBC. It also indicates that while government payments are mainly processed electronically, part of the receipts is still being cleared through cheques. However, compared with 2017, the use of cheques was significantly reduced and was substituted with card payments.

**4.4.3 Other activities**

**Central Information Register for Issuers of Dishonoured Cheques (CIR)**

In 2018 the average number of new natural and legal persons recorded in the main CIR register as well as in the preliminary register, continued to decrease (Chart 4.6), while a corresponding reduction was observed in the total value of cheques recorded therein.

**Financial market infrastructures policy and oversight**

*Policy*

The CBC is in the process of reviewing its FMI policy and aims at effectively safeguarding the

arrangements which constitute payment systems operating in the Republic of Cyprus.

In line with the enhanced European prudential supervision and oversight requirements of FMIs, the CBC informed domestic FMI operators of their obligations for managing operational risk in emergency cases.

In addition, in 2018 the CBC cooperated with other competent authorities and government departments, resulting in the passing of legislation by the House of Representatives for the implementation of:

- i. Regulation (EU) 2015/751 on interchange fees for card-based payment transactions, and
- ii. Directive (EU) 2015/2366 on payment services in the internal market (PSD2).

In addition, under the *Comparability of Fees, Payment Account Switching and Access to Payment Accounts Law, 2017*, the CBC issued directives to the payment service providers regarding: (1) the adoption of alternative measures for the switching service of a payment account; and (2) the final list of the most representative services linked to a payment account.



At an international level, the competent oversight authorities as well as the Group of Twenty (G20) further strengthened the resilience of the financial system through the implementation of a stricter and more effective oversight, regulatory and supervision framework. Following the international trend, the CBC monitors developments that are relevant for the adoption of the new Eurosystem framework that sets out the oversight requirements in relation to the cyber resilience of FMIs.

#### *Oversight*

In the context of the eligibility assessment of central securities depositories for their use in Eurosystem credit operations, the CBC has performed an assessment of Central Depository Central Registry (CDCR) of the Cyprus Stock Exchange (CSE) against the relevant provisions of Regulation (EU) 909/2014 on Central Securities Depositories (CSDR). In addition, the CBC has contributed to the assessment of the single European platform for securities settlement, TARGET2-Securities (T2S), which is conducted at the Eurosystem level against the international oversight standards.

#### **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 2018, the total amount of euro banknotes in circulation issued by the Eurosystem reached €1.231.133,0 million, representing an annual increase of 5,2%.

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 2018 129,2 million pieces of euro banknotes were checked for authenticity and fitness prior to their circulation, by the firm subcontracted by eight banks to store and process their banknotes. Out of these processed banknotes 23,4% (30,2 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 subcontractor. The CBC also performed a number of onsite inspections at the premises of banks to ensure that the provisions of the Directive issued by the CBC in 2014 on the authentication and fitness checking of banknotes prior to their recirculation were observed.

During 2018 17,7 million euro coins were processed by the firm to which the CBC contracted the storage and processing of coins. Out of these processed coins 0,1% (8.444 coins) were considered as unfit for recirculation. Furthermore, the CBC carried out onsite 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 2018

During the year under review, 436 counterfeit euro banknotes of various denominations were detected in circulation, compared with 616 pieces in 2017. The €50 banknote was the most frequently counterfeited denomination representing 33,3% of the total. Most of the counterfeits withdrawn from circulation, were detected by bank cashiers. The number of counterfeit euro banknotes detected in Cyprus during the year under review was very small and was one of the lowest in the euro area.

During 2018 145 counterfeit coins were detected ranging in denominations from €2 to €0,50.

### Numismatic matters

- *Collector set*

In June 2018, the CBC issued 5.000 collector sets of the Cyprus euro coins minted in 2018 in brilliant



uncirculated condition. This is the fourth and last set of the series of Cyprus euro coin sets dedicated to the religious monuments of Cyprus. The issue generated interest both in Cyprus and abroad.

- *Collector coin*

In 2018 the CBC issued a silver collector coin with a nominal value of €5, in proof condition, to commemorate the 10th anniversary of Cyprus accession to the euro area. The coin depicts the “talanto” (talent - mass of metal used as a unit of value in the pre money era) symbolising a timeless bridge that connects the cultural and monetary past of Cyprus with the new era of the euro. The new era is symbolised by the euro symbol and the 12 stars of the European Union, also depicted on the coin. The depiction on the coin was designed by the artist George Stamatopoulos. The coin was issued in November 2018 with a limited quantity of 2.000 pieces.

## 4.6 Activities in the Financial Markets

### 4.6.1 Management of reserves and other activities

On 31 December 2018, the CBC’s reserves, including gold bullion holdings valued at €501 million, amounted to €1.268 million compared with €1.278 million at the end of 2017.

The primary objective of the CBC's Investment Policy framework is to safeguard and preserve the value of the CBC's reserves in euro, foreign currencies and gold. Subject to the fulfilment of this objective, the management of the reserves aims at maximising long-term return on investment. The income derived from the management of reserves constitutes over time the major source of financing of the CBC's operations and contributes to the safeguarding of its financial autonomy and independence. The Investment Policy framework provides for the investment of the currency and gold reserves in approved asset classes, such as government bonds, bonds issued by national and supranational organisations, covered bonds, gold deposits, etc.

The reserves were managed in an environment of low and/or negative market interest rates as well as volatile financial market conditions throughout the year. The general investment strategy of the CBC has proved to be sufficiently appropriate and has protected the value of the reserves. In this regard, during the year under review the CBC held reserves primarily in euro and, to a much lesser extent, in dollars and sterling.

The CBC makes available for lending its bonds within a strategic securities lending programme operated by an international securities depository, as well as an automated securities lending programme operated solely in cases of failed settlement of transactions executed by the depository's customers.

#### **Net financial assets**

The Agreement on Net Financial Assets (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 for example the financial assets related to the counterpart to their capital and accounting reserves, their foreign reserves or employee pension funds. The agreement, along with an explanatory text, has been published on the ECB's website<sup>6</sup>. During 2018 the net financial assets of the CBC were, on average, - €937 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.

#### **4.6.2 Monetary policy implementation**

On behalf of the ECB, 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, which is responsible for formulating monetary policy in the euro area. Consequently, the credit institutions that reside in and operate from Cyprus can, through the CBC, participate in and have access, to the open market operations and standing facilities of the Eurosystem. 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

6. [https://www.ecb.europa.eu/explainers/tell-me-more/html/anfa\\_qa.en.html](https://www.ecb.europa.eu/explainers/tell-me-more/html/anfa_qa.en.html)

**Box 1: Purchases of Cyprus Government Bonds**

On 14 September 2018, Standard & Poor’s rating agency announced the upgrade of the rating of the Republic of Cyprus from BB+ with positive outlook to BBB- with stable outlook. This upgrade marked the return of the country to investment grade status after more than six years. On 19 October and 23 November, Fitch and DBRS, respectively, also upgraded Cyprus to the same rating.

As a result of the upgrade to BBB-, Cyprus government bonds have become again eligible as collateral for Eurosystem monetary policy operations. At the same time, they are again eligible for purchases under the PSPP.

During 2018 Q4 the CBC and the ECB conducted purchases of Cyprus government bonds within the PSPP. As at end 2018, the CBC and the ECB held as part of their PSPP portfolios Cyprus government bonds totalling €678 million, versus €214 million as at end 2017.

**CHART 1 Mild yields of selected Cyprus government bonds (%)**



The country’s return to investment grade status reinforces confidence in the Cypriot economy and the domestic banking system, in particular. At the same time, the use of Cyprus government bonds in Eurosystem monetary policy operations and their reintroduction to the eligible universe of the PSPP contributes to the containment of lending costs for the Republic of Cyprus and to broadening the domestic banking system’s capacity to draw liquidity at low interest rates through Eurosystem credit operations.

be applied at least until the last reserve maintenance period in 2019.

In February 2018, amendments to the Eurosystem monetary policy framework were announced mainly regarding the eligibility criteria and risk control measures of assets eligible as collateral for Eurosystem credit operations.

### Participation in private and public sector asset purchase programmes

Within a set of measures aimed at supporting the real economy and enhancing the monetary policy transmission mechanism, the Eurosystem continued to carry out monthly purchases under the asset purchase programme (APP) at a monthly pace of €30 billion until the end of September 2018, while between October and December 2018 the programme was reduced to €15 billion per month.

On 13 December 2018, the Governing Council of the ECB announced the end of the net purchases under the APP at the end of 2018 as well as the technical parameters for the reinvestment, in full, of the principal payments from maturing securities purchased under the APP. As initially announced on 25 October 2018, the reinvestment will continue for an extended period past the date when the Governing Council of the ECB starts raising its key interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation. Information about the Eurosystem's purchases under the APP programme is published and updated on a monthly basis on the ECB's website<sup>7</sup> (see also **Box 1**, p. 36).

The CBC participates in the implementation of the APP and will continue to do so during the rein-

vestment phase. During 2018 the CBC conducted purchases under the Public Sector Purchase Programme (PSPP), while, as at 31 December 2018, it had monetary policy portfolios totalling €4,8 billion on its balance sheet.

The CBC makes available for lending the securities purchased under the APP within a strategic securities lending programme operated by an international securities depository, as well as an automated securities lending programme operated solely in cases of failed settlement of transactions executed by the depository's customers.

### 4.7 Financial Risk Management

The CBC is exposed to financial risks that primarily stem from its reserve management (investment) activities in euro, foreign currency and gold as well as from the implementation of the Eurosystem single monetary policy. The management of financial risks is carried out independently from the operations in the financial markets, namely by the Risk Management Section, the CBC's "second line of defence" function against risks.

#### Investment operations

Investment activities are governed by the CBC Investment Policy, which is approved by the Governor and the Board.

This policy specifies, *inter alia*, the investment objectives, guiding principles, and responsibilities of involved parties. It also defines the general operational framework (e.g. eligible currencies, countries, asset classes, issuers, counterparties and permissible financial instruments) and the applicable risk control framework. Furthermore, the

7. <https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html>

policy provides for the maintenance of strategic benchmarks that reflect the CBC's long-term investment strategy in each currency and allow for the comparative evaluation of the risk and performance of the CBC's real investment portfolios.

Investment related risk exposures and portfolio managers' compliance with the approved investment framework and the defined risk control measures are monitored daily, whereas major financial risks are measured and reported to decision-making bodies on a regular basis.

The management of financial risks associated with CBC's reserve management activities is discussed below.

### Market risk

Market risk refers to the risk that the value of a security will decline as a result of unfavourable movements in foreign exchange rates and/or in interest rates.

These aspects of market risk are managed as follows:

#### *Interest rate risk*

The risk of loss in the value of an investment due to adverse fluctuations in market interest rates is largely controlled through the imposition of a maximum duration constraint. Exposure to interest rate risk is also contained by the holding of most of the euro-denominated bonds in a held-to-maturity portfolio.

