

**ANSWERS TO FREQUENTLY ASKED QUESTIONS
REGARDING THE DEPOSIT GUARANTEE AND RESOLUTION OF
CREDIT AND OTHER INSTITUTIONS SCHEME («DGS»)**

1. What is the purpose/objective of the Deposit Guarantee and Resolution of Credit and Other Institutions Scheme («DGS»)?

The Deposit Guarantee and Resolution of Credit and Other Institutions Scheme (DGS) was established and has been operating since 2000. The purpose/objective of the DGS is (a) to compensate the depositors of authorised credit institutions («ACI») which are unable to repay their deposits and (b) the financing of resolution measures to ACI.

2. Does the DGS constitute a separate corporate body?

Yes, the DGS constitutes a separate public law corporate body.

3. Who is responsible for the management and administration of the DGS?

For the purposes of the DGS, a five-member Management Committee has been established, consisting of staff from the Ministry of Finance and the Central Bank of Cyprus («Central Bank»).

The Governor of the Central Bank is ex officio the Chairman of the Management Committee. The other four members of the Management Committee are appointed by the Central Bank's Governor and include two employees of the Central Bank and two employees of the Ministry of Finance, upon recommendation by the Minister of Finance.

The Central Bank provides administrative and technical support to the DGS for the fulfilment of the DGS's duties and responsibilities.

4. Which ACI participate in the DGS?

All credit institutions established in the Republic are members of the DGS. These also include the Housing Finance Corporation, the subsidiaries of credit institutions established in the European Union and third countries and branches of credit institutions from third countries, provided that the protection offered in the country where the branch has its head office is not equivalent. The list of member ACI is available on the website of the Central Bank at the following link:

<https://www.centralbank.cy/images/media/redirectfile/DGS/List%20of%20credit%20institutions%20which%20pay%20contributions%20-%20English.pdf>

5. Does the DGS cover deposits of branches of credit institutions which have their head office in a European Union («EU») member state?

The branches of credit institutions which have their head office in another EU member state are not members of the DGS. Deposits held with these branches are covered by the deposit guarantee scheme of the country in which their head office is located.

6. What is the source of DGS funds?

The funds of the DGS mainly originate from contributions of the ACI. A programme of contributions has been put in place and implemented, according to which the ACI that participate in the DGS will pay contributions until 3 July 2024, in order to reach the target level of at least 0,8% of covered deposits of all the ACI that contribute to the DGS, as defined in the legislation.

7. What is provided for in case the available financial means of the DGS are insufficient for repayment to the depositors of ACI?

The ACI shall pay extraordinary ex-post contributions which, however, do not exceed 0,5% of the covered deposits of each ACI per calendar year except in special circumstances and with the prior consent of the Central Bank.

There are, however, alternative sources of DGS funding which may derive from the following:

- (a) loans or other types of support from institutions, financial institutions, or other third parties;
- (b) liquidation of assets or investments.

In the worst case scenario, where none of the above sources of funding is sufficient for the collection of the required sums for repayment of the depositors, a provision of the Restructuring of Financial Institutions Law (N.200(I)/2011) is activated, in accordance with which the Council of Ministers may provide financial support through government loans or guarantees or grants to the DGS for the accomplishment of its mission.

8. Where are the liquid funds of the DGS kept?

Currently the total liquid funds of the DGS are deposited at the Central Bank. The Management Committee of the DGS, however, may invest part of the funds of the DGS in readily liquefiable and low-risk assets, ensuring the existence of readily available funds and sufficient diversification of the investments, in order not to affect the purposes of the DGS.

9. Under what conditions is the DGS activated and repayment effected to the depositors of ACI?

The DGS is activated when:

- (i) the Central Bank of Cyprus has established and has informed the Management Committee of the DGS that an ACI, for reasons relating to its financial condition, does

not appear, for the time being, able to repay any due and payable deposit and deems that it will not be able to do so in the near future; or

- (ii) an order has been issued by a court of the Republic for special liquidation of the ACI pursuant to the Business of Credit Institutions Law, or in case the ACI's head office is located outside the Republic, an equivalent order has been issued by a judicial authority of the country where it has its head office.

10. Has the DGS been activated in the past?

The DGS was activated once and specifically in April 2016 for FBME Bank Ltd – Cyprus Branch (“FBME”). In this case, the DGS made repayments of approximately €83 million to the covered depositors of FBME.

