



CENTRAL BANK OF CYPRUS
EUROSYSTEM

ANNUAL REPORT 2022

NICOSIA - CYPRUS

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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
2022

6

Annex

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ABBREVIATIONS AND CONVENTIONS

ABBREVIATIONS

ACIs	Authorised Credit Institutions
AnaCredit	Analytical Credit Datasets
ANFA	Agreement on Net Financial Assets
APP	Asset Purchase Programme
ATC	Advisory Technical Committee
CBC	Central Bank of Cyprus
CBD	Consolidated Banking Data
CCH	Cyprus Clearing House
CIR	Central Information Register for Issuers of Dishonoured Cheques
CSDB	Centralised Securities Database
CSDR	Centralised Securities Depositories Regulation
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
EPCO	Eurosystem Procurement Coordination Office
ESCB	European System of Central Banks
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
Eurostat	Statistical Office of the European Union
FSC	Financial Stability Committee
GC	Governing Council
GDP	Gross Domestic Product
HFCS	Household Finance and Consumption Survey
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
IP	Investment Position
MFIs	Monetary Financial Institutions
MREL	Minimum Requirement for own funds and Eligible Liabilities
NCBs	National Central Banks
PEPP	Pandemic Emergency Purchase Programme
PSPP	Public Sector Purchase Programme
RIAD	Register of Institutions and Affiliates Database
RMS	Records Management System
SEPA	Single Euro Payments Area
SMP	Securities Markets Programme
SPEs	Special Purpose Entities
SRB	Single Resolution Board
SSM	Single Supervisory Mechanism
TARGET2	Trans-European Automated Real-time Gross settlement Express Transfer system - second generation
TIPS	TARGET Instant Payment Settlement
TLTRO III	Targeted Longer-Term Refinancing Operations

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 2023.

1. Governor's introduction

The unprecedented geopolitical challenges that marked the year 2022 brought significant turbulence to the course of the global economy after the end of the acute phase of the pandemic. The war in Ukraine in particular, as well as its collateral consequences, sent international inflation skyrocketing. The war unfortunately continues in 2023, maintaining the climate of insecurity and therefore affecting to some extent the developments in the energy market as well as the production and trade chains, prolonging the challenges in the current year, both for the international economic activity and for the inflation.

In Cyprus, sound economic fundamentals significantly helped manage the extraordinary situation caused by the aforementioned events, contributing substantially to the great resilience recorded by the Cypriot economy in 2022. In particular, the GDP growth rate reached 5,6% in 2022. This increase is the sixth highest recorded among the 19 member countries of the euro area in the year under review. The decisive factors in the increase of GDP were the pronounced recovery of domestic demand recorded after the acute phase of the pandemic, the non-dependence of the Cypriot economy on Russian natural gas, the significant recovery in the tourism industry and, in general, the flexibility exhibited by services exports. The very limited exposure of the Cypriot banking sector to the Russian economy also played an important role. New lending to the non-financial private sector also contributed significantly to the strengthening of economic activity. In particular, the strong liquidity of the banking sector in 2022 supported new lending to the non-financial private sector, which increased to €3,2 billion in the year

under review, from €2,9 billion in 2021, despite the stricter lending policy of the banks. The growth of new loans was particularly strong in the first half of 2022, while subsequently this momentum had moderated driven by increased economic uncertainty and higher interest rates. Foreign direct investments, as a result of the inflow of a large number of foreign companies within the framework of the Strategy for Attracting Companies to Activate and/or Expand their Activities in Cyprus ("international headquarters"), contributed to the strengthening of economic activity in 2022.

Inflation in Cyprus during 2022 rose to 8,1% compared to 2,3% in 2021, mainly reflecting the developments in energy prices which significantly increased due to the war in Ukraine. It is noted that the large increases in energy prices in Cyprus had significant indirect upward effects on the other categories of the Harmonised Index of Consumer Prices (HICP), such as the prices of food, industrial products and services. At the same time, ongoing supply-side problems due to the ongoing pandemic continued to contribute to the increase of goods and services prices in 2022, although towards the end of the year these problems began to largely ease. At the same time, it should be pointed out that the restart of the economy with the lifting of the restrictive measures of the pandemic, led to a significant increase in demand, especially in the service sector, which also contributed to the rise in inflation. Inflationary pressures were also reinforced by the weakening of the euro by around 11% against the US dollar in 2022, which was partly passed on to consumer prices.

According to the latest forecasts of the Central Bank of Cyprus (CBC) for March 2023, the GDP growth rate for 2023 is expected to reach 2,6%. The

lower GDP growth rate in Cyprus, compared to 2022, is expected to be driven mainly from the reduced demand for loans due to higher interest rates and the decrease in private consumption and investment. However, the investments for development and reform projects in the context of the implementation of the Recovery and Resilience Plan, which are estimated to amount to approximately 700 million euros over the next three years, are expected to contribute significantly to the upward trajectory of GDP (approximately 0,7% of GDP per year for the period 2023-2025). For the period 2024-2025, economic growth of around 3,1% per year is expected. Beyond the implementation of the Recovery and Resilience Plan, the expected rise in GDP is projected to be driven mainly from the recovery of domestic demand - private consumption and investment - and, to a lesser extent, from net exports, in the context of the continued inflow of foreign companies that are active in technology exports, as well as from the further recovery of tourism revenues.

According to the aforementioned CBC forecasts, domestic inflation is expected to subside to 3,3% in 2023. Further easing of inflationary pressures is expected in 2024 and 2025, to 2,3% and 1,9%, respectively. The decrease in inflation over 2023-25 is driven by the expected normalization of energy and food prices, the expected correction of supply chain disruptions in 2023, and the expected impact on demand due to the rising interest rates. The slowdown of the HICP in the coming years also reflects the stability of longer-term inflation expectations.

The CBC's new forecasts for GDP and inflation were completed at the beginning of March, before

the recent emergence of tensions in the financial markets and therefore, these tensions may affect the outlook for economic growth and inflation through the effects in the external environment.

The worldwide increase in inflation, as well as the other economic effects of the negative geopolitical developments, led to a readjustment of the existing policy plans at the international level in order to deal with the unprecedented economic conditions that were created. In this context and with the aim of restoring price stability in the euro area, the Governing Council of the European Central Bank carried out a series of increases in key interest rates, so that they are at levels deemed capable of reducing inflation, which significantly erodes the purchasing power of households and businesses, towards our medium-term target of 2%. The goal of price stability is further facilitated by coordination between monetary and fiscal policy so that inflationary pressures are not sustained through increased demand. Specifically, any fiscal support measures should be temporary, targeting vulnerable households and businesses and also creating incentives to save energy. Without these criteria in fiscal decision-making, inflationary pressures would worsen, which would work against monetary policy's effort to return inflation to low levels.

In addition to the adoption of targeted fiscal measures, the implementation of further structural reforms will significantly strengthen the productive capacity of the economy and the efficiency of the framework in which businesses, banking institutions and consumers transact. Also, supporting the digital and green transition, for which there is EU funding under the Recovery and Resilience Plan investments totalling €1.2 billion, is crucial in

ensuring a more supportive business environment. Improving the business environment leads to a more efficient allocation of resources in the economy, strengthens competition and market productivity, thus creating the foundations for stable and sustainable growth. In addition, the improvement of the insolvency framework, in conjunction with the reform of the judicial system, will further assist the management of non-performing loans. Finally, the implementation of the CBC's supervisory tool, debt service-to-net income ratio, which examines the existence of sufficient disposable income as a pre-condition for granting a loan to consumers and businesses is important to mitigate the effects of rising interest rates. The CBC monitors this indicator through relevant regular supervisory reports. The imposition of this ratio by the CBC helps both the banks and the borrowers, as the banks, on one hand, proceed with granting loans with strong repayment ability, thus reducing the risk of defaults and, on the other hand, securing the mortgaged property of the borrower.

The banking sector in 2022 proved to be resilient, despite the difficult conditions formed by the COVID19 crisis and Russia's invasion of Ukraine. Credit institutions exhibited solid capital buffers, enhancing their ability to absorb future unexpected losses. In particular, the CET1 ratio amounted to 17,7% in December 2022. At the same time, the Cypriot banking sector recorded comfortable liquidity reserves, reaching 309,7% in December 2022, well above the minimum regulatory requirement of 100%.

The confidence in the Cyprus banking system has been further strengthened in 2022, continuing the trend of the recent years. This is demonstrated

by the constantly improving ratings of external rating agencies but also by the ability of credit institutions to successfully raise capital from international markets. At the same time, the level of deposits continued its upward trend and reached €52,1 billion at the end of the year. The total assets of licensed credit institutions recorded a decrease in 2022 due to the reduction of ACIs operating in the Cyprus Banking Sector after the revocation of the banking licence of RCB Bank and the deleveraging of loans, mainly through sales to credit acquiring companies. Despite the adverse effects of the geopolitical tensions and the pandemic, the asset quality of credit institutions improved, with total non-performing loans as a percentage of the total loan portfolio declining to 9,5% vis-a-vis 10,6% as at 31 December 2021. At the same time, the banking sector was supporting the real economy in 2022 by channelling fresh lines of credit.

However, the indirect and medium-term effects of the crises are yet to be crystallized. Taking also into account that the broader economic environment is under constant pressure, the supervisory requirement is that all credit institutions shall continue applying prudent and comprehensive risk management policies. The course of monetary policy normalization followed by the ECB is expected to contribute to the increase of the banks' interest income, but this may not be sufficient to balance out the structural inefficiencies of the banking sector. These inefficiencies include the legacy issue of non-performing loans, the rising costs relative to revenues, the limited avenues of income generation, the need for further strengthening the governance structure and the operation of Boards of Directors, the

competitive pressures from companies that do not belong to the traditional banking spectrum, as well as the risks and costs associated with the climate change and the transition to a greener economy. Based on the above, the banking sector should continue to adjust its strategies and business plans to the new realities.

Among others, the CBC places particular emphasis on the strict oversight of security and operational risks arising from the increased penetration of technology and the associated asymmetric cyber threats. The issues of digital operational resilience, digital transformation and cyber security have been included in the CBC's supervisory priorities in 2023 as well.

One of the challenges the CBC faced in 2022 was the Lebanese severe and protracted economic crisis. The CBC, having identified and assessed in a timely manner the severity of the risks involved, adopted a package of measures from the end of 2019 with the aim of preventing any negative consequences on the depositors of the nine Lebanese branches operating in Cyprus, with the primary objective of safeguarding financial stability but also the robustness of the Cyprus Deposit Guarantee Fund which the rest of the country's credit institutions and the State would be required to finance. An objective, which due to the timely and decisive action of the CBC, with a series of specific measures taken has been achieved, when the nine Lebanese branches were finally closed as a result of the decision of the Central Bank of Lebanon.

As regards the RCB which was the only bank whose business model was affected by the war and the related sanctions on the Russian Federation, the CBC acted promptly and effectively. The CBC

devised a detailed action plan based on which specific financial operations, as proposed by the CBC, were undertaken that safeguarded fully all the depositors without any impact on public finances or the rest of the financial system, preserving in that way the financial stability of the whole economy.

Both banks and other financial entities are faced with the risks arising from climate change. The attempt to de-escalate the dependence of the European area on Russian energy is expected to increase the cost of transition to a greener economy. Therefore, credit institutions are required, over time, to adapt their strategies and policies accordingly. The CBC, as a supervisory authority, expects credit institutions to take all the necessary actions in order to be able to respond to the regulatory requirements of integrating climate risks into their operational plans and risk management policies.

In summary, the economy of Cyprus continues to register satisfactory growth rates despite the negative geopolitical developments, while the outlook remains positive, despite the increase in interest rates. At the same time, the banking sector remains adequately capitalised and has not been affected by the recent turmoil in the global banking system. The timely implementation of additional structural reforms, the strengthening of digital and green development but also the continuous maintenance of fiscal margins, will further strengthen the resilience of the Cypriot economy and the economic strength of the country. The reforms under the Recovery and Resilience Plan will be the driving force to achieve the above objectives.

Constantinos Herodotou
Governor

2. MANAGEMENT AND ORGANISATION OF THE BANK

2.1 BOARD OF DIRECTORS



**Constantinos
Herodotou**



**Stavros
Agrotis**



**Maria
Heracleous**

Constantinos Herodotou

Governor and Chairman from 11 April 2019.

Stavros Agrotis

Stavros Agrotis graduated with a BSc in Economics from the University of Leicester in 1981. Following his studies he worked for five years at the accounting firm Touche Ross & Co (Deloitte) in the UK (1981-1986). He is a holder of the Certificate of Professional Competence for the Cyprus and Athens Stock Exchanges.

On returning to Cyprus, he commenced employment at the Cyprus Investment and Securities Corporation Ltd (CISCO) - Investment Banking Operations, where he served for 19 years, holding the position of Manager Brokerage Services with involvement in the full spectrum of investment banking activities. He was one of the pioneers in the efforts to establish the Cyprus Stock Exchange and served for a number of years as Vice-President of the Cyprus Financial Services Firms Association, contributing to the drafting and approval of relevant legislation. During the period 1998-2004, he served on the Board of Management of The English School Nicosia. From 2008 to 2019, he worked at AXIA Ventures Group Ltd (Investment Banking Operations) as Director – Equities Trading. In

parallel, during the period 2014-2019 he served initially as Vice-President and then as President of the Housing Finance Corporation (a local authorised credit institution). He has served on the Boards of a number of listed and non-listed Cypriot and foreign owned companies, gaining valuable experience in a wide spectrum of activities such as banking, insurance, trade, industry, shipping, financial services and construction. He was appointed as an executive member of the CBC Board in May 2019.

Maria Heracleous

Maria Heracleous holds a Ph.D in Economics from Virginia Polytechnic Institute and a M.Sc. in Econometrics and Mathematical Economics from the London School of Economics.

Between 2004 and 2009, she served as an Assistant Professor at the American University in Washington, DC, where she taught several courses in econometrics and macroeconomics. She was also a Max Weber Post-Doctoral Fellow at the European University Institute in Florence, Italy. Her research and policy interests include time series econometrics, applied macroeconomics and financial stability. She has published her research in a number of international academic journals including *Econometric Reviews*, *Journal of Inter-*



**Ioannis
Charilaou**



**Stavros
Evagorou**

national Economics and Journal of Risk and Uncertainty. In 2010 she moved back to Cyprus and worked as a Visiting Professor at the Economics Department of the University of Cyprus. In 2014 she joined the IMF Office in Cyprus, where she worked for five years, first as Senior Economist and more recently as Lead Economist in charge of all aspects of cooperation between the Republic of Cyprus and the Fund. She was appointed as an executive member of the CBC Board in May 2019.