#### *Foreign exchange risk*

During 2018 the CBC held its reserves primarily in euro and, to a lesser extent, in US dollars. An open position in US dollars, up to a predefined amount,

is primarily maintained for investment purposes but also for fulfilling any *ad hoc* requests for a transfer of that currency to the ECB for possible intervention purposes. In general, open positions, up to a set amount, are maintained in several major currencies for the settlement of transactions or payments in those currencies. To avoid the excessive undertaking of currency exchange risk, any amount exceeding the specified open position must be hedged through the use of a number of approved hedging instruments.

### 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. It also refers to the risk of a decline in the value of a security due to a credit rating downgrade or a perceived deterioration of its credit quality.

With the aim of keeping credit risk within acceptable levels, the CBC investment framework sets appropriate credit quality related eligibility criteria and credit exposure limits for eligible asset classes, countries, issuers and counterparties.

### Liquidity risk

Liquidity risk relates to the possibility that the CBC's access to the markets to secure the needed liquidity is disrupted or that liquidity cannot be obtained at a reasonable cost.

The risk of liquidity shortage in euro is considered low given the CBC's use of the ESCB TARGET2 system and the fact that majority of the euro reserves are invested in highly marketable securities. As previously mentioned, to meet any unex-



pected obligations in major foreign currencies, the CBC maintains a predefined amount of open positions in those currencies.

### Monetary policy risks

The CBC participates in the Eurosystem Risk Management Committee which is responsible for the management of risks stemming from monetary policy operations, including non-standard measures and asset purchase programmes, and from reserve management operations. In this context, the Committee is responsible for the development, review and implementation of the appropriate risk frameworks, methodologies and guidelines as well as the monitoring, measurement and reporting of financial risks, aimed at ensuring that the Eurosystem is appropriately and sufficiently protected against risks.

### Risk provisioning

Financial risks stemming from the CBC's main operations are also assessed in the context of the annual risk quantification exercise for the purpose of determining the appropriate level of risk provisions in the CBC annual accounts.

## 4.8 Economic Analysis and Research

The CBC analyses the domestic economy in depth and closely monitors developments in the euro area and the international economic environment. Its staff contribute to the ECB's economic analyses via their participation in relevant ESCB committees. They also provide regular briefings to the Governor, particularly in the context of her participation in the ECB Governing Council.

### Economic Bulletin

In 2018 two issues of the *Economic Bulletin*<sup>8</sup> (June and December) were published in Greek and English. The *Bulletin* presents the main macroeconomic and financial developments in the domestic and international environment as well as the CBC forecasts for the Cyprus economy. It also includes analysis of topical issues, which, in 2018, were associated with commercial property price indices and the financial behaviour of households in Cyprus prior to and following the crisis.

### Governor support, participation in committees and working groups and visits by foreign experts

In 2018 CBC staff continued to contribute to the Governor's briefing in the context of her participation in the ECB's Governing Council meetings, particularly on issues relating to the formulation and conduct of monetary policy. CBC staff take part in the Monetary Policy Committee of the ESCB and its sub-working groups, which prepare comprehensive reports and recommendations presented to the ECB Governing Council.

The CBC participates in the ESCB's regular forecast exercises, prepared by the Working Group on Forecasting every June and December, involving important macroeconomic aggregates, which are published in the *Economic Bulletin*. Additional inflation forecasts are prepared every March and September.

The CBC also participates in the Working Group on Econometric Modelling. Work relating to the updating and re-estimation of the CYMCM model that is used by the CBC for ESCB purposes based on estimating elasticities continued.

The CBC's participation in the Working Group

8. <https://www.centralbank.cy/en/publications/economic-bulletin>.

on Public Finances continued, with the aim of preparing independent fiscal forecasts. The CBC contributed to various projects, including the analysis of public debt sustainability and the methodology for the estimation of cyclically adjusted budget balances.

Additionally, the CBC is active in the European Commission working group dealing with the prevention, detection and correction of macro-economic imbalances in countries of the European Union. It also participates in the European Commission's Expert Group on Economic Forecasts in the context of the annual economic policy coordination cycle of the European Semester.

In 2018 all the major credit rating agencies visited Cyprus prior to the issue of their ratings. In addition, staff from the international lenders visited Cyprus in March and September 2018 as part of the ongoing post-programme surveillance. In the context of the IMF Article IV process, the IMF extended its visit to October 2018, with the publication of the relevant report for Cyprus taking place in December 2018. The CBC actively participated in the discussions.

#### Other research and related activities

The CBC participated in various ESCB projects including the analysis of potential GDP, wages, the exchange rate pass-through to inflation as well as the work streams of the EAGLE network.

Furthermore, it participates in the Eurosystem Household Finance and Consumption Survey (HFCS). The aim of the survey, which is based on a harmonised questionnaire, is to record, measure and analyse financial and economic aggregates, such as lending, savings, various transaction

methods as well as other issues. The fieldwork (data collection) of the third wave of the survey, with reference year 2017, was completed in 2018 and the analysis and publication of the results is expected to be completed within 2019. The micro-data of the previous two survey waves, 2010 and 2014, are currently being used to answer a number of research questions and policy issues related to the consumption and financial behaviour of Cypriot households.

In March 2018, the CBC completed a sample survey on financial literacy in Cyprus, in collaboration with academics from Durham University and the Cyprus University of Technology (CUT). The survey, which was based on the Organisation for Economic Cooperation and Development (OECD) guidelines, is the first detailed survey that fully covers Cyprus's population. The first results are expected to be published in 2019.

The CBC's Real Estate Unit continued the construction and publication of the Residential Property Price Index (RPPI) and its sub-indices on a quarterly basis. The Commercial Property Price Indices, which will be published on an annual basis on the CBC's website, was released to the public for the first time. At the same time, it continued to conduct the *Bank Lending Survey*, the results of which are published on a quarterly basis.

In the context of corporate social responsibility, the CBC offered an Internship to a PhD student aiming to promote collaboration with CBC staff and the exchange of knowledge. In addition, it organised the 2nd Forum on Economic and Social Policy in November 2018 on the topic of financial literacy.

At the ESCB level, the CBC has contributed to



the production of macroeconomic scenarios in the context of Brexit. In addition, the CBC participates in institutional meetings aiming to examine potential significant impacts under the scenario of a hard Brexit.

In 2018 the CBC's Economic Analysis and Research Department staff published a number of working papers. The first working paper is associated with the analysis of unit labour costs over the period 2010-2017<sup>9</sup>. It analysed the significant improvement in this competitiveness index stemming primarily from the adoption of measures affecting wages, mainly in the private sector. It should be noted that, despite the moderate wage increases observed in 2017, past wage reductions have contributed to the medium-term improvement in competitiveness.

The second working paper explores the impact of a change in Cypriot households' real estate wealth on their consumption<sup>10</sup>. A 1% increase in households' real estate wealth will increase their consumption of goods by 1%-1,5% and the consumption of durable goods by 4%.

The final working paper attempts to explain low corporate investment in the post-crisis period, which persisted despite the easing of financial conditions, arguing that during recessions agents utilise available funding for acquiring existing assets (asset redistribution) instead of investing in new capital creation<sup>11</sup>.

Expert staff in the Department continued to brief the CBC Board of Directors on various issues. Staff also delivered presentations at various economic conferences.

#### 4.9 Statistics

One of the main objectives of the Statistics Department for 2018 was the maintenance and improvement of the quality of the statistics produced in the context of relevant legislation and European and international statistical standards.

A milestone in 2018 was the unification of the various registers of legal / institutional units kept at the CBC, in a single database, which will substantially contribute to further improving the quality and compatibility of the statistics produced.

During the year under review, the CBC hosted a meeting of Eurostat's task force on the correct recording of maritime sector data in external statistics and national accounts. At the meeting, which was considered a great success, representatives of the Cyprus shipping industry presented the operation and specificities of the ship management/ship owning structure in Cyprus. Cyprus's contribution in this working group is active and decisive in making sound recommendations for this key sector of the domestic economy.

#### Money and banking statistics

The collection/compilation and dissemination to the ECB of monthly balance sheet (MBSR) and interest rate statistics from MFIs, as well as balance sheet data from investment funds and insurance corporations, continued throughout 2018.

Actions have also been initiated for the review of existing and the implementation of new ECB regulations in relation to the banking and financial sectors. In the context of revising the payment

9. <https://www.centralbank.cy/images/media/pdf/CBC-Working-Paper-2018-30001.pdf>

10. <https://www.centralbank.cy/images/media/pdf/Does-Housing-Wealth-Affect-Consumption-The-Case-of-Cyprus0001.pdf>

11. <https://www.centralbank.cy/images/media/pdf/To-Create-or-to-Redistribute-That-is-the-Question0002.pdf>

statistics regulation, a cost-benefit analysis regarding potential amendments to this regulation has begun. As far as the procedure for the implementation of the ECB regulation on the collection of data from provident/pension funds is concerned, relevant information was provided to all funds, a presentation was delivered at a dedicated forum and work on the automation of data collection/compilation has commenced.

Significant progress was also made regarding the implementation of the ECB regulation on the new AnaCredit (analytical credit datasets) project. This project aims at creating a common database for credit facilities/risk, serving multiple needs for statistics, monetary policy, micro and macro prudential supervision, economic analysis, research and financial stability.

The project has been assigned to an external provider and the installation/operation of the system in the CBC environment is underway. Preparatory work and detailed analysis of the requirements for the implementation of the relevant ECB regulation in Cyprus was completed and detailed explanations and guidance on methodological and practical issues were provided to the banks. Moreover, a mock-up exercise on analysis and qualitative data management at the ESCB level, was carried out. The CBC's initial submission of counterparty data to the ECB concerned more than 220,000 Cypriot companies.

Due to the upgrading of the database of the Register of Institutions and Affiliates (RIAD), all necessary changes have been made in order to allow the transmission to the ECB, of additional information required for each entity registered in this registry. The RIAD, which, from now on, will be

considered as the ESCB register of institutional units, includes units already in the lists of MFIs, investment funds, insurance companies and pension funds as well as a large number of other institutional units. The register facilitates the interconnectedness of the Central Securities Database (CSDB), the Securities Holdings Database (SHSDB) and AnaCredit.

Finally, participation in an ECB fact finding questionnaire for the development of an Integrated Reporting Framework (IREF) was carried out, aimed at the integration of MFIs existing statistical reporting obligations relating to the MBSR, interest rates, securities holdings and issues, as well as the AnaCredit dataset.

### Financial accounts

In 2018 data quality controls regarding quarterly financial accounts were further enhanced and greater consistency with external and other statistics was achieved. At the same time the financial accounts of the CBC have begun to be compiled and transmitted to the ECB, separately from the "Other MFIs" sector data.