11. For the purposes of the DGS, what is a deposit?

Deposit means any credit balance which results from funds left in an account, or from temporary situations deriving from normal banking transactions and which the ACI is required to repay under the legal and contractual conditions applicable, including fixed-term deposits and savings deposits, but excluding a credit balance where:

- a. its existence can only be proven by financial instruments as defined in the Investment Services and Activities and Regulated Markets Law as amended, unless it is a savings product which is evidenced by a certificate of deposit made out to a named person and which existed on 2 July 2014;
- b. its principal is not repayable in full, or,
- c. its principal is only repayable in full under a particular guarantee or agreement provided by the ACI or a third party.

12. Are prepaid cards considered deposits?

Non-bearer pre-paid cards (where ownership information is recorded) linked to a bank account with a credit institution are considered as eligible deposits under the DGS. Hence, the balance in such pre-paid cards is considered as a separate deposit and summed up with other deposits which the same person has with the specific credit institution.

13. Will the repayment of deposits in foreign currencies be done in foreign currency or in euro?

The repayments are made in euro, irrespective of the currency in which the deposit is maintained.

14. Which deposits are covered by the DGS (i.e. are eligible deposits)?

The DGS covers deposits, which belong to natural or legal persons (companies), as well as any accrued interest thereon until the maturity date of the deposit or the date the deposit became unavailable, whichever occurred first. All the deposits of natural or legal persons are considered to be eligible deposits, excluding those which are mentioned in the answer to question 15.

15. Which deposits are excluded from coverage by the DGS;

The following categories of deposits are excluded from any repayment by the DGS:

- (a) deposits made by other CI on their own behalf and for their own account;
- (b) own funds;
- (c) deposits arising out of transactions for which there has been a criminal conviction for money laundering;
- (d) deposits by financial institutions;

It is noted that, among others, financial institutions are considered to be the companies whose **main** activity is the acquisition of participations (holding companies) or activity/ies such as lending, leasing, payment services, portfolio management or advice on portfolio management, etc.)

- (e) deposits by investment firms;
- (f) deposits the holder of which has never been identified, pursuant to the provisions of the Prevention and Suppression of Money Laundering Activities Law, when these become unavailable;
- (g) deposits by insurance and reinsurance undertakings;
- (h) deposits by collective investment undertakings;
- (i) deposits by pension and retirement funds, with the exception of the funds which are mentioned in the answer to question 16;
- (j) deposits by public authorities of which the annual budget exceeds the amount of €500.000;
- (k) debt securities issued by an ACI and liabilities arising out of own acceptances and promissory notes.

16. Which deposits by provident funds and pension/retirement funds are covered by the DGS?

The DGS compensates unitholders (beneficiaries) of the deposits of the following provident funds and pension/retirement funds:

- (i) individual pension schemes; and
- (ii) occupational pension schemes or funds of small or medium-sized enterprises (including collective schemes or Occupational Retirement Benefit funds, in which the members are employees of one and/or more small or medium-sized enterprises) and which, are either registered with the Registrar of Occupational Retirement Benefit Funds, or are included through an insurance contract with an insurance company in Class VII of Life Insurance (for definition please refer to the Insurance Business and Other Related Issues Law).

Small or medium-sized enterprises are considered the enterprises (regardless of their legal form) that carry out an economic activity with less than 250 employees and whose

annual turnover does not exceed €50 million and/or their total annual balance sheet does not exceed €43 million.

It is clarified that public authorities, non-profit organisations and semi-public organisations that do not carry out any economic activity (e.g. municipalities, community councils, unions, charities etc.), are not considered small or medium-sized enterprises, and therefore, the deposits of the funds of these authorities/bodies are **not** considered to be eligible for DGS compensation purposes.

The share of the deposits of the pension scheme/fund (for example Provident Fund of a small or medium-sized enterprise) which each beneficiary is entitled to, is added together with any other deposits that the same person may have at the same ACI. As it is also mentioned in the answer to question 17, for the purposes of calculating the repayable amount, the sum of the deposits at the ACI is set-off with any loan instalments or other credit facilities that the depositor maintains at the ACI which have fallen due (i.e. financial obligations, which the depositor should have repaid).