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 Pancyprrian 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 and he was reappointed as a non-executive member of the CBC Board on 18 October 2021.

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



**Angelos
Gregoriades**



**Makis
Keravnos**

(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 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 and he was reappointed as a non-executive member of the CBC Board in March 2022.

Angelos Gregoriades

Angelos Gregoriades holds a Bachelor of Science (BSc) in Accounting & Finance from the London School of Economics and is a Fellow Member of the Institute of Chartered Accountants in England and Wales.

He is President of the Cyprus Investment Funds Association (CIFA) and the Honorary Consul of the

Republic of Slovakia in Cyprus. He has held senior positions at KPMG Cyprus, including Chairman (from 1 January 2013 until 31 December 2018) and Senior Partner (until 30 June 2019). He has also served as Vice Chairman of the Board of the Cyprus Investment Promotion Agency (CIPA), as a Member of the Board of the Internal Audit Service of the Republic of Cyprus and Chairman of the Tax Committee of the Institute of Certified Public Accountants in Cyprus. As a member of KPMG's tax network, with over 30 years' experience, he has participated in numerous merger, acquisition and corporate restructuring operations at both national and international level. He has also written many articles and presented seminars on the role of Cyprus as a regional financial and commercial centre. His area of expertise includes international corporate tax, banking and finance as well as the energy sector. He was appointed as a non-executive member of the CBC Board in July 2019.

Makis Keravnos

Makis Keravnos studied Economics at the University of Athens (1973-1977). He then completed his postgraduate 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



**Yiannis
Savvides**

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 Pancyprrian 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 a non-executive member of the CBC Board from October 2018 until 28 February 2023.

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.

2.2 SENIOR MANAGEMENT TEAM



**Constantinos
Herodotou**
Governor



G. Kyriacou
Senior Director



A. Mylona
Senior Director

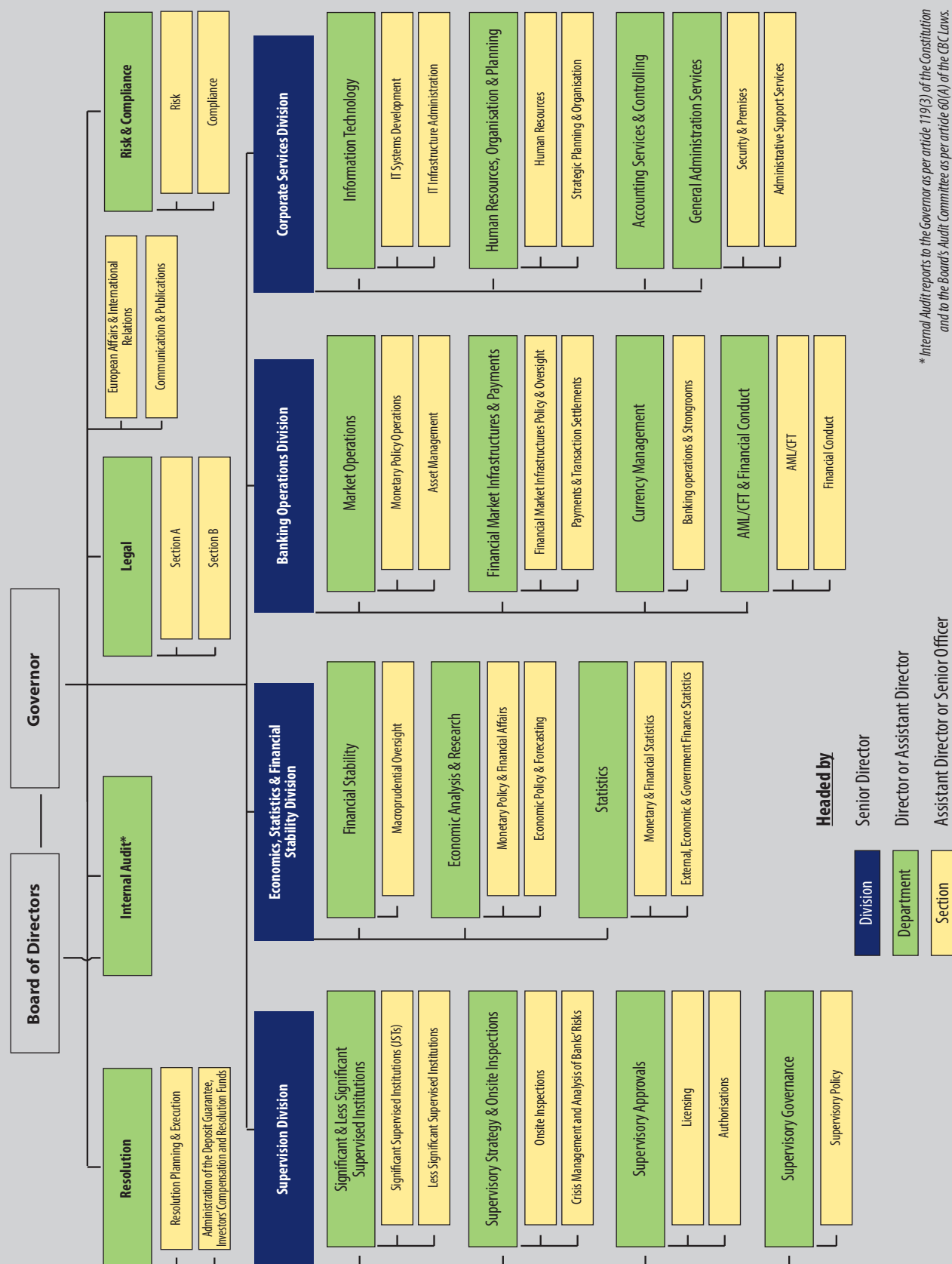


C. Phanopoulos
Senior Director



M. Lambrianides
Acting Senior Director

2.3 Organisational chart



* 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(4) of the CBC Laws.

3. ECONOMIC DEVELOPMENTS

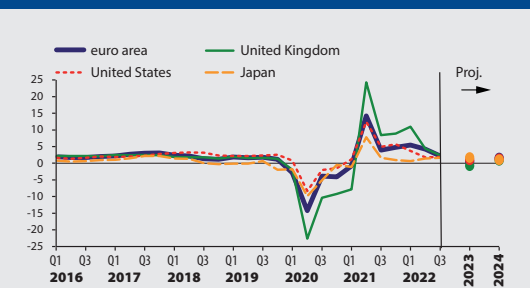
3.1 External developments

The previous year was marked by large increases in the price level, building on the increases that began since the end of 2021, but peaked after the Russian invasion of Ukraine. As a result of the geopolitical tensions in 2022, prices of basic goods, especially oil and food, rose significantly. To deal with the large increase in commodity prices, central banks around the world raised interest rates significantly in 2022, which has weighed on economic activity.

Due to the significant rise in interest rates, economic growth in the US was lower than in the UK and the euro area in 2022, as the US Federal Reserve raised interest rates higher than the other two economies (**Chart 3.1**). However, as interest rate hikes in 2023 are forecast to be sharper in the euro area and the UK, economic growth is expected to be comparatively lower than in the US.

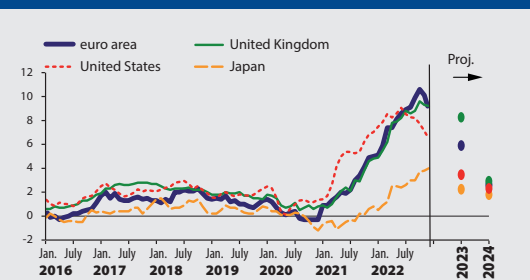
Inflationary trends persist in the euro area, as well as in the UK and Japan. In the US, after the aforementioned aggressive rate hikes, inflation appears to be declining but continues to remain at very high levels. With the decline in oil and other commodity prices from late 2022 onwards, coupled with the resolution of global trade supply chain disruptions and a reduction in freight rates, inflation is expected to be significantly lower in 2023 (**Chart 3.2**). The Governing Council of the ECB continues to monitor developments in the euro area and the global economy closely, to maintain monetary flexibility and reduce euro area inflation to the 2% target.

CHART 3.1 GDP in selected countries
(annual change %, seasonally adjusted)



Source: Eurostat.
Note: The projections are for the year and are calculated as averages of the most recent projections from the European Commission and the IMF.

CHART 3.2 Inflation in selected countries
(annual change, %)



Source: Eurostat.
Note: The projections are for the year and are calculated as averages of the most recent projections from the European Commission and the IMF.

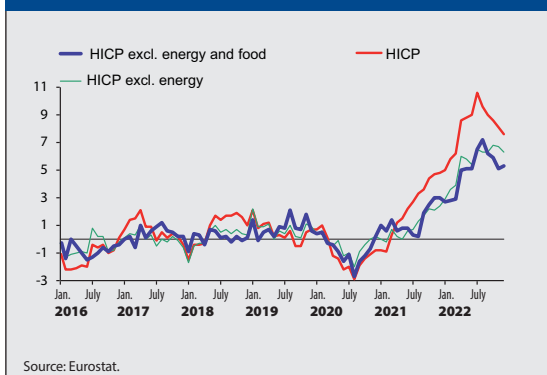
3.2 Domestic developments

3.2.1 Inflation

Domestic headline inflation¹ reached 8,1% in 2022 compared with 2,3% in 2021 (**Chart 3.3**, p. 20). This sharp rise in the HICP in 2022 is mainly attributed, similar to the euro area inflation dynamics, to the unprecedented negative consequences of the Russian invasion of Ukraine on the main HICP components, especially on energy prices (constitutes the key contributor to the surging trend of

1. As measured by the Harmonised Index of Consumer Prices (HICP).

CHART 3.3 Inflation in Cyprus
(annual change, %)

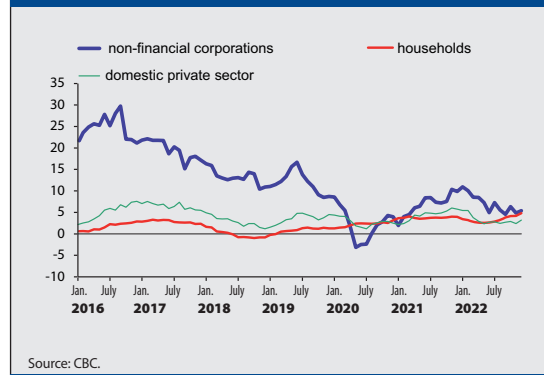


headline inflation with indirect upward effects also on the remaining HICP components during 2022) but also on food prices. At the same time, the ongoing supply bottlenecks issues due to the pandemic amid the significant recovery in demand for goods as well as the “economic reopening effects” which led to increasing demand for services also contributed to the increase in domestic HICP in 2022. In addition, the sizeable, on average, depreciation of the euro against the US dollar in 2022 compared with 2021 further contributed to inflationary pressures.

3.2.2 Monetary developments^{2,3}

In 2022, the domestic financial sector faced significant challenges on account of the successive crises of the pandemic and the strong inflationary pressures exacerbated by the protracted geopolitical tensions, as well as the subsequent monetary policy normalisation. However, the continued consolidation efforts of recent years have strengthened the resilience of the banking sector and contained the adverse effects of the war.

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



As a consequence of Russia’s invasion in Ukraine and the ensuing sanctions, the RCB Bank phased out its banking operations and repaid its depositors in full. Consequently, the annual growth rate of domestic private sector deposits decelerated to 3,2% in December 2022 compared with 5,8% in December 2021. At the same time, non-resident deposits (including SPEs) declined on an annual basis by 8,7% in 2022, compared with an annual increase of 4,9% in 2021. However, the proactive and coordinated actions of the CBC and the ECB have safeguarded the country’s financial stability without any negative spill over effects to the rest of the banking sector (**Chart 3.4**).

In 2022, the banking sector’s strong liquidity position supported new lending to the non-financial private sector, which increased to €3,2 billion in 2022 from €2,9 billion in 2021, despite banks’ tighter lending policy. The increase in new lending was particularly strong in the first half of 2022, while this momentum moderated thereafter in the face of heightened economic uncertainty and rising interest rates. Overall, increased repayments

2. 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).
3. 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/en/publications/monetary-and-financial-statistics>).

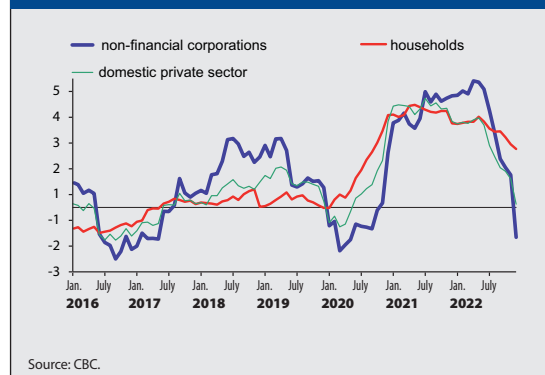
within the year significantly contained the annual growth rate of loans to the domestic private sector at 0,1% at the end of 2022, compared with 3,3% at the end of 2021 (**Chart 3.5**).

Amid ECB's monetary policy normalisation, lending interest rates in Cyprus exhibited an upward trend in 2022, more pronounced in the second half of the year. Lending rates for households and non-financial corporations increased to 3,34% and 4,71%, respectively, at the end of 2022 compared with 2,21% and 3,25% at the end of 2021 (**Chart 3.6**). Domestic deposit interest rates recorded a smaller increase of 29 and 59 basis points, respectively, since the beginning of the year, closing at 0,35% for households and 0,61% for NFCs at the end of 2022 (**Chart 3.7**, p. 22).

Despite the adverse economic effects of the geopolitical tensions, the level of non-performing loans (NPLs) decreased further, reaching €2,3 billion (9,5% of total loans) at the end of 2022, compared with €3,0 billion (11,0%) at the end of 2021 and €20,6 billion (43,7%) at the end of 2017. The notable decline in NPLs has been prominent in recent years, largely through loan sales and write-offs. The transfer of loans out of the banking system contributes to the correction of banks' balance sheets but does not eradicate debt as it remains part of the economy, now managed by credit acquiring companies.

In conclusion, the stability of the banking sector is supported by banks' solid capital position as well as by the strong economic growth of the Cyprus economy in 2022. At the same time however, challenges for the domestic financial sector remain substantial, while the need for a reduction of private debt becomes

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



even more important in view of the current economic conditions of high inflation and rising interest rates.