### Securities statistics

In 2018 the three new releases of the CSDB, with corresponding adjustments and improvements, were implemented in the CBC system. The transmission of monthly data and the management of data quality, based on the relevant ECB Guideline, were also improved. An important development was the successful connectivity achieved between the CSDB and RIAD, and the provision by the CBC, of new information for the identification of the Cypriot data.



The regular compilation and submission of securities issues statistics to the ECB, on a monthly basis, continued. Significant progress was also achieved regarding the production of these data from the CSDB database.

Finally, thorough controls on monthly securities holdings, which are transmitted to the ECB and constitute an important source for the compilation of external statistics, investment fund statistics and financial accounts, continued to be applied. Additional quarterly securities holdings statistics from banking groups, also started to be collected.

### External statistics

The compilation/dissemination of external statistics continued through 2018, and concrete actions were undertaken for their further upgrading, as 2019 will be a year of major revisions at European level.

In the context of evaluating data consistency, the CBC participated in Eurostat's annual voluntary exercise for reducing asymmetries in the field of direct investment, and in the FDI Task Force. It was also represented in a special workshop organised by Eurostat to assess the sources and methods of calculating specific categories of services, which, over time, exhibit the largest asymmetries/discrepancies, compared to those of the counterpart European countries.

Actions for expanding/revising the reporting samples of the surveys conducted for the purpose of compiling external statistics, continued, aimed at improving the coverage of newly registered/incorporated companies in Cyprus and the harmonisation, of the survey samples in the field of services, jointly conducted with Cystat.

Finally, an agreement was reached with the competent bodies for the adoption of a mutually accepted survey, on the annual collection of resident ship-owning data.

### General economic and government finance statistics

On the basis of the new Guideline (ECB/2018/13), which entered into force on 1 September 2018, the CBC voluntarily participated in the pilot transmission of the new government finance statistics tables, prior to the normal dissemination of these data in October 2018. Partial automation of the ECB tables has been completed, whilst full automation of the collection/control/production of government finance statistics is still in progress.

As far as general economic statistics are concerned, the Statistics Department undertook the coordination of the collection/processing/production of various data relating to the real estate sector. In this context, several contacts and meetings took place between the CBC departments involved, data needs were recorded and existing sources of information, as well as possible new sources that may fill the gaps, were identified.

### Statistical publications

A significant addition to the statistical publications was the creation of the first *Statistical Bulletin*, which consists of the major areas of statistics produced by the CBC. The first issue of this quarterly Bulletin is expected to be published in 2019. The Bulletin will also include the official definitions of statistical variables published, comparative tables, graphs, and an explanation of the statistical methodologies used in compiling the data.

With a view to promoting transparency and providing useful information to users, the regular statistical publications were further enhanced. The monthly *Monetary and Financial Statistics* was extended with tables on interest rates, providing data for new euro denominated loans vis-à-vis households and non-financial corporations established in euro area member states, decomposed into volumes of net new loans and renegotiated loans. Additional information has also been included in the biannual *Ship Management Report* to cover those international maritime developments which affect the ship management sector in Cyprus, and in the annual *Foreign Direct Investment* to include data on investments from/to non-residents. The annual *Review of External Statistics* has been expanded with additional data regarding special purpose entities.

#### 4.10 Information Technology

During 2018 the CBC continued the development and upgrade of applications, based on the priorities approved in the IT projects portfolio. The projects focused on enhancing the availability and efficiency of the operating components and the upgrade of computer equipment and software applications.

At the same time, measures were taken to reinforce the security of the information systems, through periodic checks of the IT infrastructure and risk assessments of the IT systems and applications. Special attention was paid to the implementation of measures against the rising risks of cyberattacks within the three-year plan for enhancing cybersecurity.

The IT department also participated in the ESCB Information Technology Committee and its working groups as well as in the IT-related working groups of the ESCB Statistics Committee and the EBA and proceeded with the local implementation of IT projects based on these institutions' decisions

#### IT systems implementation and maintenance projects

The IT projects portfolio for 2018, as approved by the IT Projects Priorities Committee, mainly included projects for the implementation of the decisions of the ESCB, the SSM and the EBA.

The main projects were as follows:

- Within the framework of the SSM, the new directives, for updates/upgrades in volume, quality and technical infrastructure on data collected from banks related to Consolidated Banking and FINREP / COREP, were implemented.
- With regard to payment systems, significant upgrades were made to the security and integrity of the SWIFT environment, as well as system adjustments to comply with the new SWIFT standards. Adaptations were also performed on relevant payment systems as a result of the CBC's new organisational structure.
- Measures were implemented in order to comply with Regulation (EU) 2016/679 of the European Parliament and the European Council (General Data Protection Regulation (GDPR)).
- A new version of the ECB's collateral management system (C2D) for liquidity of banks was implemented.
- Upgrades and adjustments were made to the investment fund data collected for submission to the ECB.

Moreover, systems of horizontal use by various departments of the CBC were expanded significantly, such as the:

- further upgrade of the new E-business platform for bilateral exchange of data with external partners;
- upgrade and expansion of existing tools used to extract data from the CBC's databases, such as Business Intelligence Tools and Excel Power Tools, which included organising relevant seminars for users;
- electronic monitoring of user amendments to data files submitted to the ECB and EUROSTAT, in order for a reviewer to accept or reject them.

#### Information systems infrastructure management

During 2018 projects were implemented for the:

- maintenance and enhancement of the availability and performance of the existing IT systems and services provided by the CBC, which included the following:
  - replacement of the cheque processing machine and the network protection systems used for the connection with the European System of Central Banks;
  - upgrade of the users' authentication and authorisation system and the system that dynamically provides network addresses to the computers;
- extension of the existing systems and services in order to meet new business requirements, which included the extension of the wireless access to the internet throughout the whole of the CBC building and the extension of the database protection systems, in line with the new General Data Protection Regulation;

- introduction of new technologies in order to provide further automation for the enhancement of the operations of the CBC and the improvement of systems' security, which included the following:

- completion of the replacement of the electronic mail system;
- introduction of a privilege identity management system and the system for the collection of granular credit and credit risk data;
- implementation of new SWIFT infrastructure for the payments and transaction settlements systems.

#### Information systems security

The systematic risk assessment and reinforcement of security measures continued throughout 2018. Specifically, assessments regarding threats to the confidentiality, integrity and availability of the information held in the IT systems of the CBC were performed, new security measures were introduced and changes to the IT infrastructure were applied, where appropriate. Information risk assessments were performed on critical systems of the CBC, and new directives were issued to support the Information Systems Security Policy.

#### 4.11 Human Resources

In 2018 the Human Resource and Organisational Development (HR&OD) Department focused its efforts on the effective management and development of human resources. Further computerisation and modernisation of important internal processes and methods related to the CBC staff

also constituted an essential part of the activities of the Department.

In order to achieve its aim of ensuring adequate staffing levels, the CBC collaborated with external experts for the hiring of professional staff in various Departments. In this context, it concluded the first two stages of the evaluation and selection process. At the same time, it proceeded with the recruitment of staff through short-term contracts to address the problem of acute understaffing.

In the field of human resources development, the CBC organised and implemented with great success a number of in-house training modules, focusing on the development and enhancement of interpersonal skills, IT and project management skills as well as providing training on new international accounting standards. The various seminars and workshops have contributed significantly to staff awareness of the need for continuous professional development.

At the same time, CBC employees participated in seminars and workshops organised by external organisations in Cyprus and by the ESCB and SSM for the further development of generic and specialised skills.

Aiming to enhance the presence and engagement of the CBC in the ESCB and the SSM, the CBC organised three ESCB seminars in Cyprus in which CBC staff and other national central bank staff had the opportunity to participate. Specifically, there was a seminar on the functioning of the ESCB/SSM, a workshop on economic concepts for ESCB/SSM staff with no or very little knowledge of economics and the first part of the training programme on the development of leadership skills within the ESCB.

Furthermore, a small number of CBC staff were seconded to the ECB and other international organisations in line with the CBC's secondment policy.

In the field of labour relations, negotiations between the Union for Banking Employees (ETYK) and the CBC were successfully completed resulting in an agreement on the CBC's Payment & Transactions Settlements Section, while a dialogue on a wide range of issues related to the general reorganisation of the CBC continued.

### Organisational development

The Strategic Planning & Organisation Section provided support to other Departments on organisational issues, like the introduction of new or revision of existing procedures (e.g staff recruitment procedure and physical access approvals), conducted in-depth studies and submitted recommendations to the CBC's management (e.g new spatial policy and business travel). It also actively participated in projects with a bank-wide impact (e.g the introduction of a new records management system and the implementation of the new GDPR framework). Some of the Section's activities were linked to the CBC's reorganisation project.

The introduction of a strategic planning process was completed within 2018, with the secondment of a strategic planning expert from the ECB through the ESCB Schuman programme. The project concluded with the approval by the CBC Board of Directors of five strategic directions which were used as the basis for Departments and Divisions to define their respective strategic goals and annual operational objectives for the period 2019-2021.



The five strategic directions stipulate:

- (A) Safeguarding a sound financial system.
- (B) Enhancing the CBC's role in the ESCB/ES/SSM and other international fora.
- (C) Increasing trust and respect in the financial system.
- (D) Establishing the CBC as an employer of choice
- (E) Ensuring a flexible organisation fit for the future.

### Health and safety

The CBC continued paying special attention to health and safety matters taking, among other things, measures to:

- Ensure the health and safety of personnel and third parties (visitors, associates, etc.).
- Ensure compliance with the relevant legislation applicable in the Republic.

In 2018 the CBC's primary concern was to take preventative measures against the risks listed in the relevant Health and Safety Risk Assessment Study, while supporting consultation with the employees for identifying new hazards for further evaluation.

Furthermore, refresher courses were carried out for the Emergency Response Team. Finally, a number of health and safety related educational programmes were carried out in order to raise awareness among all members of staff.

### Corporate social responsibility

In 2018, under the coordination of the HR&OD Department, a number of targeted CSR activities were implemented. The activities aimed to enhance the CBC's contribution to general societal concerns related to the environment and culture.

To this effect, the following activities took place:

- A Christmas Bazaar organised by volunteers within the CBC. The revenues from this event were donated to charities.
- The CBC sponsored the Green Public Procurement annual awards, which aim to raise environmental awareness. In addition, as part of the EU's 25th anniversary of the European Eco-label for School Environmental Action, a number of prizes were awarded to primary and secondary schools.
- A Memorandum of Understanding was signed with all KY.SA.TS (The Cyprus Council of Recognition of Higher Education Qualifications) accredited academic institutions operating in Cyprus with the aim of promoting internships for students and recent graduates. To this end, a number of students and recent graduates were offered short-term internships in order to assist them with their career development by providing real work experiences and the opportunity to explore their interests and develop professional skills and competencies.
- A Ph.D student was offered a short-term placement/internship.
- A number of scholarships were granted to students of the Cyprus School of Molecular Medicine at the Cyprus Institute of Neurology and Genetics.
- The CBC's sports charity association participated in a number of philanthropic sports activities.
- The CBC continued its financial support of charitable institutions.
- The CBC participated in the internship programme of the Deutsche Bundesbank University.