17. For the purposes of calculating the repayable amount, are any loans or liabilities of the depositor towards the ACI taken into consideration?

For the purposes of calculating the total repayable amount, the sums of the deposits at the specific ACI are set-off with loan instalments or other credit facilities which may have been granted by the ACI to the depositor, provided that these have fallen due (financial obligations which the depositor should have repaid). For example, a depositor who has a deposit of €75.000 and a loan instalment of €5.000, which has fallen due, will be repaid by €75.000 minus €5.000, that is €70.000, in case of activation of the DGS.

18. What is the maximum repayable amount, per depositor and per ACI?

The maximum repayable amount per depositor and per licensed ACI, amounts to €100.000, including accrued interest. This amount refers to the total deposits of a depositor held with a particular ACI, regardless of the number of accounts, following set-off, already explained in the answer to question 17.

19. What happens to deposit amounts in excess of the coverage limit of €100.000?

Additional compensation may occur from the proceeds of the liquidation of the credit institution via a liquidator.

20. What are deposits that serve social purposes? Is additional coverage by the DGS available for these?

Some deposits that serve social purposes or deposits resulting from real estate transactions relating to private residential properties are considered as temporary high balances. These are entitled to additional coverage to that referred to in question 18. This additional coverage is up to €300.000 for a period of no longer than 12 months, from the earlier between the date on which the amount was credited or the date on which such deposits become legally transferable to the beneficiary.

«Deposits that serve social purposes» means deposits which arise from any of the following:

- (a) compensation in respect of insurance benefits,
- (b) compensation for wrongful conviction,
- (c) compensation for criminal injuries,
- (d) state benefits in relation to disability or inability,
- (e) dismissal,
- (f) state or private benefits paid at retirement,
- (g) state or private benefits paid in case of death,
- (h) compensation in case of death,
- (i) legacy or other form of distribution of the estate of the deceased.

Example 1: A depositor has an account of €120.000. Moreover, the depositor inherits an amount of €180.000, which he deposits in the same account. In case of activation of the DGS, the depositor will receive €100.000 within 7 working days. If it is proven that the source of funds is the legacy, the depositor will receive an **additional** coverage of €180.000; thus the depositor will receive €100.000 + €180.000.

Example 2: Depositors A and B have a joint account of €30.000. Depositor A sells a private residential property and receives €500.000, which he deposits in the joint account. The balance of the joint account is €530.000. In case of activation of the DGS, the two depositors will receive €100.000 each within 7 working days. If it is proven that the source of funds is the sale of the private residential property, then the joint deposit has an additional coverage limit of €300.000; thus the two depositors will receive €100.000 + €150.000 each.

21. What happens if a depositor has more than one deposit accounts at an ACI?

All deposits of the same person at a specific ACI are added up together with the share that he/she may be entitled from deposits by individual or occupational pension schemes and Provident Funds (refer to answer of question 16). The total of these deposits is considered as eligible for repayment up to the maximum amount of €100.000, excluding the deposits which belong to the categories mentioned in the answer to question 15.

Example 1: If depositor A has a sight deposit of €20.000 and a fixed-term deposit of €85.000 at the same ACI, but no liabilities towards the ACI which have fallen due, the eligible amount of deposits is €105.000. The repayable amount that depositor A will receive, in case of activation of the DGS, is €100.000 (since €85.000 + €20.000 = €105.000, which exceeds the maximum covered amount of €100.000).

Example 2: If depositor B has a sight deposit of €20.000 and a fixed-term deposit of €85.000 at the same ACI and liabilities towards the ACI which have fallen due of €7.000, the eligible amount of deposits is €105.000. The repayable amount that depositor B will receive, in case of activation of the DGS, is €98.000 (since €85.000 + €20.000 = €105.000 and €105.000 - €7.000 = €98.000). In this case, the restriction of the

maximum covered amount of €100.000 does not apply since the amount resulting from the set-off of the depositor's eligible deposits with his overdue liabilities is less.

22. What happens in cases of joint accounts?

In cases of joint accounts, the share of each depositor in the joint account is regarded as a separate deposit and is summed up with other deposits which the same person has at the specific ACI.

In case of repayment, it is considered that a joint account deposit is divided equally among the beneficiaries, unless otherwise stated in the relevant deposit contract.