3.2.3 Domestic economy

GDP grew by 5,6% in 2022, following a growth of 6,6% in 2021. The utilisation of accumulated savings during the pandemic period, as well as the continued inflow of foreign companies (headquartering), especially in the field of technology, contributed to the rise in GDP. It is noted that, the economic effects on the Cypriot economy from Russia's invasion of Ukraine have so far been manageable, although in the future they may become more noticeable in some sectors.

From the production side, trade, transportation, hotels and restaurants (2,7 percentage points) and information and communication (1,3 percentage points) were the largest contributors to GDP growth in 2022 (**Chart 3.8**, p. 23). On the expenditure side, domestic demand and in particular private consumption was the main driver of

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

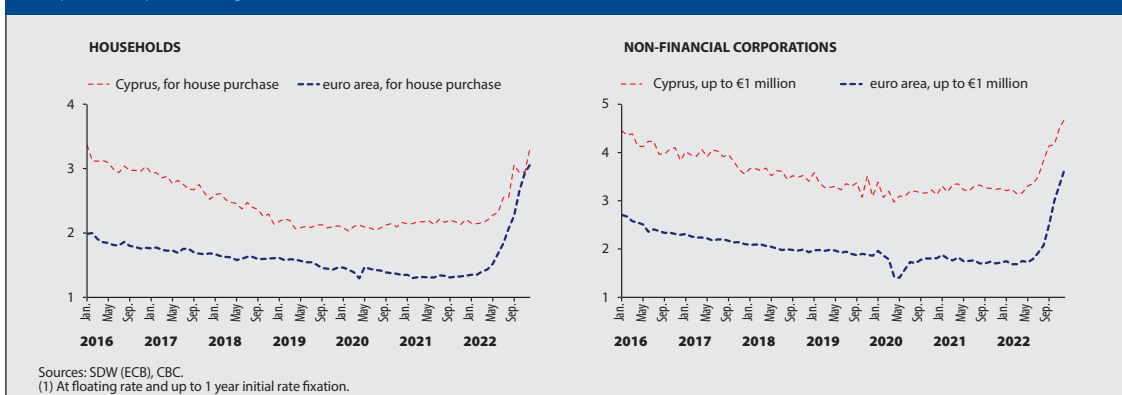
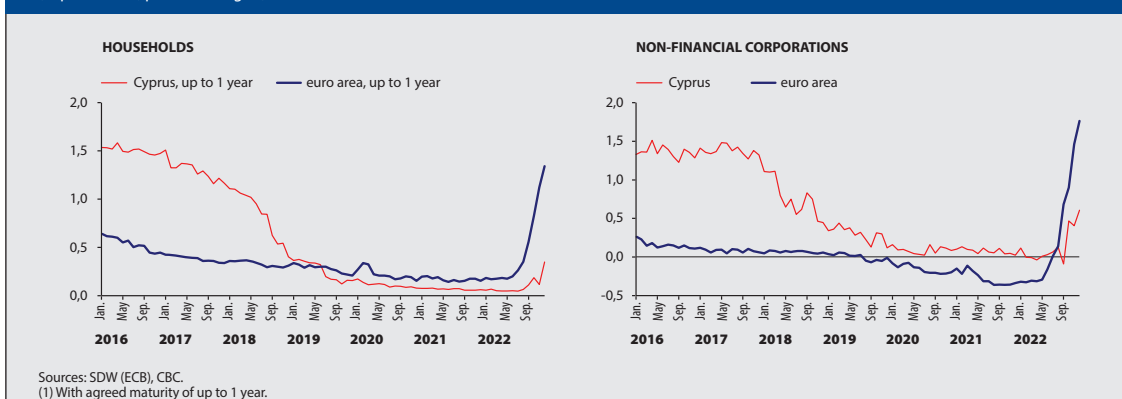


CHART 3.7 Euro area MFI interest rates on euro-denominated deposits (new business) by euro area residents⁽¹⁾
(% per annum, period averages)

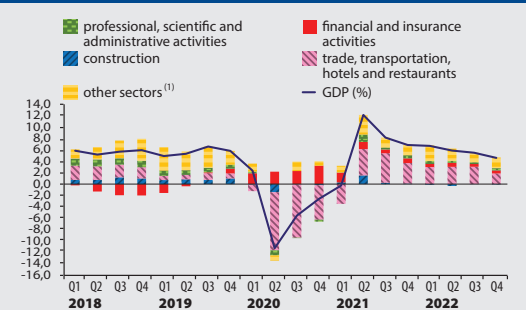


the GDP recovery, while net exports of goods and services registered a negative contribution. The increase in imports exceeded that of exports and is due to the rise in imports of goods for home consumption, as a result of the aforementioned increase in domestic demand.

The real estate sector in Cyprus followed an upward trend in 2022. During this year property sales recorded a significant increase (29,6%) compared with 2021, while the volume of property sales recorded the highest level of the last fourteen years (13.409 sales contracts). Residen-

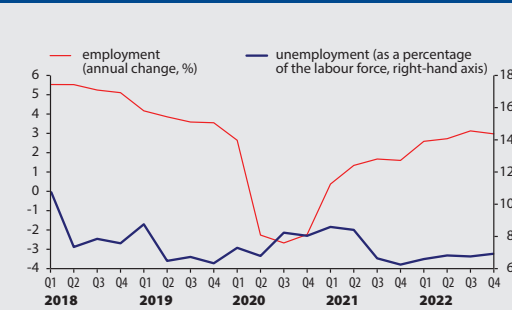
tial property prices have increased by 5,2%, driven mainly by increases in apartment prices. This trend was mainly shaped by increased construction cost, and was further supported by the low interest rate environment as well as the state's plan to attract companies and talent (international headquartering). At the same time, commercial real estate prices increased by 2,2% in 2022.

In line with GDP growth, employment increased by 2,9% in 2022. According to the Labour Force Survey (LFS), the unemployment rate stood at

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

Sources: Cystat, CBC.

(1) Main sectors included are those of agriculture, manufacturing, public administration, education and health as well as information and communication.

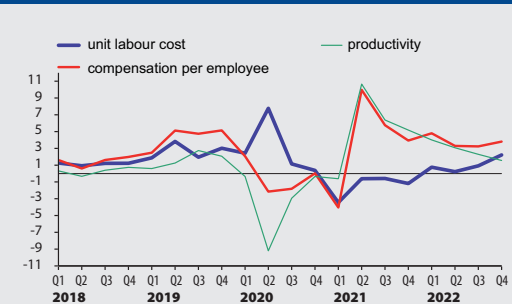
CHART 3.9 Unemployment and employment

Source: Cystat (LFS).

6,8% in 2022 (Chart 3.9). In the fourth quarter of 2022, unemployment reached 6,9% and the rate of long-term unemployed people with a duration of six months or more reached 3,2%.

A correction in labour costs was recorded in 2022, with earnings per employee to report an increase of 3,8%. The 2,6% annual growth in expenditure per employee in the public sector is partly due to the ongoing gradual reinstatement of wages and pensions, while 4,4% increase registered in the private sector. The significant increase in productivity led to an increase in unit labour costs of 1,0% (Chart 3.10). It is noted that the level of the relevant indicator remains lower than in the euro area.

In 2022, the current account deficit⁴ worsened, reaching €2.463,3 million (-9,1% of GDP), compared with €1.638,2 million (-6,8% of GDP) in 2021 (Table 3.1, p. 24). This is mainly due to the deterioration of the goods balance, which was affected by the inflationary pressures that occurred after Russia's invasion of Ukraine and the sanctions that ensued against Russia, while the improvement of the services balance surplus

CHART 3.10 Compensation per employee, productivity and unit labour cost
(annual change, %)

Source: Cystat.

partly offset the result. More specifically, this was driven by the increase in travel receipts, despite the loss of the Russian market, as well as the growth of the technology sector given the continuous influx of foreign companies in Cyprus in the context of international headquartering. Adjusted for the impact of SPEs, the current account deficit reached €2.819,9 million (-10,4% of GDP), compared with €1.946,5 million (-8,1% of GDP) at the end of 2021. The net International Investment Position (IIP) reached -€28,4 billion (-105,3% of GDP) in 2022. Adjusted for the impact of SPEs, IIP

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.

Table 3.1 Balance of payments (main categories)

	2021 (€ million)	2022 (€ million)	Change (€ million)
Current account balance	-1.638,2	-2.463,3	-825,1
Current account balance adjusted for the impact of SPEs	-1.946,5	-2.819,9	-873,4
Goods and services balance	701,8	-101,3	-803,1
Trade balance	-4.317,8	-5.883,5	-1.565,7
Exports of goods	3.589,7	4.570,2	980,5
Exports of goods - SPEs	1.116,2	1.343,4	227,2
Imports of goods	7.907,5	10.453,7	2.546,2
Imports of goods - SPEs	1.193,1	1.401,8	208,7
Services balance	5.019,5	5.782,2	762,6
Exports of services	17.214,7	20.146,4	2.931,6
of which:			
Transport	3.359,8	3.584,8	225,0
Travel	1.782,0	2.742,7	960,8
Financial services	5.507,2	5.506,2	-1,0
Telecommunications, computer and information services	3.936,0	5.573,0	1.637,0
Other business services	1.492,6	1.395,6	-97,0
Imports of services	12.195,2	14.364,2	2.169,0
of which:			
Transport	2.037,4	2.520,9	483,5
Travel	748,4	1.288,3	539,9
Financial services	3.204,2	3.308,5	104,3
Telecommunications, computer and information services	3.047,7	4.021,9	974,1
Other business services	2.246,2	2.368,7	122,5
Primary income (net)	-2.029,2	-2.145,8	-116,6
Secondary income (net)	-310,7	-216,2	94,6
Current account balance (% of GDP)	-6,8	-9,1	
Current account balance adjusted for the impact of SPEs (% of GDP)	-8,1	-10,4	

Sources: Cystat, CBC.

improved by 64,4 percentage points, standing at -€11,0 billion (-40,9% of GDP).

The continued economic recovery had a positive impact on fiscal indicators, as reflected by the increase in tax revenue and social contributions. The budget surplus stood at 2,1% of GDP in 2022, compared with a deficit of 2,0% of GDP in 2021 (Table 3.2). The public debt-to-GDP ratio (Chart 3.11, p. 25) declined to 86,5% in 2022, due

Table 3.2 Accounts of general government

	2021 (€ million)	2022 (€ million)	Change %
EXPENDITURE			
Intermediate consumption	1.042,8	1.231,3	18,1
Compensation of employees	3.005,0	3.158,6	5,1
Social transfers	3.938,8	4.229,5	7,4
Interest	440,2	405,1	-8,0
Subsidies	585,2	104,3	-82,2
Other current expenditure	605,9	679,1	12,1
Gross fixed capital formation	639,1	691,2	8,2
Other capital expenditure	184,1	252,0	36,9
Total expenditure	10.440,9	10.751,1	3,0
Total expenditure as a % of GDP	43,5	39,8	-8,4
REVENUE			
Taxes on production and imports	3.388,30	3.959,90	16,9
Current taxes on income, wealth, etc	2.489,6	2.876,5	15,5
Social contributions	2.745,1	3.112,7	13,4
Other current resources	261,2	269,3	3,1
Sales	664,5	793,2	19,4
Capital transfers received	300,4	199,6	-33,6
Property income	109,7	110,4	0,6
Total revenue	9.958,8	11.321,5	13,7
Total revenue as a % of GDP	41,5	41,9	
Primary balance	-41,9	975,5	
Primary Balance as a % of GDP	-0,2	3,6	
Surplus (+) / Deficit (-)	-482,1	570,4	
Surplus (+) / Deficit (-) % of GDP	-2,0	2,1	

Sources: Cystat (preliminary data), CBC.

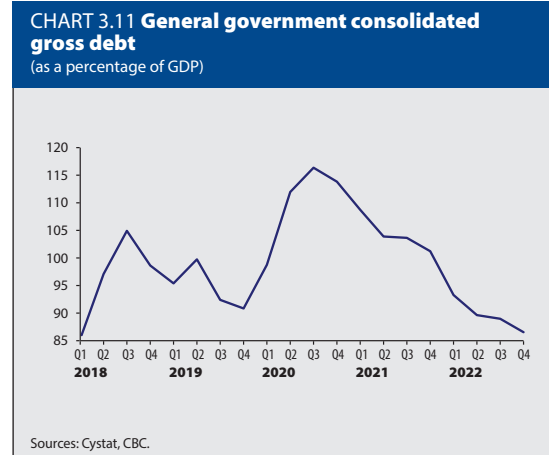
to the strong economic recovery and to a lesser extent to the use of cash reserves to repay maturing debt.

The energy crisis and subsequent government measures to safeguard consumers from price increases, which amounted to around 0,6% of GDP in 2022, did not alter the favourable profile of public finances in 2022. However, the true impact of inflation on public finances is expected to materialise with a time lag, due to the mainly backward-looking price indexation of public sector wages and pensions, the rising cost of purchasing goods, services and raw materials, and the indirect effects

through the negative impact on household's purchasing power and economic activity.

3.2.4 Forecasts

According to the CBC March 2023 forecasts⁵, GDP is expected to decelerate to 2,6% in 2023, owing to the fragile external environment, rising interest rates and the envisaged gradual correction of domestic inflationary pressures. GDP growth in the period 2024-25 is expected to be around 3,1% per annum. The GDP path is mainly driven by the positive trajectory of domestic demand and, to a lesser extent, of net exports, in the context of the continued inflow of foreign companies active in the technology sector and the projected recovery of tourism revenues to pre-pandemic levels. A significant contribution is expected from investments, particularly those supporting the digital and green transition, as well as projects linked to reforms under the Recovery and Resilience Plan. In relation to the Harmonised Index of Consumer Prices (HICP), a gradual easing of inflationary pressures is expected over 2023-25, driven by the normalisation of energy and food prices, the ongoing correction in supply chain disruptions



and by the impact of the rise in interest rates on domestic demand. Core inflation, i.e. inflation excluding energy and food, is projected to decline further in 2024 and 2025 to 2,5% and 2,3%, respectively, with relatively contained indirect effects expected via wage increases. Risks relating to the baseline scenario are assessed, overall, to be slightly to the downside for GDP and slightly to the upside for inflation over 2023-2025. The main downside risks to GDP relate to the possibility of a more unfavourable than expected outlook in relation to the external environment, while the main upside risks to inflation are linked to the materialisation of a possible wage-price spiral.