## 4.12 Legal Issues

### 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 2018 the CBC continued disclosing documents to the Investigation Team.

### 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 2018, the CBC continued contributing, through the Law Office of the Republic, to the Republic's response insofar as it concerns the CBC's operations. In 2017 the arbitration on one of the aforementioned disputes was concluded with the Tribunal rejecting the investors' claims. During 2018 another of these arbitrations was concluded, again with the investors' claims being rejected.

### Pending litigation

With the help of its external legal counsels and with the contribution of its competent departments, the CBC continued handling the litigation pending against it in connection with its operations. This litigation comprises lawsuits relating to

the 2012 and 2013 financial crisis. In the context of these lawsuits the CBC continued making discovery of related documents and applying a process for the production of these documents for inspection and the taking of copies by the claimants under the applicable procedure rules. For some of these lawsuits the hearing stage was concluded, including the examination of CBC's witnesses, and in the course of 2018 judgment was issued. All judgments issued so far have rejected the claims that the applicants had lodged against the CBC.

### CBC's compliance with the legal framework for data protection

In 2018 the Commissioner for personal data protection made a presentation on data protection to the CBC's management team. Presentations by the CBC's Data Protection Officer to the entire CBC staff followed. In parallel, the CBC drafted and put into effect an internal framework for the purposes of its on-going compliance with the General Data Protection Regulation. This framework comprises stock-taking of processing operations and classifying them into processing activities, allocating roles to the CBC's organisational units, assessing or reassessing the risks in relation to all processing activities, endorsing a list of minimum technical and organisational measures for data protection and developing a methodology for carrying out data protection impact assessment. In this connection, for every processing activity that has been registered a member of staff was designated to support the CBC's compliance with the General Data Protection Regulation. In the course of 2018, this group of



employees received training on carrying out risk assessment and data protection impact assessment and on data breach notification.

#### 4.13 General Administration Services

##### 4.13.1 Administrative Services

In 2016 the CBC initiated a project for the upgrading of its records management system (RMS).

The project aims to institutionalise and implement a uniform policy for the management of the CBC's records which complies with domestic legislation, the directives of the ECB/ESCB and best practice.

The implementation of the RMS will provide a consistent management of archives in both paper and electronic form, increase the protection and integrity of the CBC's records, improve the efficiency and effectiveness of the organisation, and reduce the CBC's operating costs and operational risks.

The RMS will be based on the concepts and principles derived from the International Organization for Standardization (ISO). It will be compliant with MoReq (Model Requirements for Electronic Management Systems), an international functional specification, which provides guidance on the required elements/features to be imposed by the system.

The project is expected to be completed by the end of 2019 and is under the supervision of General Administration Services, with the support of Strategic Planning & Organisation and Information Technology.

##### 4.13.2 Security and premises

The main responsibilities of the Security and Premises Section include:

- (i) the implementation of strict security measures for the protection of the CBC's building, installations, personnel, visitors and assets;
- (ii) the maintenance of the building's installations.

Within the above framework, the training of the security staff continued in cooperation with the police and the security arrangements were reviewed.

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 optimise energy consumption. As a result of the energy saving measures taken during the last years, electricity consumption has been further reduced.

Looking ahead, the CBC is planning to implement additional measures in order to further reduce energy consumption and to upgrade various systems.



CENTRAL BANK OF CYPRUS  
EUROSYSTEM

**5. AUDITED  
FINANCIAL STATEMENTS  
FOR THE YEAR 2018**

**Central Bank of Cyprus**  
Eurosystem

**BALANCE SHEET AS AT 31 DECEMBER 2018**

ASSETS	31 Dec. 2018 €'000	31 Dec. 2017 €'000
<b>1 Gold and gold receivables</b>	<b>501.094</b>	<b>483.602</b>
<b>2 Claims on non-euro area residents denominated in foreign currency</b>	<b>701.917</b>	<b>426.347</b>
2.1 <i>Receivables from the IMF</i>	194.734	195.858
2.2 <i>Balances with banks and security investments, external loans and other external assets</i>	507.183	230.489
<b>3 Claims on euro area residents denominated in foreign currency</b>	<b>23.843</b>	<b>18.357</b>
<b>4 Claims on non-euro area residents denominated in euro</b>	<b>-</b>	<b>-</b>
4.1 <i>Balances with banks, security investments and loans</i>	-	-
4.2 <i>Claims arising from the credit facility under ERM II</i>	-	-
<b>5 Lending to euro area credit institutions denominated in euro related to monetary policy operations</b>	<b>830.000</b>	<b>930.000</b>
5.1 <i>Main refinancing operations</i>	-	100.000
5.2 <i>Longer term refinancing operations</i>	830.000	830.000
5.3 <i>Fine tuning reverse operations</i>	-	-
5.4 <i>Structural reverse operations</i>	-	-
5.5 <i>Marginal lending facility</i>	-	-
5.6 <i>Credits related to margin calls</i>	-	-
<b>6 Other claims on euro area credit institutions denominated in euro</b>	<b>20</b>	<b>5</b>
<b>7 Securities of euro area residents denominated in euro</b>	<b>5.410.333</b>	<b>4.887.602</b>
7.1 <i>Securities of euro area residents denominated in euro held for monetary policy purposes</i>	4.778.231	4.170.572
7.2 <i>Other securities of euro area residents denominated in euro</i>	632.102	717.030
<b>8 General Government debt denominated in euro</b>	<b>-</b>	<b>510.852</b>
<b>9 Intra-Eurosystem claims</b>	<b>9.755.193</b>	<b>9.143.273</b>
9.1 <i>Participating interest in ECB</i>	39.471	39.471
9.2 <i>Claims equivalent to the transfer of foreign reserves</i>	87.680	87.680
9.3 <i>Claims related to promissory notes backing the issuance of ECB debt certificates</i>	-	-
9.4 <i>Net claims related to the allocation of euro banknotes within the Eurosystem</i>	1.837.449	1.675.822
9.5 <i>Other claims within the Eurosystem (net)</i>	7.790.593	7.340.300
<b>10 Items in course of settlement</b>	<b>38.274</b>	<b>38.503</b>
<b>11 Other assets</b>	<b>92.788</b>	<b>93.668</b>
11.1 <i>Coins of euro area</i>	-	-
11.2 <i>Fixed assets</i>	5.437	6.202
11.3 <i>Other financial assets</i>	-	-
11.4 <i>Off balance sheet instruments revaluation differences</i>	-	-
11.5 <i>Accruals and prepaid expenses</i>	67.181	67.004
11.6 <i>Sundry</i>	20.170	20.462
<b>Total assets</b>	<b>17.353.462</b>	<b>16.532.209</b>

The "Notes to the Financial Statements" on pages 54 to 77 form part of these accounts.

Central Bank of Cyprus  
Eurosystem

## BALANCE SHEET AS AT 31 DECEMBER 2018

LIABILITIES	31 Dec. 2018		31 Dec. 2017
	€'000	€'000	€'000
<b>1 Banknotes in circulation</b>		2.431.490	2.312.164
<b>2 Liabilities to euro area credit institutions related to monetary policy operations</b>		12.142.589	11.908.744
2.1 Current accounts (covering the minimum reserve system)	7.292.589		9.095.744
2.2 Deposit facility	4.850.000		2.813.000
2.3 Fixed term deposit	-		-
2.4 Fine tuning reverse operations	-		-
2.5 Deposits related to margin calls	-		-
<b>3 Other liabilities to euro area credit institutions</b>		51.000	50.000
<b>4 Debt certificates issued</b>		-	-
<b>5 Liabilities to other euro area residents denominated in euro</b>		806.474	582.840
5.1 General government	625.053		427.305
5.2 Other liabilities	181.421		155.535
<b>6 Liabilities to non-euro area residents denominated in euro</b>		6.285	32.495
<b>7 Liabilities to euro area residents denominated in foreign currency</b>		395.068	171.745
<b>8 Liabilities to non-euro area residents denominated in foreign currency</b>		-	-
8.1 Deposits, balances and other liabilities	-		-
8.2 Liabilities arising from the credit facility under	-		-
<b>9 Counterpart of special drawing rights allocated by the IMF</b>		161.408	157.716
<b>10 Intra-Eurosystem liabilities</b>		-	-
10.1 Liabilities equivalent to the transfer of foreign reserves	-		-
10.2 Liabilities related to promissory notes backing the issuance of ECB debt certificates	-		-
10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem	-		-
10.4 Other liabilities within the Eurosystem (net)	-		-
<b>11 Items in course of settlement</b>		38.426	39.191
<b>12 Other liabilities</b>		185.728	194.742
12.1 Off balance sheet instruments revaluation differences	-		-
12.2 Accruals and income collected in advance	4.515		7.536
12.3 Sundries	181.213		187.206
<b>13 Provisions</b>		300.346	285.148
<b>14 Revaluation accounts</b>		492.084	460.838
<b>15 Capital and reserves</b>		312.885	287.084
15.1 Capital	150.000		150.000
15.2 General Reserve Fund	162.885		137.084
<b>16 Surplus for the year</b>		29.679	49.502
<b>Total liabilities</b>		17.353.462	16.532.209

The "Notes to the Financial Statements" on pages 54 to 77 form part of these accounts.

Central Bank of Cyprus  
Eurosystem

PROFIT AND LOSS ACCOUNT, 2018

	2018		2017	
	€'000	€'000	€'000	€'000
1.1 Interest income	99.161		98.552	
1.2 Interest expense	(1.489)		(4.004)	
<b>1 Net interest income</b>		<b>97.672</b>		<b>94.548</b>
2.1 Realised gains arising from financial operations	358		1.914	
2.2 Writedowns on financial assets and positions	(309)		(304)	
2.3 Transfer to provisions for foreign exchange and price risks	(15.000)		-	
<b>2 Net result of financial operations, writedowns and risk provisions</b>		<b>(14.951)</b>		<b>1.610</b>
3.1 Income from fees and commission	18.489		17.510	
3.2 Fees and commissions expense	-		-	
<b>3 Net income from fees and commissions</b>		<b>18.489</b>		<b>17.510</b>
4 Income from equity shares and participating interests		3.386		2.740
5 Net result from the pooling and redistribution of monetary income		(37.286)		(25.739)
6 Other income		705		1.904
<b>Total net income</b>		<b>68.015</b>		<b>92.573</b>
7 Staff costs	(25.160)		(27.880)	
8 Administrative expenses	(8.112)		(10.081)	
9 Depreciation of tangible fixed assets	(1.647)		(1.517)	
10 Banknote acquisition cost	(2.040)		(1.221)	
11 Other expenses	(1.377)		(2.372)	
<b>Total expenses</b>		<b>(38.336)</b>		<b>(43.071)</b>
<b>Surplus for the year for allocation</b>		<b>29.679</b>		<b>49.502</b>
General Reserve Fund		5.936		25.801
Consolidated Fund of the Republic		23.743		23.701
<b>Surplus for the year</b>		<b>29.679</b>		<b>49.502</b>

28 March 2019

Chrystalla Georghadji  
Governor

The "Notes to the Financial Statements" on pages 54 to 77 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 Central Bank of Cyprus (CBC) are prepared in accordance with article 57(2) of the *Central Bank of Cyprus Law, 2002-2017*, on the basis of approved accounting principles applicable in the European System of Central Banks (ESCB), as these are adopted by the European Central Bank (ECB). The accounting principles have been determined by Guideline ECB/2016/34, as amended.