Example: Depositor A and depositor B have a joint account at an ACI with €180.000 and each depositor is entitled to 50% of the balance. Depositor B also has, at the same ACI a sight deposit of €20.000. The two depositors do not have any liabilities towards the ACI which have fallen due.

Based on the above example, the repayable amounts which the two depositors will receive in case of activation of the DGS are:

Depositor A will receive repayment of €90.000 ($€180.000 / 2 = €90.000$).

Depositor B will receive repayment of €100.000 (the total of the eligible deposits of €110.000 ($€180.000 / 2 + €20.000$), is capped to the maximum covered amount of €100.000).

23. Are the deposits which a person has in its own name considered to be separate deposits from those deposits which are held in the name of a legal person (company) in which the specific person owns a share or even the whole of the share capital?

Companies constitute separate legal entities and are independent from their shareholders. The legal persons are entitled to receive separate repayment, like every natural person (up to the maximum covered amount of €100.000 and after the set-off which is described in the answer to question 17), provided that the deposits are not included in the categories excluded from the DGS coverage, as these are mentioned in the answer to question 15.

24. In case of client accounts what is the deposit coverage by the DGS?

According to the current legislation, «client account» means the account in which the persons that are the absolutely entitled beneficiaries are persons other than those holding the account in their name and the said account is maintained on behalf of the persons absolutely entitled to the funds deposited in the account. It is noted that irrespective of the account holder, the DGS covers deposits of the absolute beneficiaries of all client accounts, provided that the absolute beneficiaries do not fall into the categories of deposits that are excluded from coverage by the DGS, as these are stated in the answer to question 15.

Each holder of a client account shall obtain and maintain sufficient, accurate and updated information in relation to the persons that are absolutely entitled to the deposit

of the client account, and shall provide such information to the ACI and/or the Management Committee of the DGS, within 7 working days from the date that such information is requested.

The DGS compensates the absolutely entitled beneficiaries up to the maximum amount of €100.000 per person, per ACI, according to the principles mentioned above. In case where a beneficiary of a client account, also has a personal deposit, then his/her share from the client account and his/her personal deposit are summed up. The repayable amount which will be paid in case of activation of the DGS is capped to the maximum covered amount of €100.000.

25. Within what time period is the repayment by the DGS made?

The DGS has the relevant repayable amount available within seven (7) working days from the date on which the deposits become unavailable.

26. In case of activation of the DGS, can the liquid funds of an ACI which is unable to repay the depositors be used?

«Liquid funds» means the cash and deposits of an ACI in other financial institutions, including the Central Bank. The liquid funds of an ACI are used immediately for the repayment of its covered deposits, until the balance of the liquid funds is reduced to the double of the estimated total amount of claims that have priority against covered deposits in normal insolvency proceedings. In case the liquid funds of an ACI are not sufficient to repay all covered deposits, the DGS repays the remaining covered deposits.

27. Is there a time limit within which depositors can apply for the relevant repayment by the DGS?

Depositors can claim the repayment of their deposits within two (2) years from the date on which the said deposits become unavailable.

28. How can I be informed of an activation of the DGS and what should I do?

In case of activation of the DGS there will be announcements of the Management Committee of the DGS in journals of wide national circulation and on the website of the Central Bank, where all procedures for depositors will be described in detail.

29. Where can I find additional information, including the legal framework of the DGS and its operation?

Each ACI which is a member of the DGS, has a legal obligation to provide sufficient information regarding the DGS to its actual and intending depositors. For example, the maximum coverage level, the categories of deposits excluded from DGS coverage etc. The ACI is also obliged to provide the aforementioned information via an informative leaflet which is either transmitted in physical form at least annually together with the statement of the account or is posted on the ACI's website via a relevant link to the internet banking portal.



Deposit Guarantee and Resolution of
Credit and Other Institutions Scheme

Additional information which includes, among others, the legal framework of the DGS, the ACIs which are exempted from payment of contributions to the DGS, the methodology for the calculation of contributions etc., is available via the following link on the website of the Central Bank:

<https://www.centralbank.cy/en/deposit-guarantee-investors-compensation-schemes/deposit-guarantee-and-resolution-of-credit-and-other-institutions-scheme>

Depositors may also address any other additional enquiries either via telephone at **22714100** or via electronic mail at dps@centralbank.cy .

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