5. It is noted that the CBC's updated forecasts were finalised on March 10 prior to the recent emergence of tensions in global financial markets and, therefore, these tensions may negatively affect the outlook for economic growth and inflation via the effect of these tensions upon the external environment, which remains fragile.

4. FUNCTIONS OF THE BANK

4.1 Regulation and Supervision of the Banking Sector

4.1.1 Banking Sector Developments

The banking sector in 2022 proved to be resilient, despite the difficult conditions formed by the COVID19 crisis and Russia's invasion of Ukraine. Credit institutions exhibited solid capital buffers, enhancing their ability to absorb future unexpected losses. In particular, the CET1 ratio amounted to 17,7% in December 2022. At the same time, the Cypriot banking sector recorded comfortable liquidity reserves, reaching 309,7% in December 2022, well above the minimum regulatory requirement of 100%.

The confidence in the Cyprus banking system has been further strengthened in 2022, continuing the trend of the recent years. This is demonstrated by the constantly improving ratings of external rating agencies but also by the ability of credit institutions to successfully raise capital from international markets. At the same time, the level of deposits continued its upward trend and reached €52,1 billion at the end of the year. The total assets of licensed credit institutions recorded a decrease in 2022 due to the reduction of ACIs operating in the Cyprus Banking Sector after the revocation of the banking licence of RCB Bank and the deleveraging of loans, mainly through sales to credit acquiring companies. Despite the adverse effects of the geopolitical tensions and the pandemic, the asset quality of credit institutions improved, with total non-performing loans as a percentage of the

total loan portfolio declining to 9,5% vis-a-vis 10,6% as at 31 December 2021. At the same time, the banking sector was supporting the real economy in 2022 by channelling fresh lines of credit.

However, the indirect and medium-term effects of the crises are yet to be crystallized. Taking also into account that the broader economic environment is under constant pressure, the supervisory requirement is that all credit institutions shall continue applying prudent and comprehensive risk management policies. The course of monetary policy normalization followed by the ECB is expected to contribute to the increase of the banks' interest income, but this may not be sufficient to balance out the structural inefficiencies of the banking sector. These inefficiencies include the legacy issue of non-performing loans, the rising costs relative to revenues, the limited avenues of income generation, the need for further strengthening the governance structure and the operation of Boards of Directors, the competitive pressures from companies that do not belong to the traditional banking spectrum, as well as the risks and costs associated with the climate change and the transition to a greener economy. Based on the above, the banking sector should continue to adjust its strategies and business plans to the new realities.

Among others, the CBC places particular emphasis on the strict oversight of security and operational risks arising from the increased penetration of technology and the associated asymmetric cyber threats. The issues of digital operational resilience, digital transformation and cyber security have been included in the CBC's supervisory priorities in 2023 as well.

One of the challenges the CBC faced in 2022

was the Lebanese severe and protracted economic crisis. The CBC, having identified and assessed in a timely manner the severity of the risks involved, adopted a package of measures from the end of 2019 with the aim of preventing any negative consequences on the depositors of the nine Lebanese branches operating in Cyprus, with the primary objective of safeguarding financial stability but also the robustness of the Cyprus Deposit Guarantee Fund which the rest of the country's credit institutions and the State would be required to finance. An objective, which due to the timely and decisive action of the CBC, with a series of specific measures taken has been achieved, when the nine Lebanese branches were finally closed as a result of the decision of the Central Bank of Lebanon.

As regards the RCB which was the only bank whose business model was affected by the war and the related sanctions on the Russian Federation, the CBC acted promptly and effectively. The CBC devised a detailed action plan based on which specific financial operations, as proposed by the CBC, were undertaken that safeguarded fully all the depositors without any impact on public finances or the rest of the financial system, preserving in that way the financial stability of the whole economy.

Both banks and other financial entities are faced with the risks arising from climate change. The attempt to de-escalate the dependence of the European area on Russian energy is expected to increase the cost of transition to a greener economy. Therefore, credit institutions are required, over time, to adapt their strategies and policies accordingly. The CBC, as a supervisory authority, expects credit institutions to take all the necessary actions in order to be able to respond to

the regulatory requirements of integrating climate risks into their operational plans and risk management policies.

4.1.2 On-site Inspections of credit institutions

Within the remit of its supervisory powers and responsibilities, the CBC conducts on-site inspections of licensed credit institutions and credit acquiring companies in accordance with its annual plan derived from the identified risks. For the significant credit institutions both in Cyprus and abroad, whose supervision is exercised by the ECB, the CBC as a member of the Single Supervisory Mechanism, participated in a number of on-site inspections. For the less significant credit institutions of Cyprus and the credit acquiring companies, whose supervision falls within the remit of the CBC, the on-site inspections were carried out in 2022 exclusively by the CBC.

It should be noted that in 2022, the CBC and the Bank of Greece established the first ever regional hub of on-site inspectors of the Single Supervisory Mechanism. The aim of the hub is the exchange of know-how and experience between the two central banks under the operational umbrella of the Single Supervisory Mechanism.

4.1.3 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.

4.1.4 Licensing of institutions

Regarding the licensing of credit institutions that are registered in Cyprus, the CBC submits its proposal to the SSM of the ECB, which is the competent authority for the granting of a credit institution licence in the euro area.

The CBC is the authority responsible for the licensing of the following categories of entities operating in the Republic:

- a) Payment institutions,
- b) Electronic money institutions,
- c) Exchange bureaux,
- d) Credit acquiring companies,
- e) Credit servicing companies,
- f) Financial leasing companies,
- g) Non-credit institutions and
- h) Representative offices of credit institutions.

In 2022, the CBC licensed fifteen institutions, under various types of categories.

4.1.5 Assessment of the suitability of persons

In addition to the licensing of these entities, the CBC assesses the suitability of persons proposed for appointment as members of the management body or as key function holders of the supervised entities.

For the significant credit institutions that are registered in Cyprus and are under the direct supervision of the SSM of the ECB, the approval or rejection of the members of their management bodies and of their key function holders is given

by the ECB, in consultation with the CBC.

The CBC approves or rejects the members of the management bodies and of the key function holders of the less significant credit institutions that are registered in Cyprus, which are under the direct supervision of the CBC, and of the other entities that are licensed and supervised by the CBC.

4.1.6 Regulatory framework of supervised entities

With regard to credit institutions, the CBC processed and issued in 2022, an amendment to the Directive on the Assessment of Suitability of the Members of the Management Body and Key Function Holders of Authorised Credit Institutions, mainly for the purpose of setting maximum allowed financing limits by credit institutions to members of their management body.

The Sale of Credit Facilities and Related Matters (Amending) Law of 2022 also entered into force during 2022, the main result of which was the introduction of regulatory requirements for Credit Servicers. Consequently, the CBC amended the three Directives it had issued to Credit Acquiring Companies under the said Law, so as to apply broadly equivalent requirements to the Credit Servicers.

The CBC has closely cooperated, also in 2022, with the Ministry of Finance and other relevant authorities, towards the preparation of bills concerning supervised entities. In addition, the CBC, in exercising its powers, issued circulars and proposed legislative amendments to the Ministry of Finance to be advanced to the Parliament, aiming towards the adoption of best practices

drawn from European and other transnational bodies, as well as towards the harmonisation and alignment with the European regulatory framework. In particular, in 2022, the CBC adopted guidelines issued by the EBA on matters relating to credit institutions and other entities supervised by the CBC.

4.1.7 AML/CFT, Financial Conduct and Investment Services Supervision

Prevention and suppression of money laundering activities

According to paragraph (a) of subsection (1) of section 59 of the *Prevention and Suppression of Money Laundering Activities Law* ("the Law"), the CBC is the designated competent authority for credit, payment and electronic money institutions as well as all other institutions licensed by the CBC, and as such, it implements off-site and on-site supervisory programmes and organises and participates in activities which take place in Cyprus as well as internationally, aiming to improve the effectiveness of supervision. Moreover, the CBC is assigned with the responsibility to evaluate the compliance of supervised institutions with the restrictive measures of the European Union and the sanctions' provisions of the United Nations Security Council Resolutions.

Of utmost importance and one of the major actions of the CBC is the updating of the relevant regulatory framework in line with best international practices and assessments, guidelines and recommendations issued by various bodies, such as the European Banking Authority, the European Commission, the Moneyval Committee of the

Council of Europe and the Financial Action Task Force (FATF).

With regard to the legal framework, in 2022 the CBC and the other Cypriot competent authorities finalised the harmonisation of the domestic legal framework with the provisions of European Directive (EU) 2019/1153, which lays down rules which facilitate the use by competent authorities of financial and other information for the prevention, detection, investigation or prosecution of certain criminal offences and repeals Council Decision 2000/642/JHA. The relevant amendment of the Law was published in the Official Gazette of the Republic on 30 March 2022.

During the year under review, the CBC continued its active involvement as a competent authority in the proceedings of the European Commission and of the European Banking Authority, thereby contributing to the implementation of the action plan laid down by the Economic and Financial Affairs Council (Ecofin) for the achievement of strategic objectives in preventing and combating money laundering and for strengthening the existing legal framework. It also participated in the discussions under way concerning the new legislative package of the EU on Anti-money Laundering consisting of four legislative measures, including one for the establishment of a pan-European supervisory Authority.

During 2022, the CBC carried out a number of on-site and off-site examinations as well as special examinations of supervised institutions on various topics. In addition, it continued its participation in various committees and working groups for the prevention and suppression of money laundering and terrorist financing issues.

Additionally, the CBC participated actively in two Committees established by decisions of the Council of Ministers which relate to sanctions, the Advisory Committee on Economic Sanctions (SEOK), and the Unit for the Implementation of Sanctions (MEK).

Finally, in August 2022, the CBC issued a circular to all supervised entities providing the general principles for digital on-boarding solutions and analysing the minimum operational principles for assessing and accepting potential remote electronic customer identification processes.

Supervision of Investment Services

The CBC also exercises prudential supervision in relation to the provision of investment services by banks. These activities are regulated by the Investment Services and Activities and Regulated Markets Law of 2017, which is a harmonisation with the European Directive Markets in Financial Instruments, known as MiFID II, as well as by the accompanying Regulation «MiFIR» and other relevant European Regulations, which are directly applicable and binding, such as, PRIIPs which sets out the institutional framework for the manufacture and distribution of packaged investment products to retail investors; EMIR, in particular with regard to the reporting of OTC derivative contracts to trade repositories; and e CSDR for the reporting of internalised settlement transactions to ESMA.

On 8 July 2022, the Law on the *Issue and Public Supervision of Covered Bonds* (N166(I)/2021) and the CBC Directive on the Issue and Supervision of Covered Bonds (R.A.A. 454/2021) came into force, laying down the rules for the implementation of the Law. The Law and the CBC Directive constitute

harmonisation with the European Directive no. 2019/2162 and repeal the existing national Law on Covered Bonds (N130(I)/2010).

The CBC follows the work of the EU Council Working Group on Financial Services in relation to the legislative proposals for Sustainable Finance, including the European Commission's legislative proposal in relation to the establishment of a common framework for the issuance of "European Green Bonds", towards the achievement of environmentally sustainable goals, and the Capital Markets Union, insofar as they relate to the investment services provided by credit institutions.

Financial Conduct

During 2022, the work plan of the Financial Conduct Section (FCS) was developed on the basis of the CBC's supervisory responsibilities arising from specific provisions of national and European legislation aimed at ensuring ethical market conduct, a concept that includes fair treatment of customers and building trust in financial markets, which in turn can lead to financial inclusion, sustainable economic growth and financial stability.

An important tool is the mechanism available on the CBC's website that facilitates the reporting of alleged regulatory breaches by supervised institutions. Reports may be submitted, anonymised or namely, by customers and employees of institutions licensed and supervised by the CBC. It is noted that the CBC has the power to investigate reports in relation to legislation for which it has been designated as the competent authority and, where applicable, the power to take supervisory measures and/or sanctions. In this context, the

CBC addresses financial conduct issues relating to activities such as the provision of mortgage loans, the restructuring of credit facilities, the access to payment accounts, the provision of payment services as well as the provision of investment services.

During 2022, 194 reports were submitted to the FCS. The largest share (49 %) related to restructuring procedures, 94 in number, 24 reports related to other loan issues and 38 reports related to payment processes, while 22 related to payment accounts mainly in regards to the opening / termination procedures. The FCS investigates reports using supervisory techniques that engage the control functions of supervised institutions. It is inferred that, when processing reports submitted to the CBC, the relevant provisions of the legislation relating to the processing of personal data apply.

The reporting and investigation process is distinct from the complaint and dispute resolution procedures which relate to the responsibilities of the supervised institutions and other institutional bodies, such as the Consumer Protection Service and/or Alternative Dispute Resolution Bodies, including the Financial Ombudsman.

4.2 Resolution Framework and Administration of the Deposit Guarantee, Resolution and Investor Compensation Funds

Resolution Planning and Implementation

The main activities of the CBC, in its capacity as the National Resolution Authority, during 2022 included the preparation of resolution plans, on a prudential basis, for less significant institutions and Cyprus investment firms and the collection

of data from branches of third country institutions in Cyprus.

The CBC also participated in the preparation, by the Single Resolution Board (SRB) based in Brussels, of resolution plans, on a prudential basis, for Cyprus' significant credit institutions. During this process, there was close cooperation between the CBC and the SRB in order to monitor the consequences following the escalation of economic sanctions against Russia from EU, USA and other countries, as a result of the Russian invasion in Ukraine and assess the possibility of measures from the SRB side.

As part of the operating framework of the Single Resolution Mechanism (SRM), the SRB sets for every significant institution under its direct remit, the ratio of minimum eligible own funds and liabilities with a maturity of more than a year (Minimum Requirement for own funds and Eligible Liabilities – MREL), that needs to be complied with within a transitional period which aims at safeguarding that in the event of resolution action, customers' deposits will not be affected. During 2022 revised binding MREL targets based on the relevant SRB policy, were communicated by the SRB to the significant institutions. Revised MREL targets were also communicated by the CBC to the less significant institutions established in Cyprus which need to be met within a transitional period.

During 2022 significant institutions made significant progress in the preparation of manuals and revision of documents, policies and procedures in order to improve their resolvability, on the basis of the SRB expectations to banks. Similarly, less significant institutions made progress towards meeting the CBC resolvability expectations that

were set on a proportional basis on the aforementioned SRB expectations.