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 reflect economic reality, are transparent and promote the qualitative characteristics of clarity, relevance, reliability and comparability. Transactions are 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 is carried out prudently. In the context of Guideline ECB/2016/34, as amended, this implies that unrealised gains are not recognised as income in the profit and loss

account, but are recorded directly in a revaluation account and that unrealised losses are taken at year end to the profit and loss account if they exceed accumulated unrealised gains registered in the corresponding revaluation account.

- **Post-balance sheet events:** Assets and liabilities are 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 is made for assets and liabilities, but disclosure is 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, are allowed only 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 are 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 are 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 probable that any future economic benefit or cost will flow to or from the CBC; b) all of 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 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.

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 profit and loss 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 on securities.

Unrealised revaluation gains arising from the revaluation of a debt security or currency or holdings in gold, are not recognised in the profit and loss account, but transferred directly to revaluation accounts on the balance sheet. Unrealised losses are recognised in the profit and loss 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 profit and loss 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 profit and loss account, and are not reversed in subsequent years, unless the impairment change is related to

an observable event that occurred after the impairment was 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

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

#### • Fixed assets

Fixed assets are valued at lower cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight line basis over the expected useful economic life of the assets, as follows:

Asset category	Depreciation period
Land and works of art are not depreciated	
<u>Buildings</u>	<u>25 years</u>
Furniture, building and other office equipment	10 years
<u>Computer software and hardware</u>	<u>4 years</u>
<u>Motor vehicles</u>	<u>4 years</u>

Assets with a market value of under €10.000 are depreciated in the year of acquisition.

#### • Banknotes in circulation

Euro banknotes are issued by the ECB and the euro area NCBs which together form the Eurosystem. The aggregate liability for banknotes in circulation is allocated to the ECB and NCBs of the Eurosystem. An 8% share of the total value of banknotes in circulation is issued by the ECB and the remaining 92% is issued by the NCBs according to the adjusted Eurosystem key (banknote allocation key).

The amount of banknotes in circulation issued in excess of the amount allocated to CBC gives rise to an intra-Eurosystem liability of the CBC to the ECB, while the withdrawal of banknotes from circulation below the amount allocated to the CBC gives rise to an intra-Eurosystem claim by the CBC on the ECB.

#### • Post-retirement benefits

The CBC provides defined post retirement benefits to its employees. The employees' post retirement benefits liability of the CBC is recognised in the balance sheet under liability item "L12.3 Sundries". The actuarial gain and losses arising in respect of remeasurements of the post retirement benefits liability are shown under balance sheet item "L14 Revaluation accounts". The profit and loss account is charged with the current service cost, re-measurement of prior years' 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 2018 was 446.975,55 fine ounces (31 December 2017: 446.848,42 fine ounces). At a market value of €1.120,96 per fine ounce (31 December 2017: €1.081,88 per fine ounce) the CBC's gold holdings were valued, at the balance sheet date, at €501,1 million (31 December 2017: €483,6 million).

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 increase in the price of gold in 2018 resulted in an unrealised gain of €17,3 million (31 December 2017: €6,9 million unrealised loss). The increase in the CBC's gold holdings, which represents the difference between the value as at 31 December 2018 and the average acquisition cost, amounted to €487,0 million (31 December 2017: €469,7 million) and is accounted for as an 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** (p. 58).

The claims on the IMF were valued at the SDR rate prevailing on 31 December 2018 and 31 December 2017 as reported by the ECB in its exchange rates circular, i.e. SDR1= €1,2154 (31 December 2017: SDR1= €1,1876).

#### A2.2 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** (p. 58).

#### A3. Claims on euro area residents denominated in foreign currency

Claims on euro area residents denominated in foreign currency are analysed in **Table 3** (p. 58).

#### A5. Lending to euro area credit institutions denominated in euro related to monetary policy operations (Table 4, p. 58)

This item consists of outstanding loan accounts providing liquidity to credit institutions established in Cyprus in the context of the single monetary policy of the Eurosystem. At the end of the reporting year, the outstanding Eurosystem monetary policy operations amounted to €734,4 billion (2017: €764,3 billion), of which €830,0 million (2017: €930 million) granted 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 relevant eligibility criteria of the Eurosystem's monetary policy.

Table 1 **Receivables from the IMF**

	31 Dec. 2018 €'000	31 Dec. 2017 €'000	Change €'000
Quota in IMF (equivalent to SDR303,8 million as at 31 December 2018 and SDR303,8 as at 31 December 2017)	369.239	360.793	8.446
IMF deposits	(265.617)	(259.761)	(5.856)
Reserve Tranch Position	<b>103.622</b>	<b>101.032</b>	<b>2.590</b>
SDR holdings	91.112	94.826	(3.714)
<b>Total claims on the IMF</b>	<b>194.734</b>	<b>195.858</b>	<b>(1.124)</b>

Table 2 **Balances with banks and security investments, external loans and other external assets**

	31 Dec. 2018 €'000	31 Dec. 2017 €'000	Change €'000
Balances with credit institutions	402.923	176.421	226.502
Marketable securities	104.074	53.854	50.220
Other claims	186	214	(28)
<b>Total</b>	<b>507.183</b>	<b>230.489</b>	<b>276.694</b>

Table 3 **Claims on euro area residents denominated in foreign currency**

	31 Dec. 2018 €'000	31 Dec. 2017 €'000	Change €'000
Balances with credit institutions	10.152	8.419	1.733
Marketable securities	13.691	9.938	3.753
<b>Total</b>	<b>23.843</b>	<b>18.357</b>	<b>5.486</b>

Table 4 **Lending to euro area credit institutions denominated in euro related to monetary policy operations**

	31 Dec. 2018 €'000	31 Dec. 2017 €'000	Change €'000
5.1 Main refinancing operations	-	100.000	(100.000)
5.2 Longer term refinancing operations	830.000	830.000	-
<b>Total</b>	<b>830.000</b>	<b>930.000</b>	<b>(100.000)</b>

Table 5 **Securities of euro area residents denominated in euro held for monetary policy purposes**

	31 Dec. 2018 Amortised Cost €'000	31 Dec. 2017 Amortised Cost €'000	Change Amortised Cost €'000
Securities market programme (SMP)	153.652	162.484	(8.832)
Covered bonds CBPP3	271.274	337.609	(66.335)
Public sector asset purchase programme (PSPP)	4.353.305	3.670.479	682.826
<b>Total</b>	<b>4.778.231</b>	<b>4.170.572</b>	<b>607.659</b>

**A5.1 Main refinancing operations**

Main refinancing operations are open market operations conducted by the Eurosystem. They are repurchase agreements for liquidity provision and are usually carried out through reverse transactions with frequency and maturity of one week on the basis of standard tenders. The main refinancing operations play a key role in managing market liquidity and signalling monetary policy stance. Since 2008 the main refinancing operations are carried out as fixed rate tender procedures with full allotment of the requested liquidity.

**A5.2 Longer term refinancing operations**

These operations aim to provide counterparties with additional longer term refinancing. During 2018 and 2017, operations conducted with maturities between 3 and 48 months, and, carried out as fixed rate tender procedures with full allotment of the requested liquidity.

Additionally in March 2016, the Governing Council of the ECB introduced a new series of targeted longer term refinancing operations (TLTRO II) with four years maturity and repayment option at twenty four months. The interest rate applied to TLTRO II operations was the rate of the main refinancing operation (MRO) prevailing at the time of each transaction.

For each eligible institution whose eligible net lending during the period from 1 February 2016 to 31 January 2018 exceeded the reference net lending amount, the interest rate is revised downwards with the deposit facility rate at the time of each TLTRO II allotment, as minimum.

In 2016 and 2017 the deposit facility rate was used for the purposes of calculating accrued interest with accumulated interest of €3,2 million for both years. Since the reference net lending amount was not achieved, in June 2018 the MRO rate was confirmed as the applicable interest rate and this accrued interest was reversed in 2018, and is presented in the Profit and Loss Account under "K1.1 Interest income".

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

This item relates to the claims of CBC against euro area counterparties.

**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 5) The Table 6 (p. 60) refers to the market value of securities, not recorded in the balance sheet, but

Table 6 Market value of securities

	31 Dec. 2018 Market Value €'000	31 Dec. 2017 Market Value €'000	Change Market Value €'000
Securities market programme (SMP)	164.753	182.561	(17.808)
Covered bonds CBPP3	274.605	342.359	(67.754)
Public sector asset purchase programme (PSPP)	4.369.470	3.697.276	672.194
<b>Total</b>	<b>4.808.828</b>	<b>4.222.196</b>	<b>586.632</b>

provided for comparison purposes only.

This item consists of securities acquired by the CBC for single monetary policy purposes under the scope of the covered bonds purchase programmes (CBPP3), the securities markets programme (SMP), and the public sector purchase programme (PSPP). Securities purchased under these programmes are valued at amortised cost and net marketable value.

The securities markets programme (SMP) terminated on 6 of September 2012.

On 2 October 2014, the ECB's Governing Council announced the third covered bond purchase programme (CBPP3) and 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).

The aim of programme CBPP3 is to facilitate credit provision to euro area economy, generate positive spill overs to other markets and, thus, easing 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.

The PSPP programme aims to further ease monetary and financial conditions, 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.

The ECB's expanded asset purchase programme includes, as from the end of 2016, the Corporate sector purchase programme (CSPP) securities market which was implemented on behalf of the Eurosystem by the NCB's of Germany, France, Spain, Italy, Belgium and Finland.

In 2018, the Eurosystem continued its securities purchases under the expanded asset purchase programme (APP), which includes CBPP3, ABSPP, CSPP and PSPP programmes. The monthly pace of combined net APP purchases by the NCBs and the ECB were €30 billion on average until September 2018 and €15 billion from October until the end of the year when the net purchases ended. The Governing Council intends to continue reinvesting, in full, the principal payments from

Table 7 **Other securities of euro area residents denominated in euro**

	31 Dec. 2018 €'000	31 Dec. 2017 €'000	Change €'000
Marketable securities other than held to maturity	2.999	32.137	(29.138)
Marketable securities classified as held to maturity	629.103	684.893	(55.790)
<b>Total</b>	<b>632.102</b>	<b>717.030</b>	<b>(84.928)</b>

maturing securities purchased under the APP for an extended period of time past the date when it starts raising key ECB interest rates, and in any case for as long as it is necessary to maintain favourable liquidity conditions.

The Governing Council of the ECB assesses on a regular basis the impairment in the value of securities under these programmes. Annual impairment tests are conducted at the end of the year and are approved by the Governing Council of the ECB.

As a result of the impairment tests conducted as at 31 December 2018, the impairment in the value of one security on the holdings under the CSPP was recognised. The Governing Council decided to establish a provision against losses from monetary policy operations in proportion of the prevailing Eurosystem capital key (see note, "L13. Provisions").

#### 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 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 and constitute a marketable varying investment portfolio. They are valued at mid market price 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 and 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.

The market value of the fixed investment securities portfolio, which is reported for comparability purposes only, amounted to €633,9 million (2017: €691,4 million).

#### **A8. General government debt denominated in euro**

This item exclusively relates to the long-term loan of the Republic of Cyprus with the CBC, which was repaid early on 4 December 2018. Total payment in 2018 amounted to €510,9 million plus interest.

Before the accession of the Republic of Cyprus to the EU, the total claims of the CBC on the

government outstanding on 5 July 2002 were converted, according to the article 49 of the *Central Bank of Cyprus Law, 2002-2017*, into a 30 year term loan with a grace period of five years, at an annual interest rate of 3%.

In 2017 the Government made a partial prepayment of €614 million.

The relevant interest income for the year 2018 amounted to €13,8 million (2017: €31,9 million) (see income and expenditure account for 2018, note "P1 Net interest income").

On 31 December 2017, interest receivable arising from the General Government debt amounted to €7,6 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 represents 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 are according to the capital key of each NCB as provided in article 29 of the ESCB statute and subject to adjustment every five years. Currently the euro area NCBs are required to pay their full subscription (i.e. 100%), while the non-euro area NCBs pay 3,75% of their subscription. On 1 January 2019, as a result of the quinquennial capital key change, the CBC's share in the ECB's capital was reduced to 0,1503% from 0,1513% (see note, "P9. Key for subscription to the ECB's capital (ESCB capital key)").

The share of the CBC in the capital, reserves and provisions of the ECB, on 31 December 2018,

amounted to €39,5 million, as on 31 December 2017, while on 1st January 2019 amounted to €39,4 million.

### 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 article 30 of ESCBs 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. The foreign reserves in US dollars are remunerated at the latest available marginal rate for the Eurosystem's main refinancing operations, and the gold component is adjusted to reflect a zero return.

The claim with respect to the foreign reserve assets transferred from CBC to the ECB, on 31 December 2018 was €87,7 million, the same as on 31 December 2017. On 1 January 2019, the claim decreased by €580 thousand to €87,1 million due to the decrease in the capital key of the CBC.

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

This item comprises the claims of the CBC to ECB 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 bears the interest rate applied by the Eurosystem on main refinancing operations, which during 2018 and 2017 remained at 0%.

Table 8 Other claims within the Eurosystem (net)

	31 Dec. 2018 €'000	31 Dec. 2017 €'000	Change €'000
Claim related to TARGET2	7.824.295	7.363.150	461.145
Liability related to the reallocation of monetary income	(37.088)	(25.590)	(11.498)
Claim related to ECB's profits	3.386	2.740	646
<b>Total</b>	<b>7.790.593</b>	<b>7.340.300</b>	<b>450.293</b>

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

#### Intra-Eurosystem balances

These balances represent the net claims of the CBC against ECB arising from transactions of the CBC with other Eurosystem NCBs, with 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).

Additionally, this item includes the liability arising at the end of the year from the pooling and redistribution of monetary income (see Profit and Loss Account for 2018, Note "P5 Net result from the pooling and redistribution of monetary income"). The claim related to the interim distribution of the ECB's profits is also included (see Profit and Loss Account for 2018, Note "P4 Income from equity shares and participating interests").

#### **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, p. 64).

### LIABILITIES

#### **L1. Banknotes in circulation** (Table 10, p. 64)

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 2018, as on 31 December 2017, the CBC's banknote allocation key was 0,1975% (related reference to page 77).

During 2018, the total value of banknotes in circulation within the Eurosystem increased by 5%. According to the allocation key, the CBC's total value of euro banknotes in circulation amounted to €2,4 billion compared with €2,3 billion in 2017.

This change is due to the increase in euro banknotes put into circulation by all NCB's of the euro area, which amounted to €1.231,1 billion as at 31 December 2018 compared with €1.170,7 billion as at 31 December 2017.

#### **L2. Liabilities to euro area credit institutions related to monetary policy operations** (Table 11, p. 65)

##### L2.1 Current accounts (covering the minimum reserve system)

This item consists of the credit institutions'



Table 9 Fixed assets

	31 Dec. 2018 €'000	31 Dec. 2017 €'000	Change €'000
<b>Cost</b>			
Land and buildings	23.052	23.052	-
Furniture, building and other equipment	13.569	13.702	(133)
Computer software and hardware	8.890	8.048	842
Motor vehicles	693	693	-
<b>Total cost</b>	<b>46.204</b>	<b>45.495</b>	<b>709</b>
<b>Accumulated depreciation</b>			
Land and buildings	19.720	18.887	833
Furniture, building and other equipment	12.067	12.108	(41)
Computer software and hardware	8.296	7.624	672
Motor vehicles	684	674	10
<b>Total accumulated depreciation</b>	<b>40.767</b>	<b>39.293</b>	<b>1.474</b>
<b>Net book value</b>	<b>5.437</b>	<b>6.202</b>	<b>(765)</b>

Table 10 Banknotes in circulation

	31 Dec. 2018 €'000	31 Dec. 2017 €'000	Change €'000
Net value of euro banknotes in circulation by the CBC	594.041	636.342	(42.301)
Liability arising from the share of banknotes issued on behalf of the ECB <sup>(i)</sup>	(211.697)	(201.308)	(10.389)
Claim (Liability) arising from the allocation of euro banknotes within the Eurosystem	2.049.146	1.877.130	172.016
<b>Net claim related to the allocation of euro banknotes within the Eurosystem (A9.4)</b>	<b>1.837.449</b>	<b>1.675.822</b>	<b>161.627</b>
<b>Total value of euro banknotes in circulation by the CBC on the basis of the banknote allocation key</b>	<b>2.431.490</b>	<b>2.312.164</b>	<b>119.326</b>

(i) It is calculated as 8% of the total value of euro banknotes multiplied by the CBC's allocation key in the Eurosystem.

current accounts, part of 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.

The total of minimum reserve balances for credit institutions, as on 31 December 2018, amounted to €491,8 million (2017: €530,1 million).



Table 11 **Liabilities to euro area credit institutions related to monetary policy operations**

	31 Dec. 2018 €'000	31 Dec. 2017 €'000	Change €'000
2.1 - Current accounts (covering the minimum reserve system)			
Current Accounts	6.800.838	8.565.690	(1.764.852)
Minimum Reserves	491.751	530.054	(38.303)
2.2 - Deposit facility	4.850.000	2.813.000	2.037.000
<b>Total</b>	<b>12.142.589</b>	<b>11.908.744</b>	<b>233.845</b>

**L2.2 Deposit facility**

This item 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 mainly refers to the deposits held by the government and other public sector counterparties, amounted to €625,1 million (2017: €427,3 million).

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

This item mainly comprises euro denominated liabilities to the European Commission amounted to €2,7 million (2017: €28,9 million).

**L7. Liabilities to euro area residents denominated in foreign currency**

These are mainly interest bearing deposits in foreign currency by institutional organisations.

**L9. Counterpart of special drawing rights allocated by the IMF**

This item represents the CBC's liabilities to the IMF as at 31 December 2018 of €161,4 million (2017: €157,7 million) of Special Drawing Rights SDR132,8 million (31 December 2017: SDR132,8 million). The increase in euro amount of €3,7 million is due to changes in the exchange rate.

**L11. Items in course of settlement**

This is mainly a liability to the government resulting from the operations of the Cyprus Clearing House for cheques and amounted to €38,3 million (2017: €38,5 million).

**L12. Other liabilities****L12.3 Sundries**

This item mainly represents the CBC's net liability for the retirement benefits of its employees amounting to €159,1 million (31 December 2017: €166,2 million) and the CBC's net liability for the pensioners healthcare scheme which amounted to €15,2 million (31 December 2017: €14,6 million).

Table 12 Actuarial assumptions used for the actuarial valuation of the pension scheme

	2018	2017
Discount rate	1,96%	1,90%
Inflation rate	1,50%	1,50%
General salary increases	0,50%	0,50%
Total salary increases	1,25%	1,25%
Increases in social insurance pensions	1,50%	1,50%
Rate of increase in pensions	1,00%	1,00%
Rate of increase in the basic insurable earnings	2,50%	2,50%
Mortality table	60% of PA90	60% of PA90

### Retirement benefits

The CBC provides to its employees, who held a permanent and pensionable post before 1 October 2011, a pension scheme with retirement benefits. 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 relevant laws as from 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*. As from October 2012 the amounts withheld by the CBC are 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 2018 revealed a net actuarial surplus of €9,7 million compared with the net actuarial surplus of €5,4 million, as at 31 December 2017. The main reason for this surplus is the increase of the discount rate from 1,90% to 1,96%.

The liability for the healthcare scheme for

pensioners is unaltered because any actuarial gain or loss that might result from the introduction of the General Health System is currently uncertain. The Board of Directors of the CBC will review the liability after full implementation of the General Health System.

The actuarial assumptions used for the actuarial valuation of the pension scheme are as stated in **Table 12**.

The movement in net retirement benefits liability are analysed in **Table 13** (p. 67).

### L13. Provisions (Table 14, p. 67)

#### Provision against risks arising from the main activities of the CBC

The CBC forms and maintains provisions against the risks arising from its main activities by applying appropriate assumptions, valuation principles and rules governed by the principle of prudence and the tools used to measure risk are the value-at-risk and expected shortfall.