Other tasks of the CBC during 2022, included the monitoring of the entities under resolution Cyprus Popular Bank Public Co Ltd (CPB) and branch of FBME Bank Ltd.

In relation to the branch of FBME Bank Ltd, in 24 February 2022 the Administrative Court issued a decision, in relation to the Appeal no.1024/14 annulling the CBC decision to adopt resolution measures in relation to the branch. On 16 March 2022, the CBC filed an Appeal against the Administrative Court's decision, which is still pending. It is noted, that the CBC application to the District Court of Nicosia for the issuance of court orders for the liquidation of the branch of FBME Bank Ltd and the appointment of liquidator, is pending.

In relation to the CPB, on 31 May 2022 the District Court of Nicosia issued a Liquidation Order and a liquidator has been appointed, on the basis of a recommendation by the CBC, for the liquidation of the CPB assets in favour of the creditors. In this regard, the CBC decided immediately after the issuance of the liquidation decree the termination of the resolution measures as provided in the Cyprus legal framework.

As regards the resolution regulatory framework, members of the CBC participated in the preparation of draft legislative proposals for the transposition of EU provisions on resolution matters in national law. During 2022, the Resolution of Credit Institutions and Investment Firms Law was amended by Laws L.102(I) of 2022 and L.109(I) of 2022 that were issued to better transpose provisions of the Directive 2014/59/EU as well as to better apply the existing framework.

Finally, during the year, the CBC further refined a draft law proposal prepared under a project financed by the European Commission for the revision of the bank liquidation framework. In this regard, a revised draft law proposal was prepared and sent to the Ministry of Finance for final processing and adoption.

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: on one hand, the compensation of the depositors covered under the DGS in the event that a credit institution is unable to repay its deposits; on the other, the funding, under certain conditions, of the implementation of resolution measures.

The DGS is constituted as a separate legal public entity. The exercise of powers of the DGS and the realisation of its objectives is carried out by the Management Committee, which consists of employees of the Ministry of Finance and the CBC appointed by the CBC Governor.

Participation in the deposit guarantee arrangements of the DGS is compulsory for all authorised credit institutions (ACIs), including the Cyprus branches of credit institutions from third countries. 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 a legal person, with certain exemptions. Participation in the resolution financing arrangements of the DGS

is compulsory for the branches of third country credit institutions and the investment firms that fall under the scope of *Law 22(I)/2016*. ACIs that have been incorporated in Cyprus and their subsidiaries that fall under the scope of Regulation (EU) 2014/806 contribute to the Single Resolution Fund, as required by the aforementioned Regulation.

The CBC provides administrative support for the execution of the DGS's tasks. During 2022, the CBC's main administrative support to the DGS related to the collection of contributions. Specifically, as provided for in the relevant legislation and the EU DGS Directive, the Deposit Guarantee Fund (DGF) must maintain available funds equal to at least 0,8% of covered deposits by 3 July 2024. In order to reach the DGF target level, ACIs were invoiced for contributions for a total amount of approximately €16 million in 2022. These were calculated on the basis of a methodology approved by the Management Committee of the DGS. Currently, the available financial means of the DGF amount to €191 million approximately. The remaining contributions until the target level is reached, will be invoiced in 2023-24.

With regard to resolution financing arrangements, during 2021, contributions to the National Resolution Fund (NRF) totalling around €101 thousand were collected. The above contributions were calculated in accordance with the methodology provided in the Delegated Regulation (EU) 2016/63. Further contributions to the NRF would be collected in the period 2023 – 2024, so that the target level of 1% of covered deposits is reached by 31 December 2024.

During the year 2022, off-site reviews were performed on Depositor Registries in order to

assess the quality of the data submitted by the ACIs that participate in the DGS. The relevant findings were communicated to the ACIs and each ACI was asked to proceed with corrective measures. In addition, during the same year, the framework of the investment policy of the DGS was also completed.

It is noted that, in 2022, physical meetings took place for various committees of the European Forum of Deposit Insurers, where a number of CBC officials attended.

Investor Compensation Fund for Clients of Banks

The Investor Compensation Fund for Clients of Banks (ICF), operating since 2004, provides additional security to clients of credit institutions regarding claims they might have in connection with the provision of investment services through the payment of compensation, provided the necessary preconditions are fulfilled. The maximum amount of compensation payable to each covered client investor cannot exceed €20,000.

Participation in the ICF is obligatory for all ACIs 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 Management Committee consists of representatives from the CBC, the Ministry of Finance and the Banking Associations. The CBC provides administrative support to the Management Committee.

The main administrative support relates to the collection of the contributions to the ICF. Due to the fact that all members have reached their target levels from previous contributions, no contributions were collected during 2022.

It is noted that in 2022, the National Bank of Greece (Cyprus) Ltd ceased to be a member of the ICF since it terminated the provision of investment services. Following the departure of the aforementioned bank, 9 banks remain as members of the ICF.

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 epicentre is the banking sector, which constitutes the largest component of the broader domestic financial system and the primary channel for the propagation of risks within the financial system and 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.

4.3.1 Aggregate data and financial indicators for the banking sector

In 2022, 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.

4.3.2 Main macroprudential policy decisions¹

As regards the CBC's macroprudential policy decisions in 2022, the following are noted:

- The CBC, during its annual assessment, set the capital buffers for the other systemically important credit institutions (O-SIIs). Following the relevant decision by the ECB² that was published on 22 December 2022, the banking licence of RCB Bank Ltd has been revoked. Consequently, RCB Bank Ltd is not considered an O-SII institution after this date.
- On 30 November 2022, the CBC, following the revised methodology described in its macroprudential policy³, and acting proactively in order to fulfil its primary objective of safeguarding financial stability, decided to increase the countercyclical buffer rate from 0% to 0,5% of the total risk exposure amount in the Republic of each licensed credit institution incorporated in the Republic. The new rate of 0,5% must be observed as from 30 November 2023, creating a cushion of capital for credit institutions, which can be used in times of crises and during economic downturns to absorb potential losses and/or to support lending to the private sector. In particular, the decision aimed at strengthening the resilience of the banking sector at the current juncture,

1. <https://www.centralbank.cy/en/financial-stability/macroprudential-policy-decisions>

2. <https://www.bankingsupervision.europa.eu/press/pr/date/2022/html/ssm.pr221222~9a92f99f3c.en.html>

3. <https://www.centralbank.cy/en/financial-stability/macroprudential-policy/countercyclical-capital-buffer>

i.e. at a time when risks are neither particularly elevated nor subdued.

4.3.3 Publications

The 2021 *Financial Stability Report* (FSR), which was published in July 2022, presents 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 medium term risks to financial stability. These are:

- (a) Deterioration in economic growth prospects, as a result of the geopolitical tensions, the resulting uncertainty and increasing pressures on energy and commodity prices, affecting the financial sector;
- (b) Challenges in the debt servicing capacity of the already highly indebted private non-financial sector in a period of intense uncertainty and inflationary pressures;
- (c) Renewed deterioration in asset quality in the banking sector;
- (d) Structural challenges, reduced profitability prospects of banks and challenges from emerging risks.

For the first time in the FSR, data was published on the loan portfolio of Credit Acquiring Companies (CACs), with the aim of providing a more comprehensive analysis of the risks in the financial sector, given that these companies have evolved into an integral part of the Cyprus financial sector. CACs play a pivotal role in the continuing effort of credit institutions to deleverage their balance sheets and to improve the quality of their loan portfolio.

4.3.4 Macroprudential analysis, monitoring and measures taken to mitigate systemic risks

Despite the strong recovery in 2021 and in early 2022, the Russian invasion of Ukraine in late February 2022, the energy crisis along with the significant increase in inflation have increased uncertainty in the macroeconomic environment, creating challenges in almost all facets of economic activity as well as creating new or reinforcing existing risks to financial stability. Medium-term risks to financial stability, as listed in section 4.3.3 above, remain elevated compared to 2021. As such, the potential impact on financial stability is being closely monitored and the CBC remains prepared to intervene with macroprudential policies and measures to reduce potential vulnerabilities in the system.

In 2022 the CBC continued to comply with the European Systemic Risk Board (ESRB) Recommendations on voluntary reciprocity for macroprudential policy measures.

Moreover, the CBC continued the collection of residential and commercial real estate data in 2022, in order to better evaluate possible risks to financial stability stemming from the real estate sector, in accordance with ESRB Recommendation ESRB/2016/14 relating to real estate loans.

In addition, the CBC continued to assess risks in the financial system, through a "heatmap" risk monitoring tool, and carried out an internal assessment of the impact of rising interest rates on households' debt servicing capacity.

The CBC, also, assessed potential risks and vulnerabilities in the non-banking financial intermediation sector, in particular in the insurance sector and in the investment fund sector.

Furthermore, the CBC, in cooperation with the ESRB Task Force on Stress Testing, participated in the preparation and development of the adverse scenario for the 2023 EU-wide stress test exercise, coordinated by the European Banking Authority. The exercise will assess the impact of an adverse macroeconomic scenario on the resilience of the euro area significant banks, which include Cyprus significant banks.

4.3.5 Support to Governor and participation in ECB and European Systemic Risk Board (ESRB) committees and working groups

During 2022, the Department continued to contribute to the Governor's briefing in the context of his participation in the ECB's Governing Council meetings, particularly on issues relating to financial stability as well as macroprudential analysis and policy. The Department also contributed to the preparation for the Governor's participation in the meetings of the ESRB General Board.

The CBC participated in the meetings and deliberations of the Financial Stability Committee (FSC) of the European System of Central Banks (ESCB) and its working groups, as well as in those of the Advisory Technical Committee (ATC) of the ESRB and its working groups.

The CBC actively participated in the ESRB Task Force on Stress Testing, in the meetings of the Financial Stability Table (FST) of the EU Economic and Financial Committee (EFC), as well as in the Financial Stability Experts Network of the Single Resolution Board.

4.3.6. National Financial Stability Committee

The CBC chairs the National Financial Stability Committee (NFSC) and provides secretarial 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 role of the CBC in the field of financial market infrastructures (FMIs) and payments stems from the *Central Bank of Cyprus Law of 2002*, as amended, and is in line with the Treaty on the Functioning of the European Union (EU) and the Statute of the European System of Central Banks (ESCB) and of the European Central Bank (ECB).

The CBC has a role in its capacity as: (i) operator of FMIs, (ii) oversight authority for FMIs, (iii) catalyst for facilitating EU market integration, whereby it analyses changes, identifies trends, develops policies, collaborates with stakeholders and fosters innovation. Moreover, the CBC, in its capacity as banker and representative of the Republic of Cyprus for financial matters, participates in domestic and cross-border payment systems.

In 2022, one real-time gross settlement system, three retail payment systems and one securities settlement system were operating in Cyprus, as follows:

Real-time gross settlement system

- TARGET2-CY

Retail Payment Systems

- Cheques Clearing System (Cyprus Clearing House – CCH)
- Cards Payment System (JCC Cards Payment System)
- Cyprus SEPA Direct Debit Payment System (CY-SDD)

Securities Settlement System

- Central Depository Central Registry of the Cyprus Stock Exchange (CDCR)

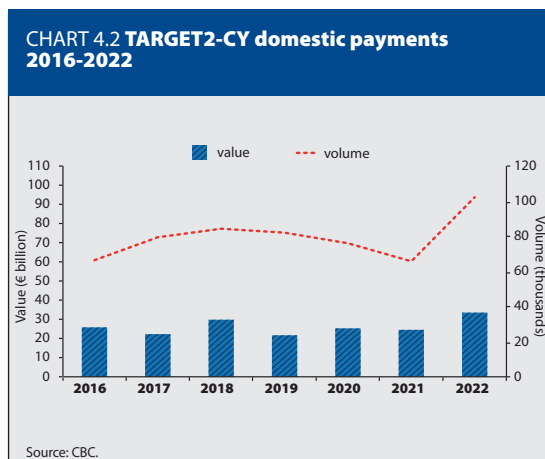
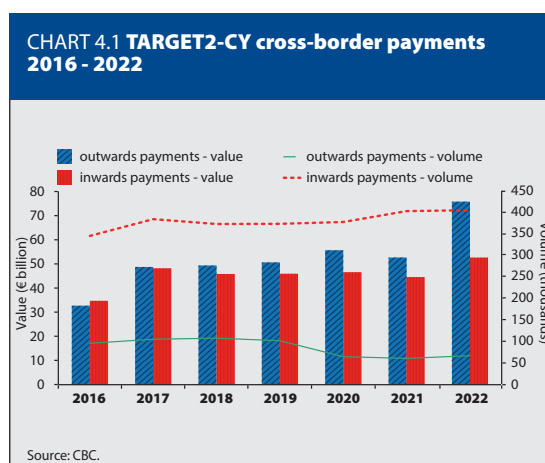
4.4.1 Payments, clearing and securities settlement systems

The CBC acts as operator and/or Chairs the Plenary for the following payment systems:

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 participant bank as well as the operator of TARGET2-CY, in line with the Guideline ECB/2012/27 and the TARGET2-CY CBC Directive, as amended. TARGET2 processes the bilateral settlement of payment orders submitted by participants, as well as orders from ancillary systems (AS) resulting from the clearing and net settlement process.

In 2022, the total volume of outward and inward cross-border transactions settled through TARGET2-CY increased by 10% and 1%, respectively, compared to 2021. In value terms, in 2022,

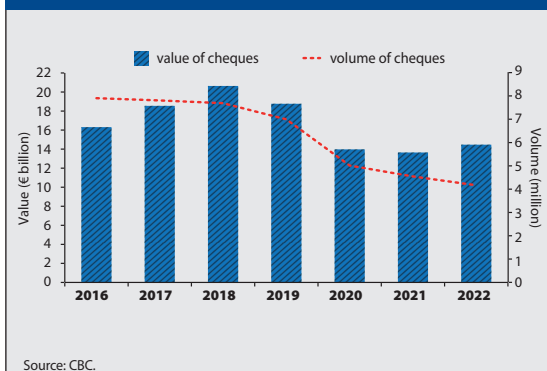


the outward and inward cross-border transactions settled through TARGET2-CY increased by 44% and 18% respectively, compared to 2021.

In terms of domestic transactions, in 2022 the total volume of transactions settled through TARGET2-CY showed an increase of 56%, while the total value showed an increase of 37% compared to 2021.