The practice of making provisions and maintaining reserves aims at strengthening the CBC's financial position and capacity to absorb any losses in the event of realisation of the risks arising

Table 13 Movement in net retirement benefits liability

	2018 €'000	2017 €'000	Change €'000
<b>Liability related to the pension scheme</b>			
Net Liability as at 1 January	166.171	167.033	(862)
<b>Employees</b>			
Provision for the year	2.659	2.548	111
Past service cost	-	2.323	(2.323)
Net actuarial (gain)/loss of the actuarial liability	(9.762)	(5.926)	(3.836)
<b>Officers</b>			
Provision for the year	68	68	-
Net actuarial (gain)/loss of the actuarial liability	39	477	(438)
Capitalisation of interest	3.154	2.752	402
Contribution of employees and officers	708	701	7
Benefits paid	(3.978)	(3.805)	(173)
	<b>159.059</b>	<b>166.171</b>	<b>(7.112)</b>
<b>Liability related to the healthcare scheme for pensioners</b>	<b>15.209</b>	<b>14.592</b>	<b>617</b>
<b>Total liability as at 31 December</b>	<b>174.268</b>	<b>180.763</b>	<b>(6.495)</b>

Table 14 Provisions

	31 Dec. 2018 €'000	31 Dec. 2017 €'000	Change €'000
Provision against risks arising from CBC's main activities	300.000	285.000	15.000
Provision for losses arising from monetary policy operations	346	148	198
<b>Total</b>	<b>300.346</b>	<b>285.148</b>	<b>15.198</b>

from its main activities. The CBC's financial independence and ability to perform its roles and responsibilities are also reinforced and safeguarded, as far as possible.

The provision is focused on the following risks:

- **Market risk**

Market risk is the risk of a decrease 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.

- **Credit risk**

Credit risk refers to the risk of loss stemming from the failure of a CBC's counterparty, or an issuer of a security in the possession of the CBC,

to meet its contractual obligations in a complete and timely manner, with the risk of incurring losses.

- **Operational 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.

In particular, the CBC's estimates for the purpose of determining the amount of risk provisions mainly relate to the following risks:

- Market risk and credit risk inherent in the management of own funds and other significant amounts in the CBC balance sheet.
- Credit risk inherent in the implementation of the Eurosystem single monetary policy, such as open market operations (liquidity providing operations) and Eurosystem securities purchasing programmes.
- Operational risk.

After assessing the amount of the provisioning account against an updated estimate of the risks arising from CBC's main activities, the CBC's Board of Directors decided to increase this provision by €15 million at €300 million.

It is noted that the 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. 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.

#### Provision for losses arising from monetary policy operations

The Governing Council of the ECB has deemed it appropriate to establish a provision of €161,1 million against losses in monetary policy operations, in relation to a security held by an NCB of the Eurosystem.

This provision is funded by all the NCBs of the eurozone in proportion to their subscribed capital key shares in the ECB prevailing in 2018. As a result, a provision for €346 thousand equivalent to 0,2149% of the total provision was created. The provision created in 2017 released as the concerned security was sold in January 2018.

#### **L14. Revaluation accounts (Table 15, p. 69)**

This item is composed mainly of unrealised gains in relation to assets and liabilities items (see related notes in the Accounting Rules: Valuation of assets and liabilities, and also, Measurement of income and expenses).

The revaluation of the overall unrealised gains, excluding the remeasurement of retirement benefits, increased by €21,5 million (2017: decrease of €18,0 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 €492,1 million (2017: €460,8 million), increased by €31,2 million.

Pre-stage III revaluations relate to accumulated revaluations until 31 December 2007 that is before the introduction of the euro in Cyprus. These revaluations remain unchanged. Subsequent revaluations are recorded separately in the **Table 15**, p. 69.

On 31 December 2018, the largest revaluation

Table 15 Revaluation accounts

	31 Dec. 2018 €'000	31 Dec. 2017 €'000	Change €'000
Pre-stage III revaluations			
- Gold	240.030	240.030	-
- Foreign currency	977	977	-
	<b>241.007</b>	<b>241.007</b>	-
Other revaluations			
- Gold	246.986	229.711	17.275
- Foreign currency	10.937	6.849	4.088
- Prices of debt instruments	284	123	161
	<b>258.207</b>	<b>236.683</b>	<b>21.524</b>
	<b>499.214</b>	<b>477.690</b>	<b>21.524</b>
Remeasurement of the pension scheme liability	(8.022)	(17.744)	9.722
Remeasurement of healthcare scheme for pensioners liability	892	892	-
<b>Total</b>	<b>492.084</b>	<b>460.838</b>	<b>31.246</b>

Table 16 Capital and reserves

	31 Dec. 2018 €'000	31 Dec. 2017 €'000	Change €'000
Capital	150.000	150.000	-
General Reserve Fund	162.885	137.084	25.801
<b>Total</b>	<b>312.885</b>	<b>287.084</b>	<b>25.801</b>

arose from the valuation of the CBC's holdings in US dollars due to changes in the exchange rate.

The main exchange rates used for the revaluations against the euro as reported in the exchange rates circular of the ECB on 31 December 2018 are the following: sterling €0,8945 (31 December 2017: €0,8872) and US dollar €1,1450 (31 December 2017: €1,1993).

#### L15. Capital and reserves (Table 16)

The capital of the CBC amounts to €150,0 million

and is wholly held by the Government of the Republic of Cyprus.

The CBC has a reserve fund, named 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. The Board's decision aims at ensuring the CBC's proper and sustainable operation as well as its financial independence.

In accordance with the provisions of article 59 of the *Central Bank of Cyprus Law* €25,8 million of

the net surplus for 2017 was transferred to the General Reserve Fund. The remaining surplus of €23,7 million was transferred to the Government General Account for the credit of the Consolidated Fund of the Republic.

### Other notes

#### Pending court cases

On 31 December 2018, a number of court cases against the CBC in relation to its operations was pending. The CBC is a 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, and in some cases related to the CBC's oversight of the securities issued by the banks.

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.

## PROFIT AND LOSS ACCOUNT

### P1. Net interest income

This item comprises interest income less interest expense. Net interest income increased by €3,2 million and amounted to €97,7 million compared with €94,5 million in the previous year.

#### P1.1 Interest income (Table 17, p. 72)

Increased by €0,6 million and amounted to €99,2 million compared with €98,6 million in the previous year.

- **Securities for monetary policy purposes**  
This item consists of interest arising from the purchase of debt securities by the CBC in the context of the covered bonds purchase programme (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").
- **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.
- **Securities for investment policy purposes**  
The interest generated from these securities decreased by €0,2 million to €3,0 million in 2018, compared with €3,2 million in 2017. An increase of €782 thousand was also reported

in the interest income from foreign securities.

- **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, with annual interest rate 3%, which were incurred before the accession of Cyprus to the EU (see note "A8 General Government debt denominated in euro").

- **Negative interest**

Following the decision of the ECB, as from 11 June 2014 negative interest was imposed on certain deposits. The negative interest on banks deposits is considered as a negative expense for the purposes of the monetary income.

#### P1.2 Interest expense (Table 18, p. 73)

- **Interest expense in euro**

Interest expense in euro is zero while for 2017 refers mainly to accrued interest on longer term refinancing operations (TLTRO II), €3,1 million, which were calculated using the deposit facility rate on the basis of the principle of prudence (see note "A5.2 Longer-term refinancing operations").

- **Interest expense in foreign currency**

Interest expense in foreign currency mainly refers to interest of €1,5 million (2017: €0,8 million) paid by the CBC for its liabilities on special drawing rights as a result of Cyprus's counterparty in the IMF (see note "L9 Counterpart of special drawing rights allocated by the IMF").

### P2. Net result of financial operations, writedowns and risk provisions

#### P2.1 Realised gains arising from financial operations

This amount includes foreign exchange gains of



Table 17 Interest income

	2018 €'000	2017 €'000	Change €'000
<b>Interest income in euro</b>			
<b><i>On monetary policy operations</i></b>			
Securities	23.827	21.849	1.978
Open market operations	3	-	3
Interest received TLTRO II	3.210	-	3.210
	<b>27.040</b>	<b>21.849</b>	<b>5.191</b>
<b><i>Other interest income</i></b>			
Provision of emergency liquidity assistance	-	28	(28)
Securities for investment policy purposes	3.043	3.214	(171)
Long term credit facility to government	13.805	31.880	(18.075)
Staff loans	84	90	(6)
Negative Interest	47.395	38.560	8.835
Other interest	16	28	(12)
	<b>64.343</b>	<b>73.800</b>	<b>(9.457)</b>
<b>Total interest income in euro</b>	<b>91.383</b>	<b>95.649</b>	<b>(4.266)</b>
<b><i>Interest income in foreign currency</i></b>			
Securities	1.711	929	782
Other interest income	6.067	1.974	4.093
<b>Total interest income in foreign currency</b>	<b>7.778</b>	<b>2.903</b>	<b>4.875</b>
<b>Total interest income</b>	<b>99.161</b>	<b>98.552</b>	<b>609</b>

€0,4 million (2017: €0,6 million), and earnings from the sale of securities of €1,3 million for 2017.

#### P2.2 Writedowns on financial assets and positions

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 price.

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

This item mainly includes the recovery of costs relating to supervision which for 2018 amounted to €10,2 million (2017: €8,8 million).

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

##### ECB profit distribution

The Governing Council of the ECB decided the initial distribution of €1.191,4 million from the ECB's profits for 2018. The income was distributed on 31 January 2019 and the CBC's share amounted to €2,6 million (2017: €2,1 million).

After the approval of the ECB's annual accounts in February 2019, the Governing Council of the ECB decided the final distribution of the remaining net profit for 2018 amounting to €384,0 million. The CBC's share amounts to €0,8 million (2017: €0,6 million).

Table 18 Interest expense

	2018 €'000	2017 €'000	Change €'000
Interest expense in euro	-	3.155	(3.155)
Interest expense in foreign currency	1.489	849	640
<b>Total interest expense</b>	<b>1.489</b>	<b>4.004</b>	<b>(2.515)</b>

### 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 other expense 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 considered to generate income.

In cases 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 €34,7 million (2017: €25,6 million) between monetary income of €60,9 million (2017: €48,8 million), which the CBC earned in 2018, and its reallocated monetary income of €26,2 million (2017: €23,2 million), based on its Eurosystem key share on the total

Table 19 Staff costs

	2018 €'000	2017 €'000	Change €'000
<b>Employees' benefits</b>			
Remuneration (basic salary, wage indexation, allowances, overtime payments)	15.659	15.900	(241)
Pension benefits provision for current service cost	2.659	4.871	(2.212)
Employer's social insurance and other contributions	2.725	2.536	189
<b>Total</b>	<b>21.043</b>	<b>23.307</b>	<b>(2.264)</b>
<b>Governor's and Board's benefits</b>			
Remuneration (basic salary, wage indexation, allowances)	383	368	15
Pension benefits provision for current service cost	68	68	-
Employer's social insurance and other contributions	37	37	-
Remuneration of non executive directors	131	131	-
<b>Total</b>	<b>619</b>	<b>604</b>	<b>15</b>
<b>Interest expense on pension scheme</b>	<b>3.154</b>	<b>2.752</b>	<b>402</b>
<b>Healthcare scheme for pensioners</b>			
Current service cost	522	496	26
Interest expense	300	242	58
<b>Total</b>	<b>822</b>	<b>738</b>	<b>84</b>
<b>Cost of leaves not taken</b>	<b>(478)</b>	<b>479</b>	<b>(957)</b>
<b>Total Staff Costs</b>	<b>25.160</b>	<b>27.880</b>	<b>(2.720)</b>

monetary income pooled, was paid on 31 January 2019.