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

CHART 4.3 CCH cheque clearing



T2-T2S Consolidation Project

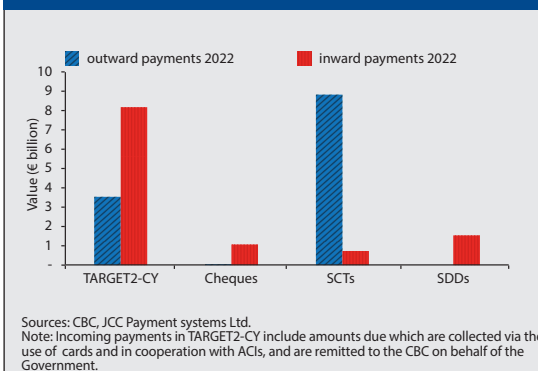
The T2-T2S Consolidation project that aims for the consolidation of the TARGET2 and T2S services of the Eurosystem, continued to be in progress during 2022. The ECB's Board of Directors decided to move the system's implementation date from November 21, 2022 to March 20, 2023, in order to give users more time to complete their tests in a stable environment. The decision also took into account the importance and the systemic nature of T2. The CBC continued to be in close cooperation with all participants closely monitoring the progress of the project aiming for successful implementation in March 2023.

Cyprus Clearing House

The Cyprus Clearing House (CCH) has been operating since 1964 and aims at harmonising the procedures for the clearing and settlement of cheques.

Chart 4.3 illustrates the volume and value of cheques cleared through the Electronic Cheque Clearing System (ECCS) platform, for the period 2016-2022. It shows that there is a continuous

CHART 4.4 Value of broader public sector payments through CBC

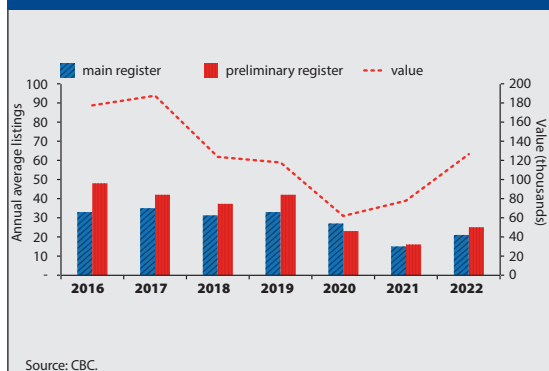


decrease in the volume of cheques reflecting the market trend favouring the usage of electronic means of payments against cheques, while the value of cheques shows a slight increase compared to the previous two years.

4.4.2 The CBC as banker of the Republic of Cyprus in the field of payments

The CBC participates in domestic and cross-border payment systems, to provide banking services to the Government of the Republic of Cyprus and other corporate bodies governed by public law. Within the scope of these competencies, the CBC provides services and supports the Government's work for the implementation of the Republic's enterprise resource planning system (ERP system), while at the same time continuing to promote, in close cooperation with the Authorised Credit Institutions, the adoption of electronic payments as a means to pay and collect government receivables.

Chart 4.4, which illustrates the use of payment instruments for incoming and outgoing government payments via the CBC, shows clearly that the

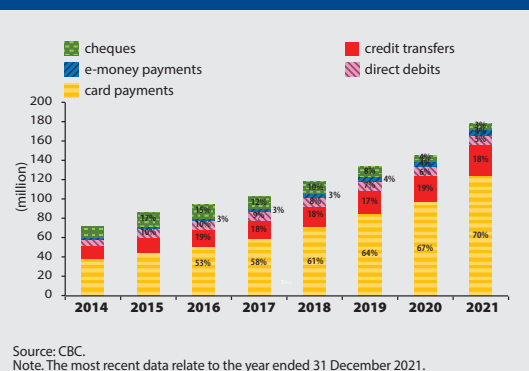
CHART 4.5 Annual average monthly listings in the main register and the preliminary register

government payments are mainly effected through electronic means, via TARGET2-CY and SEPA credit transfers (SCTs), whilst part of the inward payments is still processed via cheques. Nevertheless, the government's receipts via the use of cheques continued its downward trend as compared to previous years. The biggest part being substituted by the use of electronic means, and mainly through the electronic channels of the Authorised Credit Institutions regarding collections of the Tax Department and the Customs Department, or through direct debit transfers (SEPA Direct Debits – SDDs).

4.4.3 Other activities

Central Information Register for Issuers of Dishonoured Cheques (CIR)

In 2022, the monthly average number of new natural and legal persons recorded in the main CIR register as well as in the preliminary register increased (Chart 4.5). At the same time, there was an increase in the monthly average of total value of cheques.

Chart 4.6 Volume of transactions by payment instruments and preference of use (%)

Interchange fees for card-based payment transactions: Regulation (EU) 2015/751 (Interchange Fee Regulation - IFR) and Law (N.77 (I)/2018)

In its capacity as one of the designated authorities, the CBC collected and analysed data in order to monitor the adherence of payment service providers and, where relevant, card payment schemes with the caps specified and regulated by IFR as regards interchange fees for card-based payment transactions.

4.4.4 Catalyst and Oversight Authority

Catalyst for promoting changes in retail payments

The collection and analysis of payment statistics are prerequisites for catalyst action. In this respect, the CBC analysed the use of payment instruments in Cyprus from data collected in accordance with Regulation (ECB/2013/43). As shown in Charts 4.6 and 4.7 (p. 40), card payments account for the largest share of the volume of cashless transactions, whereas credit transfers largely dominate the total value, followed by cheques.

CHART 4.7 Value of transactions with different payment instruments

In addition, the CBC launched the collection of quarterly and semi-annual statistical data for year 2022, in line with the amended Regulation (EU) 2020/2011 of the ECB on payment statistics, which entered into force in January 2022. The requirements of the amended Regulation cover, *inter-alia*, detailed information on card functions, card accepting devices, card payment transactions on a cross-border basis as well as information on fraudulent payment transactions.

At the same time, through the National Payments Committee (NPC) that it chairs, the CBC continued to promote European retail payment solutions that are safe and efficient for society as a whole, in the context of the retail payments strategies of the Eurosystem and of the European Commission. In particular:

- (i) The CBC encouraged NPC members to participate in the European Commission's targeted consultation on the review of the revised Payment Services Directive (PSD2).
- (ii) The CBC invited representatives of the European Payments Initiative to present to the Cypriot retail payments market their solution

for payments at the point of interaction.

- (iii) The CBC hosted a meeting that was convened by the Association of Cyprus Banks, the purpose of whose was to facilitate the efforts of the Cypriot banking community to adhere to, and in a coordinated manner, the SEPA Instant Credit Transfer Scheme.

In addition, the CBC represents Cyprus at EU Council discussions as regards the European Commission's legislative proposal to make instant payments in euro available to all citizens and businesses holding a bank account in the EU and in EEA countries.

Regarding the possible issuance of a digital euro for retail payments, the CBC continued to monitor developments at Eurosystem level and in particular the investigation phase of the project, which was launched on 14 July 2021 and will last 24 months. Moreover and in view of upcoming legislation in this field, the CBC participates at stakeholders' discussions under the auspices of the European Commission.

Aside retail payments work, the CBC and the Cypriot banking community contribute to the exchange of views at Eurosystem level as regards the implementation of a wholesale central bank digital currency-CBDC. In particular, the discussions concern modernising the existing TARGET services in the settlement of interbank transfers and related wholesale transactions in central bank reserves, in order to make them safer and more efficient.

In the context of financial markets integration on issues related to the clearing and settlement of securities and collateral management, the CBC:

- (i) coordinated and monitored the harmonisation

of the practices of the national stakeholder group of Advisory Group on Market Infrastructures for Securities and Collateral – CY National Stakeholders Group (AMI-SeCo CY-NSG) against the AMI-SeCo standards, which relate to corporate actions and billing procedures, and

- (ii) conducted semi-annual exercises for monitoring compliance with European standards for the processing of corporate actions and for the identification of shareholders.

Oversight

Cybersecurity, the smooth operation of FMIs during the pandemic and EU sanctions

The CBC monitored the readiness of the domestic FMIs in relation to: (i) cybersecurity – which remains a key priority for the Eurosystem, and (ii) managing the pandemic by applying best practices in order to safeguard the smooth and secure operation of payment clearing and settlement systems. Moreover, the CBC ensured that FMIs complied with EU sanctions against Russia.

Central Securities Depositories

The CBC decided that the Central Depository Central Registry (CDCR) of the Cyprus Stock Exchange (CSE) complies with the Eurosystem's eligibility regime for securities settlement systems and links, for its use in Eurosystem credit operations.

Furthermore and in line with Regulation (EU) 909/2014 on Central Securities Depositories (Central Securities Depositories Regulation – CSDR), the CBC – in its capacity as 'relevant authority' – cooperated with the 'competent authority', being the Cyprus Securities and

Exchange Commission, in the context of CDCR's review and evaluation.

4.5 Euro banknotes and coins

The CBC is responsible for issuing currency (banknotes and coins). In particular, regarding the issuance of banknotes, the CBC is the competent authority, for the printing of the quantity of banknotes allocated to it by the ECB, under the Eurosystem's pooled banknote production arrangements, through a specific procedure which applies to all NCBs of the Eurosystem. The responsibility for the issuance of coins lies with the Government, which, however, has appointed the CBC as its representative for all matters relating to the issuance of euro coins in the Republic of Cyprus since 2016, following the signing of a Memorandum between the two parties. In this respect, the CBC takes all necessary actions for the minting of coins. In addition, the CBC organises and coordinates the processing and distribution of banknotes and coins as well as the withdrawal and destruction of banknotes and coins that are unfit for recirculation.

The total value of euro banknotes issued by the Eurosystem as at the 31st of December 2022 amounted to €1.572 billion, recording an annual increase of 1,8%. Under "Note L1 Banknotes in circulation", of the annual financial statements of the CBC more detailed information is provided on this matter.

4.5.1 Currency cycle

During the year under review, approximately 135,3 million pieces of banknotes were processed (i.e.

counted and checked for authenticity and fitness before recirculation), of which 21,9% (29,6 million pieces) were deemed unfit for recirculation. As far as the inspections of the machines used for the processing of banknotes are concerned and the conduct of the on-site checks of licensed credit institutions to verify compliance with the provisions of the Directive of 2014 on the Authenticity and Fitness of Euro Banknotes and their Re-issuance, they were carried out throughout 2022 and covered all districts. As regards the machines used by the CBC for the processing of banknotes, their replacement with the new machines bought through an EPCO procedure was completed in the least quarter of the year.

During 2022, 6,7 million euro coins were processed, out of which 0,14% (9.231 coins) were deemed unfit for recirculation. During the year under review, the CBC carried out several on-site checks on credit institutions to verify compliance with the provisions of Regulation (EU) 1210/2010 on the verification of authenticity and the management of unfit euro coins. It is worth mentioning that, in the previous two years, these checks had been carried out to a limited extent, due to the restrictive measures against the Covid-19 pandemic.

4.5.2 Counterfeit euro banknotes and coins found in Cyprus in 2022

During 2022, 451 counterfeit pieces of euro banknotes of various denominations were detected in circulation, compared with 211 pieces in 2021. The €10 banknote was the most frequently counterfeited, representing 40,8% of



the total number of pieces. The majority of the counterfeited banknotes, which were withdrawn from circulation, were detected by cashiers of credit institutions. The number of counterfeit euro banknotes in Cyprus is very small and is one of the lowest in the euro area countries. Finally, regarding coins, a small number of counterfeit coins (91 coins) were detected in 2022, all of €2 value.

4.5.3 Issue of numismatic items

Collector coin set

In September 2022, the CBC issued 5.000 pieces of the Cyprus collector euro coin set, minted in 2022, in brilliant uncirculated condition. This is the first of three sets of the new three-ply collector coin set series of Cyprus euro coins dedicated to the folk tradition of Cyprus. The set is dedicated to the traditional costumes of Cyprus. There was great interest in the issue both from Cyprus and abroad.

Collector coin

In 2022 the CBC issued a silver collector coin, with



a nominal value of €5, in proof condition. The coin depicts the head of a lion, which is a replica of the obverse side of an ancient coin and specifically of the "Diovolo", of the ancient kingdom of Amathous. The city of Amathous was founded around 1050 B.C. on the south coast of Cyprus, a position which helped it to prosper and develop trade relations beyond the island's borders. The coin was designed by the Greek artist George Stamatopoulos and was issued in November 2022 in a limited quantity of 2.000 pieces.

Commemorative coin

In July 2022, the CBC issued a common commemorative coin, with a nominal value of €2 on the occasion of thirty five years of existence of the Erasmus+ Programme which promotes and supports education, training, youth and sports in Europe. The national side of the coin depicts Erasmus himself, a Dutch philosopher and Catholic theologist who is considered one of

the greatest scholars of the Renaissance. The designer was Mr. Joaquin Jimenez and the coin was minted by the Printing Works Department of Bank of Greece.

The issue consisted of 3.000 coins in proof condition placed in cases, 3.000 coins in brilliant uncirculated condition placed in capsules, 6.000 coins in brilliant uncirculated condition placed in cards and 400.000 coins in uncirculated condition in rolls of 25 pieces each. It is worth noting that this issue was extremely successful as the coins in proof condition placed in cases were all sold within a few hours of the beginning of selling.

4.6 Activities in the Financial Markets

Subject to the provisions of *article 6 of the Central Bank of Cyprus Laws, 2002 - 2017*, the CBC carries out (inter alia) the following functions:

- (i) *The holding, keeping and management of the official reserves of the Republic, including the foreign exchange and gold reserves of the Bank and of the State.*

The management of the CBC's reserve assets (in currency and gold) is governed by the approved Investment Policy (IP) framework, which defines, inter alia, the investment of the currency and gold reserves in approved "asset classes", such as government securities, securities issued by national and supranational organisations, covered bonds, corporate bonds, gold deposits, etc.. The investment of the CBC's reserve assets is subject to a comprehensive risk management and control framework, as detailed in Section 4.7.1.

The primary objective of the said IP framework

is the safety and preservation of the value of the CBC's reserves in euro, foreign currencies and gold. Subject to the fulfilment of this objective, the management of reserves aims at maximising long-term return on investment. Reserve management activities serve to develop market insight, which is routinely utilised for various central bank functions.

The income derived from the management of reserves constitutes, over time, a major source of financing of the CBC's operations and contributes to the safeguarding of its financial autonomy and independence.