In addition, the CBC paid €2,4 million due to revisions of the monetary income for the years 2016-2017.

This item also includes €346 thousand being the CBC's share of the provision against losses in monetary policy operations, which was established in relation to a security held by an NCB of the Eurosystem in its CSPP portfolio. A provision of €148 thousand, made for the impairment of a security in 2017 was released, as the security was disposed in 2018 (see note L13, "Provisions").

#### P6. Other income

Other income mainly consists of €815 thousand, being the CBC's remuneration on the Reserve Tranche Position with the IMF (2017: €420 thousand). The Reserve Tranche Position is a claim against IMF and arises from the excess of Cyprus' quota with IMF over the IMF's deposits in euro (see note A2.1 "Receivables from the IMF"). Other income also includes income from numismatic collection of coins issue amounting to €119 thousand (2017: €169 thousand).

#### P7. Staff costs (Table 19)

Executives and employees' remuneration is subje-

Table 20 **Remuneration of Governor and Board of Directors**

	2018 €'000	2017 €'000
<b>Governor</b>		
Chrystalla Georghadji (Governor from 11 April 2014)	154	152
<b>Executive Directors</b>		
George Syrichas (Executive Director from 19 September 2013 to 18 September 2018)	109	118
Constantinos Herodotou (Executive Director from 1 March 2017)	120	98
<b>Total</b>	<b>383</b>	<b>368</b>
<b>Non-Executive Directors</b>		
Stavros Evagorou (from 1 March 2017)	28	23
Makis Keravnos (from 24 October 2018)	5	-
Philippos Mannaris (from 16 October 2013 to 15 October 2018)	22	27
Andreas Persianis (from 5 February 2014)	28	27
Michalis Polydorides (from 26 July 2013 to 24 July 2018)	15	27
Yiannis Savvides (from 24 October 2018)	5	-
Ioannis Charilaou (from 18 October 2016)	28	27
<b>Total</b>	<b>131</b>	<b>131</b>

cted to the deductions that apply to the general public sector either by applying the relevant law or by adopting the CBC's Board's decisions, where the provisions of the law are not applied.

#### Remuneration of Governor and Board of Directors (Table 20)

The gross remuneration of the Governor and the

Executive Directors, made up of basic salary, wage indexation and allowances, was reduced by the deductions that apply to the general public sector. This remuneration is subjected to contributions that apply to the general public sector executives.

Table 21 Administrative expenses

	2018 €'000	2017 €'000	Change €'000
Consultancy services	319	75	244
Legal expenses	2.921	5.232	(2.311)
Maintenance, repairs, cleaning	1.384	1.292	92
Travel and subsistence expenses	827	829	(2)
Communications	254	253	1
Electricity, heating and water costs	561	511	50
Hospitality and conferences in Cyprus	72	105	(33)
Buildings, equipment and vehicle insurance	56	44	12
Miscellaneous	1.718	1.740	(22)
<b>Total</b>	<b>8.112</b>	<b>10.081</b>	<b>(1.969)</b>

**P8. Administrative expenses (Table 21)**

Administrative expenses decreased by €2,0 million to €8,1 million (2017: €10,1 million) during the year.

**P9. Depreciation of tangible fixed assets**

Depreciation of tangible fixed assets for the year 2018 is €1,6 million (2017: €1,5 million).

**P10. Banknote acquisition cost**

Expenses related to acquisition and handling of banknotes and coins for 2018 is €2,0 million (2017: €1,2 million).

**P11. Other expenses**

This item relates to the CBC's various operating expenses for the year 2018 of €1,4 million (2017: €2,4 million).

**P12. Key for subscription to the ECB's capital (ESCB capital key) (Table 22, p. 77)**

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.

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.

Banknote allocation key equals to the Eurosystem allocation key adjusted to the 92% share and is allocated to the NCBs of the Eurosystem.

Table 22 Key for subscription to the ECB's capital (ESCB capital key)

	01/01/2019 %	31/12/2018 %
Nationale Bank van België/Banque Nationale de Belgique	2,5280	2,4778
Deutsche Bundesbank	18,3670	17,9973
Eesti Pank	0,1968	0,1928
Bank of Greece	1,7292	2,0332
Banco de Espana	8,3391	8,8409
Banque de France	14,2061	14,1792
Central Bank and Financial Services Authority of Ireland	1,1754	1,1607
Banca d'Italia	11,8023	12,3108
Banque centrale du Luxembourg	0,2270	0,2030
De Nederlandsche Bank	4,0677	4,0035
Oesterreichische Nationalbank	2,0325	1,9631
Banco de Portugal	1,6367	1,7434
Suomen Pankki Finlands Bank	1,2708	1,2564
Banka Slovenije	0,3361	0,3455
Latvijas Banka	0,2731	0,2821
Central Bank of Malta/ Bank Centrali ta' Malta	0,0732	0,0648
Central Bank of Cyprus	0,1503	0,1513
Narodna banka Slovenska	0,8004	0,7725
Lietuvos bankas	0,4059	0,4132
<b>Total amount for euro area NCBs</b>	<b>69,6176</b>	<b>70,3915</b>
Ceska narodni banka	1,6172	1,6075
Danmarks Nationalbank	1,4986	1,4873
Magyar Nemzeti Bank	1,3348	1,3798
Narodowy Bank Polski	5,2068	5,1230
Sveriges Riksbank	2,5222	2,2729
Bank of England	14,3374	13,6743
Bulgarian National Bank	0,8511	0,8590
Banca Nationala a Romaniei	2,4470	2,6024
Hrvatska Narodna Banka	0,5673	0,6023
<b>Total amount for non-euro area NCBs</b>	<b>30,3824</b>	<b>29,6085</b>
<b>Total amount for NCBs that are members of the ESCB</b>	<b>100,00</b>	<b>100,00</b>
<b>Central Bank of Cyprus</b>		
<b>Eurosystem Capital Key</b>	<b>0,2159</b>	<b>0,2149</b>
<b>Banknote Allocation Key</b>	<b>0,1985</b>	<b>0,1975</b>



## INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF THE CENTRAL BANK OF CYPRUS

### Report of the audit of the Financial Statements

#### Opinion

We have audited the financial statements of Central Bank of Cyprus (CBC), which are presented on pages 50-77 and comprise the balance sheet as at 31 December 2018 and the profit and loss account for the year then ended, and notes to the financial statements, including a summary of accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of CBC as at 31 December 2018, and of its financial performance for the year then ended in accordance with article 57(2) of the *Central Bank of Cyprus Law, 2002-2017*, 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/2016/34, as amended.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have

obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other information

The Governor and the Board of Directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's opinion thereon. The annual report is expected to be available to us after the date of this Independent Auditor's Report.

Our opinion on the financial statements does not cover the other information and we do not and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

If, having read the annual report, we conclude that there is material misstatement of this other information, we are required to report that fact to the Audit Committee, the Governor and the Board of Directors.

#### Responsibilities of the Governor and the Board of Directors for the Financial Statements

The Governor and the 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, 2002-2017*, in conformity with the accounting principles applicable in the European System of ESCBas these are determined by the ECB in the Accounting Guideline ECB/2016/34, as amended 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.

In preparing the financial statements, the Governor and the Board of Directors are responsible for assessing the CBC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in accordance with the accounting principles applicable in the ESCBas these are determined by the ECB in the Accounting Guideline ECB/2016/34, as amended.

The Governor and the Board of Directors are responsible for overseeing the CBC's financial reporting process.

#### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to

influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Governor and the Board of Directors.
- Conclude on the appropriateness of the Governor and the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention

in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves true and fair view.

We communicate with the Governor and the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any signifi-

cant deficiencies in internal control that we identify during our audit.

#### **Other matter**

This report, including the opinion, has been prepared for and only for the Bank's Board of Directors as body in accordance with Section 69 of the *Auditors Law, 2017* 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.

#### **Comparative figures**

The financial statements of CBC for the year ended 31 December 2017, were audited by another auditor who expressed an unmodified opinion on those statements on 26 March 2018.

**Anna Loizou**

**Certified Public Accountant and Registered Auditor for and on behalf of**

**PricewaterhouseCoopers Limited**

**Certified Public Accountants and Registered Auditors**

**City House, 6 Karaiskakis Street, CY-3032 Limassol, Cyprus**

**28 March 2019**



CENTRAL BANK OF CYPRUS  
EUROSYSTEM

**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.

Members	Position	
Michalis Polydorides <sup>(1)</sup>	Non-Executive Director	Chairman
Philippos Mannaris <sup>(2)</sup>	Non-Executive Director	Member
Ioannis Charilaou	Non-Executive Director	Member

(1) Term on CBC board ended on 25 July 2018.  
(2) Term on CBC board ended on 15 October 2018.

### 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 emoluments. It also addresses procedures concerning disciplinary offenses and bankruptcies of employees. It has decisive competence on the suitability of qualifications and experience in relation to each specific position, the restoration of employees whose promotion was annulled, and disciplinary action.

Members	Position	
Chrystalla Georghadji	Governor	Chairman
-----	Deputy Governor <sup>(1)</sup>	Member
Constantinos Herodotou	Executive Director	Member
George Syrichas <sup>(2)</sup>	Executive Director	Member
Ioannis Charilaou	Non-Executive Director	Member
Stavros Evagorou <sup>(3)</sup>	Non-Executive Director	Member
Michalis Polydorides <sup>(4)</sup>	Non-Executive Director	Member

(1) The position of the Deputy Governor is provided by the Constitution and is currently vacant.  
(2) Term on CBC board ended on 18 September 2018.  
(3) Appointed as member of the Personnel Committee on 10 September 2018.  
(4) Term on CBC board ended on 25 July 2018.

### Investments Committee

Established by 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.

Members	Position	
Philippos Mannaris <sup>(1)</sup>	Non-Executive Director	Chairman
Andreas Persianis	Non-Executive Director	Member/Alternate Chairman
Michalis Polydorides <sup>(2)</sup>	Non-Executive Director	Member

(1) Term on CBC board ended on 15 October 2018.  
(2) Term on CBC board ended on 25 July 2018.

### Budget Committee

Established by the Board of Directors and caters for the preliminary budgetary draft prior to its final submission to the Board for approval.

Members	Position	
Chrystalla Georghadji	Governor	Chairman
Constantinos Herodotou	Executive Director	Member
George Syrichas <sup>(1)</sup>	Executive Director	Member
Andreas Persianis	Non-Executive Director	Member
Stavros Evagorou	Non-Executive Director	Member

(1) Term on CBC board ended on 18 September 2018.