- (ii) *The conduct of foreign exchange operations and the management of foreign reserves that may be held with the CBC for management, subject to the provisions of Article 111 of the Treaty.*

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

- (iii) *The contribution, as an internal part of the European System of Central Banks, to the definition and implementation of the monetary policy of the European Community.*

The single monetary policy is set out by the decisions and guidelines of the Governing Council of the ECB ("GC of the ECB"), which is the responsible body for formulating monetary policy in the euro area.

As a member of the Eurosystem, the CBC participates in a uniform and equal way with

the other euro area NCBs in the implementation of the said policy. 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, which are executed by the NCBs in the euro area, pursuant to the principle of decentralisation.

4.6.1 Management of reserves

Changes in the size of reserves

The CBC's reserves, including gold bullion holdings, whose value amounted to €762,8 million at the end of 2022, amounted to €1.284 million, compared with €1.160 million at the end of 2021. The small increase in the size of the holdings was brought about (a) by the increase in investments in euro-denominated securities during the year, (b) by the investment in green euro-denominated bonds via a collective investment scheme provided by the Bank for International Settlements to central banks and (c) by the increase in the price of gold at the end of 2022 compared with the end of 2021.

The tightening of monetary policy by most central banks in response to the multi-decade highest inflation, combined with the structural changes brought about by the Russian invasion of Ukraine, clouded the economic environment and led interest rates on a sharp upward trajectory during 2022. Consequently, the general investment strategy of the CBC remained broadly defensive, aiming at the preservation of the value of the Bank's reserve assets.

Securities lending

The CBC continued making its bonds available for lending through a strategic securities lending programme operated by an international securities depository. The bonds were also made available via an automated securities lending programme operated solely in cases of failed settlement of transactions executed by the depository's customers.

Net financial assets

The rules and limits for holdings of financial assets related to the institutional tasks of national central banks (NCBs) beyond monetary policy, are set out in the "Agreement on Net Financial Assets" (ANFA) between the members of the Eurosystem.

Such assets are, for example, the financial assets corresponding to NCBs capital and accounting reserves, foreign reserves or employee pension funds. The Agreement, along with an explanatory text, is published on the ECB's website⁴. The CBC's net financial assets under the ANFA, were estimated to be on average - €4,7 billion during 2022.

Other developments

Within the period under review, the following actions were also taken in relation to the CBC's reserves:

- a) The enrichment of the CBC's IP framework, with specific principles to promote environmental sustainability objectives in the management of its own funds, in line with the Eurosystem's drive/effort to contribute to the transition to a low-carbon economy and to meet the relevant European Union (EU) climate objectives.

- b) The publication of the CBC's first disclosures of climate-related metrics and targets for its euro denominated Non-Monetary Policy Portfolios. This action was implemented based on the recommendations of the Task Force on Climate-Related Financial Disclosures of the Financial Stability Board⁵.

4.6.2 Monetary policy operations

In light of the volatile and adverse financial market conditions that prevailed in 2022, both the regular and the supplementary open market operations of the Eurosystem continued to be carried out through fixed rate tenders with full allotment. Furthermore, the Governing Council (GC) of the European Central bank (ECB) continued to monitor bank funding conditions, ensuring that the smooth transmission of its monetary policy was not hampered.

The highly uncertain environment caused by the Russian invasion of Ukraine and regional spillovers which adversely affected euro area financial markets, were the driving factors behind the decisions of the GC of the ECB as follows:

- (i) March 2022: Extend the Eurosystem repo facility for central banks ("EUREP") until 15 January 2023, in order to continue to complement the regular euro liquidity-providing arrangements for non-euro area central banks. Together, these form a comprehensive set of backstop facilities, aiming to address possible euro liquidity needs in the event of market dysfunctions outside the euro area, thereby, safeguarding the smooth transmission of monetary policy.

4. https://www.ecb.europa.eu/explainers/tell-me-more/html/anfa_qa.en.html

5. <https://www.centralbank.cy/en/publications/climate-related-financial-disclosures>

- (ii) July 2022: (a) Raise, for the first time since 2011, the three ECB policy rates by 50 basis points. Accordingly, with effect from 27 July 2022 the interest rate on the main refinancing operations, the interest rates on the marginal lending facility and the deposit facility increased to 0,50%, 0,75% and 0,00%, respectively. (b) Establish the Transmission Protection Instrument ("TPI"). The TPI is an addition to the GC's toolkit and can be activated to counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across the euro area. The scale of TPI purchases would depend on the severity of the risks facing policy transmission.
- (iii) September 2022: (a) Raise further the three ECB policy rates by 75 basis points. Accordingly, with effect from 14 September 2022 the interest rate on the main refinancing operations, the interest rates on the marginal lending facility and the deposit facility increased to 1,25%, 1,50% and 0,75%, respectively. (b) Suspend the two-tier system for the remuneration of excess reserves by setting the multiplier to zero. (c) Temporarily remove the 0% interest rate ceiling for remunerating government deposits. Instead, the ceiling will temporarily remain at the lower of either the Eurosystem's deposit facility rate ("DFR") or the euro short-term rate (€STR), also under a positive DFR regime.
- (iv) October 2022: (a) Raise further the three ECB policy rates by 75 basis points. Accordingly, with effect from 2 November 2022 the interest rate on the main refinancing operations, the interest rates on the marginal lending facility and the deposit facility increased to 2,00%, 2,25% and 1,50%, respectively. (b) Recalibrate the conditions of TLTRO III as part of the monetary policy measures adopted to restore price stability over the medium term. As a result, from 23 November 2022 until the maturity date or early repayment date of each respective outstanding TLTRO III operation, the interest rate on TLTRO III operations will be indexed to the average applicable ECB interest rates over this period. Furthermore, it decided to offer banks three additional voluntary early repayment dates. (c) Set the remuneration of minimum reserves at the Eurosystem's deposit facility rate. The change became effective as of the beginning of the reserve maintenance period starting on 21 December 2022.
- (v) December 2022: (a) Raise further the three ECB policy rates by 50 basis points. Accordingly, with effect from 21 December 2022 the interest rate on the main refinancing operations, the interest rates on the marginal lending facility and the deposit facility increased to 2,50%, 2,75% and 2,00%, respectively. (b) The GC announced that it intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP until the end of February 2023. Subsequently, the APP portfolio will decline at a measured and predictable pace, as the Eurosystem will not reinvest all of the principal payments from maturing securities. The decline will amount to €15 billion per month on average until the end of the second quarter of 2023 and its subsequent pace will be determined over time. (c) As concerns the PEPP, the GC announced that it

intends to reinvest the principal payments from maturing securities purchased under the programme until at least the end of 2024. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

Domestic developments

In line with the Eurosystem's monetary policy implementation framework and following the ECB's decisions of 24 March 2022 in relation to the Russian Commercial Bank (RCB), as well as the implementation of its plan for the phasing out of banking operations, RCB lost access to the Eurosystem monetary policy operations and has been exempted from the obligation of maintaining minimum reserves. The ECB withdrew on 22 December 2022 RCB's banking licence.

During 2022, there were five early repayment windows for the outstanding TLTRO III operations. Counterparties established in Cyprus repaid in total €1,3 billion, reducing the total outstanding amount borrowed by CY institutions under the TLTRO III, as at end 2022 to €5,2 billion, compared to €6,5 billion at end 2021.

CBC participation in asset purchase programmes

The Eurosystem decided to end net asset purchases under the PEPP and APP⁶ in March 2022 and July 2022, respectively. However, it continued reinvesting, in full, the principal payments from maturing securities purchased under the two programmes. These programmes constitute the main component of a package of non-standard monetary policy measures, aimed at supporting

the real economy and enhancing the monetary policy transmission mechanism.

The CBC continued to participate in the implementation of the APP and the PEPP. The total book value of the CBC's monetary policy portfolios, as at 31 December 2022, amounted to €8,41 billion. The securities purchased under the APP and the PEPP are made available for lending by the CBC within the strategic lending facilities operated by international securities depositories, as well as their automated securities lending facilities operated solely in cases of failed settlement of transactions executed by the depositories' customers.

4.7 Risk Management and Compliance

4.7.1 Financial risk management

The management of financial risks is carried out by the Risk Management Section, namely, the CBC's "second line" function, and independently from the business function conducting operations in the financial markets.

The risk management processes focus on the following type of risks:

Market risk

Market risk refers to the risk of loss in the market value of an investment asset as a result of adverse movements in interest rates and foreign exchange rates, widening of spreads or increase in the underlying volatility.

The main dimensions of market risk pertaining to the CBC's investment positions, are managed as follows:

6. Information about the Eurosystem's purchases under the APP and the PEPP are published and regularly updated at the following links:

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

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

- **Interest rate risk:** Interest rate risk pertaining to securities marked-to-market is largely controlled through the imposition of a maximum duration constraint for each portfolio and the application of measures that seek to enforce a minimum degree of diversification. Exposure to interest rate risk is also contained by maintaining most of the CBC's investment assets in euro-denominated bonds that are classified as held-to-maturity positions.
- **Foreign exchange risk:** During 2022, the CBC continued to hold its currency reserves primarily in euro and, to a lesser extent, in US dollars. In addition to their investment purpose, the open position in US dollars is maintained for servicing any obligation in the said currency as well as for fulfilling ad hoc requests for a transfer of that currency to the ECB for foreign exchange intervention purposes by the Eurosystem. Open positions, up to a defined small amount, are also maintained in several other major currencies for the settlement of transactions or payments in those currencies. Any US dollars amount exceeding the defined open position is hedged through the use of one of the approved hedging instruments.
- **Spread risk:** The CBC's exposure to spread risk is low, as the majority of its investments is in highly-rated government and government-related bonds, such as bonds issued by supranational entities and public sector agencies that entail low spread risk due to their high quality and high correlation with the reference sovereign bonds.

Interest Rate Risk in the Banking Book ("IRRBB")

The CBC estimates and assesses the current or prospective risk to its future net earnings and capital base arising from adverse movements in interest rates as this relates to its balance-sheet and in particular the level of its interest rate-sensitive assets and liabilities. Specifically, the said risk is measured under various scenarios in order to gauge the CBC's capacity to withstand the impact of a range of possible adverse interest rate paths on its earnings and capital base in a satisfactory way.

Credit risk

Credit risk refers to the risk that a counterparty or an issuer of securities fails to meet its contractual or legal obligations against the CBC, either fully or partly. It also includes the risk of a decline in the value of a security due to credit rating downgrades.

In order to limit credit risk within the acceptable levels for the CBC, minimum quality-based eligibility criteria are defined for each eligible security, asset class, issuer and instrument. Moreover, maximum exposure limits are defined in line with their credit quality and any other risks inherent in a particular issuer, security or transaction type. With the aim of further limiting counterparty credit risk, the CBC seeks to establish ISDA or EMA agreements⁷ that contain, *inter alia*, all the necessary terms as regards the rights and obligations of the counterparties in the case of a credit event.

Liquidity risk

Liquidity risk relates to the possibility that the CBC's access to the money markets is hindered or

7. They apply to the following transactions: foreign exchange forwards and swaps, and gold swaps.

that liquidity cannot be obtained at a reasonable cost. Euro liquidity risks are considered negligible given the CBC's use of the ESCB TARGET2 system. With regard to ad hoc liquidity needs in foreign currency, the CBC maintains a predefined amount of open positions in most major currencies, with the larger position being the US dollar. The majority of the open positions in US dollar is in highly marketable and highly rated securities.

Investment operations – Policy and Risk Control Framework

Investment activities are governed by the CBC Investment Policy & Risk Management Framework, which is approved by the Governor and the Board of Directors, as well as the associated Guidelines that are issued by the Governor.

The CBC Investment Policy & Risk Management Framework specifies the investment objectives and principles that guide the CBC's investment operations, the responsibilities of the involved parties, as well as the general risk control framework for managing investment risks, including the permissible investment operations (e.g. the eligible currencies, countries, issuers, counterparties and financial instruments). It also provides for the formulation of a strategic benchmark for each portfolio under active management. The strategic benchmarks reflect the CBC's investment strategy and allow for the comparative evaluation of the performance and risks undertaken by the asset managers. The associated Guidelines encompass the detailed operational framework and the full spectrum of risk control measures in force for the manage-

ment of risks assumed by the CBC in the context of its reserves management operations.

The CBC's exposure to investment risks and the asset managers' compliance with the approved investment framework are monitored and evaluated on a daily basis, and reported to the CBC's decision-making bodies on a regular basis.

Eurosystem monetary policy risks

The CBC participates in the Risk Management Committee of the ESCB that is responsible for the design and implementation of frameworks pertaining to the carrying out of Eurosystem's monetary policy credit operations and asset purchase programmes, as well as to the foreign reserve management operations of the ECB. Moreover, this committee is responsible for the monitoring, measurement, controlling and reporting of financial risks stemming from the aforementioned operations, aimed at ensuring an appropriate level of protection for the Eurosystem, including the development and maintenance of the appropriate risk methodologies and guidelines, with the aim of enhancing the Eurosystem's resilience against risks.

4.7.2 Annual risk quantification exercise

The financial risks are assessed on a regular basis, as well as on an annual basis in the context of the established risk evaluation exercise for the purpose of assessing the adequacy of the CBC's accumulated risk provision and overall financial buffers against risks stemming from the CBC's main operations.

4.7.3 Operational risk management and business continuity management

The CBC is exposed to operational risks, inherent to its operations, which may negatively affect the achievement of its strategic and operational goals. Operational risks cover a wide spectrum of risks including, *inter alia*, risks pertaining to errors or disruption of operations, physical security, breaches of confidentiality or integrity of information, health and safety issues as well as business continuity risks.

The CBC Operational Risk Management Framework provides guidance for the prioritisation of actions in order to ensure timely risk mitigation, especially for risks that could affect key business objectives. The CBC seeks to mitigate operational risks to the highest extent possible by reducing their likelihood of occurrence and/or their potential impact. In this context, cost-benefit considerations regarding the risk mitigating actions under consideration are taken into account.

The CBC implements the “Three Lines Model” in managing risks. The business departments, which belong in the first line, are owners of the risks stemming from their activities, and as such are responsible for their management through the implementation of the internal policies and the formulation and implementation of relevant procedures. The Risk & Compliance Department is in the second line and, as regards operational risks, is responsible for the maintenance of the above-mentioned Framework, the methodological support of business areas, the monitoring and assessment of operational risk incidents, and the critical assessment of identified risks in an inde-

pendent manner. The Internal Audit Department, in the third line, provides independent assurance to the decision-making bodies as regards the satisfactory operation of the previous two lines and the overall risk management adequacy. In addition, the Operational Risk Committee of the CBC is responsible for facilitating and overseeing the implementation of the Operational Risk Management Framework and the Business Continuity Framework, with the aim to enable the timely identification and mitigation of the related risks, including their close monitoring.

During 2022, the CBC implemented a number of bank-wide, cross-functional actions with a view to ensure the significant mitigation of operational risks. Of note was the reinforcement of human resources in various functions, as part of a wider business plan. Moreover, for the mitigation of cybersecurity risks, the CBC has endorsed and implemented a multi-year Cybersecurity Programme, the progression of which is monitored by the Operational Risk Committee. Given the continuation of the COVID-19 pandemic during the reference year, the CBC has instigated various actions including measures that aimed to preserve the smooth continuity of its business activities and to minimise risks to the health and safety of staff, whilst ensuring compliance with the various COVID-19 decrees issued by the government.

Moreover, in 2022 the CBC enhanced its Business Continuity Policy, with the aim, *inter alia*, to strengthen the framework for the management of incidents that may disrupt the smooth conduct of its operations, also drawing from the experience gained during the COVID-19 pandemic. The Risk & Compliance Department is responsible for the

review of the Business Continuity Framework and, inter alia, for supporting the CBC's decision-making bodies in ensuring the business continuity of critical functions.

4.7.4 Information security risk management

As of October 2021, the CBC's second line of defence was strengthened by the assignment of the responsibility for the development and implementation of the CBC's information security risk management framework to the Risk and Compliance Department. Effective management of information security risks is attained through the establishment of an internal information security governance framework and its continuous enhancement and improvement. The information security framework comprises internal guidelines for the classification and handling of corporate information, the personal data protection policy, the information systems security policy, the cybersecurity programme and the information risk management.

During 2022, the Information Security Officers who are entrusted with tasks pertaining to the security of the CBC's information in all forms and media, focused on the drafting and revision of internal directives, the assessment and reporting of information security risks to the competent bodies of the CBC, and the staff awareness activities, especially for newly recruited employees. At the same time, they continued implementing and monitoring the progress of the implementation of the CBC's cybersecurity programme, and attended seminars and events to remain informed on the latest technological achievements and cyber

threats. Also, they contributed in internal projects and participated in working groups to promote information security.

4.7.5 Compliance

The implementation of the best standards of conduct and professional ethics by the CBC is of particular importance for safeguarding the credibility and reputation of the CBC as a member of the European System of Central Banks and for ensuring the public's confidence in the integrity, honesty and impartiality of the CBC bodies and staff members in the performance of their duties.

The CBC applies international best practices with the aim to ensure its compliance with the applicable legislative and regulatory framework as well as with the international corporate governance standards.

During 2022, the Compliance Section, within the framework of its responsibilities, continued to establish and implement the appropriate procedures and policies, combined with the regular monitoring of the degree of implementation, in order to achieve timely and continuous compliance of staff with ethics issues. Moreover, the Compliance Section continued to advise and respond to enquiries from staff members related to compliance and ethics issues, in order to ensure the proper implementation of the applicable procedures and the prevention of any regulatory risks. In addition, the Compliance Section carried out an investigation in relation to reported actions that may have been incompatible with the ethical and regulatory framework governing the staff members of the CBC.

The Compliance Section, through its participation in the Ethics and Compliance Conference, which is composed of the heads of the compliance and/or ethics units of the Eurosystem central banks and the national competent authorities of the Member States participating in the Single Supervisory Mechanism, contributed to the collective effort to further strengthen and harmonize ethics and compliance standards. In this context, the ECB issued in 2021 (a) Guideline ECB/2021/49 laying down the principles of the Eurosystem Ethics Framework and (b) Guideline ECB/2021/50 laying down the principles of the Ethics Framework for the Single Supervisory Mechanism, replacing the respective Guidelines issued in 2015. The new Guidelines introduce more stringent provisions, in particular with regard to the prevention of the misuse of confidential information and the management of conflicts of interest, and strengthen the status of the compliance and/or ethics units. During the year under review, the Compliance Section took steps to amend the regulatory framework in order to incorporate the provisions of the two new ECB Guidelines, which will enter into force on 1 June 2023.

4.7.6 Protection of personal data

The CBC collects and processes personal data in the context of:

- its duties, *inter alia*, regarding:
 - the supervision of credit and financial institutions;
 - the oversight of payment systems and instruments, with a view to ensuring their stability, reliability and efficiency;

- the exercise of its functions, e.g. data of dependent employees, salaried consultants, or persons otherwise engaged by the CBC or other persons having a collaboration relationship with the CBC on any terms and conditions.

The processing of such data, which is necessary for the smooth execution of the CBC's operations and the support and monitoring of any type of relationships between the CBC and the data subjects, shall take place in accordance with the provisions of the applicable legislative and regulatory framework on personal data protection (General Data Protection Regulation (EU) 2016/679 and the relevant Cypriot legislation).

4.8 Economic Analysis and Research

The CBC conducts research and analysis on the domestic economy. It also closely monitors macro-economic developments in the euro area economy, particularly in relation to the formulation of the monetary policy, and in the international economic environment.

Economic Bulletin

In 2022 the two regular issues of the *Economic Bulletin* (June and December) were published. The *Economic Bulletin* presents the main macro-economic and financial developments in the domestic and international environment as well as the CBC forecasts for the Cyprus economy. It also includes an analysis on current economic issues, which for 2022 concerned the analysis of credit and credit risk data for Cyprus through the Eurosystem's common multipurpose database "AnaCredit".

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

Throughout 2022, CBC staff continued to contribute to the Governor's briefing in the context of his participation in the ECB's Governing Council meetings, particularly on issues relating to the formulation of monetary policy as well as on issues of the General Council and the European Systemic Risk Board. The staff participated in the Monetary Policy Committee of the ESCB and its sub-working groups, and prepared comprehensive reports and/or recommendations.

Moreover, 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. From September 2022, the CBC launched the publication of interim forecasts for the main macroeconomic variables (every March and September) in addition to the CBC forecasts prepared to date in the context of the Broad Macroeconomic Projection Exercises of the Eurosystem and which are published in the CBC *Economic Bulletin* every June and December.

In 2022, the CBC participated in the Working Group on Econometric Modelling and contributed also to the subteams relating to (1) the analysis of macroeconomic risks in GDP and inflation forecasts ("Macro-at-Risk") and to the construction of multi-country models for the analysis of the impact of climate change on the economy. Furthermore, the macroeconometric model of the CBC continued to be updated and improved for forecasting and scenario analysis. The participation in the "Macrofinancial workstream" of the NGFS network is also noted, aiming at setting up macro-

economic models for analysing the effects of climate change on the economy and the financial system.

The CBC also participates in the Working Group on Public Finances. Within this context, it contributes to the technical work teams for public debt sustainability analysis and for the interaction between fiscal policy and climate change.

The CBC continued to actively participate in a European Commission working group for the prevention, identification and correction of macroeconomic imbalances in European Union countries, while it also had active involvement in a working group to determine the macroeconomic shocks for the EU-wide bank stress tests.

In 2022, credit rating agencies published their annual assessments of the Cyprus economy. In addition, as part of the ongoing post-programme surveillance, staff from the international lenders examined, in March and September 2022, Cyprus's progress. The CBC actively participated in the discussions.

Other research and related activities

For internal stress testing purposes aimed at analysing the capital adequacy of systemic credit institutions owing to the impact of the pandemic on the Cyprus economy, the CBC prepared various macroeconomic and monetary scenarios throughout the year.

The CBC continued its participation in the Eurosystem Household Finance and Consumption Survey (HFCS)⁸. Following a pandemic related one-year delay for the fourth wave's data collection process, from all participating countries, the CBC is in the process of validating the data with the

8. For more information on the HFCS survey see <https://www.centralbank.cy/el/announcements/23122016>

ECB. The results of the fourth wave of the survey of all participating countries are expected to be published in the first quarter of 2023. At the same time, the preparation process for the fifth wave of the survey has begun.

In 2022, the CBC continued to publish the quarterly Bank Lending Survey. During the year under review, the publication of valuation-based Residential Property Price Indices has continued. At the same time, the CBC continued with the construction of both unpublished transaction-based Residential Property Price Indices and Commercial Price Indices. A study on the impact of construction cost on residential property prices, as well as an analysis on the dynamics of their driving forces over time, have also been conducted.

Furthermore, a study has been carried out relating to the medium-term macroeconomic impact of the Cyprus Recovery and Resilience Plan. Another study has been carried out relating to the impact of cost of emission permits on the price of electricity and consumer prices in Cyprus. Furthermore, through a bilateral cooperation with the ECB, research continued regarding the publication of papers regarding the analysis of monetary, fiscal and macroprudential policies in the euro area (e.g. "Strategic Complementarities between Central Bank Asset Purchases and Prudential Policies" and "Fiscal Multipliers with Sovereign Risk and Fragile Banks").

The CBC had a leading role in the formulation of the National Strategy for the promotion of Financial Literacy and Education in Cyprus via its role as the coordinator of the Ad-Hoc Committee. Around the end of 2022Q2, the Ad-Hoc Committee successfully completed its proposal for a National

Strategy. The proposal was then adopted by the Council of Ministers on 28 June 2022. This development paves the way for empowering citizens with the knowledge and skills needed to enhance their financial well-being. The Ad-Hoc Committee continues to function as the coordination and management team of the National Strategy for a transitional period until the finalisation of the structure of the permanent Committee that will undertake the implementation of the National Strategy.

In the context of corporate social responsibility, the CBC participated in a summer internship programme in collaboration with domestic universities. Furthermore, given its leading role in the promotion of financial literacy and education in Cyprus, the CBC acted as the coordinator of the Global Money Week in Cyprus, which is organised by the international Organisation for Economic Cooperation and Development (OECD) and aims to raise awareness on the importance of empowering young people with the knowledge, skills, attitudes and behaviours to make sound financial decisions and ultimately achieve financial well-being and financial resilience. During the Global Money Week, various initiatives were undertaken, such as information campaigns, presentations to educational institutions, discussions with young people, seminars and webinars with distinguished speakers and the distribution of educational material in all High Schools in Cyprus.

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

The aftermath of Russia's invasion in Ukraine together with the sanctions imposed on Russia at the European level, posed another external challenge for the economy of Cyprus, in 2022, reinforcing the already fluid situation shaped by the pandemic in recent years, with consequent effects in the field of statistics. Within this new complicated arena, the Statistics Department (SD) continued the implementation of operational solutions to estimate mainly the information loss, aiming at securing the timeliness of the statistics, ensuring at the same time that these remain valid and fit for purpose. At the same time, additional information and analysis was provided to the main users of data regarding the bilateral relations of Cyprus and Russia.

Despite the aforementioned developments, the tasks arising from the CBC's participation in the ESCB continued as normal. In particular, projects related to the ECB's revised legal framework in the areas of external statistics, monetary statistics as well as quarterly financial accounts, either recorded progress or were completed.

At the same time, in the context of external statistics, all the necessary actions were implemented to handle and resolve the three horizontal reservations imposed on the macroeconomic data of Cyprus by the European Commission.

Important developments have been achieved with the contribution of the CBC in new ESCB projects. With reference to the Integrated Reporting Framework project, during 2022 the "non-IT design phase" has commenced and the results of the Cost-Benefit Analysis have been published. As

regards the AnaCredit project, new Data Quality Indicators and Quality Reports were implemented and access to the analytical data was granted to qualified users at the CBC and the ESCB in general, for financial stability, monetary policy and supervisory purposes. In addition, the first release of Securities Issues Statistics (CSEC), based on the Centralised Securities Database (CSDB) and on the basis of the new CSDB/CSEC Guideline, was accomplished during 2022, with an impressive data availability of 10 working days after the end of the reference month.

In October 2022 the Governing Council of the ECB approved the revised framework on infringement procedures in cases of non-compliance of reporting agents with the statistical reporting requirements. The purpose of the review was to render the framework more efficient, streamline the relevant procedures and clarify the roles of the involved institutions in the process.

Finally, during 2022, on the occasion of Croatia's accession to the euro area on 1st January 2023, all the necessary adjustments were made both to the relevant databases and to the generated statistical reports sent to the ECB and Eurostat.

Monetary and financial statistics

During 2022, the analytical credit (AnaCredit) data by loan and borrower were successfully collected, processed and timely disseminated to the ECB. Moreover, in the context of quality enhancements, revised data have been submitted to the ECB based on the enhanced Data Quality Indicators produced for the ESCB. The quality assessment is frequently updated in order to promptly

indicate potential quality warnings and initiate timely actions. As a result of the CBC's intensive efforts and good cooperation with the reporting banks, the data quality criteria set by the ECB continue to reach high levels, with Cyprus ranking among the Eurosystem's countries with the highest ECB Data Quality Indicators. In addition, during 2022, access to the AnaCredit data has been granted to additional ESCB and CBC qualified users for financial stability, monetary policy and supervisory purposes. In parallel, a new system for the submission, compilation and transmission of data for national purposes, solely based on internal development, started to be implemented during the year. The new system is expected to go live in 2023.

In the context of the creation of an Integrated Reporting Framework (IREF) for data reported by banking institutions, the most strategic and sizeable statistical project of the ESCB, following the decision of the Governing Council in December 2021, the "non-IT design phase" of the project commenced. The ECB, in collaboration with the NCBs via the relevant working group, worked on many deliverables, including the definition of business flows and modules of collaboration for the statistical function under the IREF. In addition, a number of reports were published, covering the results of the cost-benefit assessment (CBA) on content-related issues, technical aspects, reporting schedules, revision policy, approach to derogations and on the technical integration of country-specific requirements. Work on a complementary CBA has also commenced to cover some residual gaps.

Regarding the monthly balance sheet and

flows of the MFIs, revised instructions have been circulated to all MFIs incorporating amendments of the relevant ECB Regulation and Guideline. These revisions resulted to alterations in the production systems for both the CBC and the MFIs and were successfully implemented as from January 2022. In parallel, as from the same month, a revision in the Minimum Reserve Regulation was implemented.

In the process of the update of the ECB regulation on Investment Funds Statistics, a cost assessment exercise took place during 2022. In the context of this exercise both the NCBs, as well as selected reporting agents, assessed the setting-up and the regular costs of the new user requirements. Based on the results of this exercise, a merits assessment will follow, which will conclude the features to be included in the revised regulation.

Securities statistics

During 2022, the ECB CSDB, as well as the relevant CBC system, which includes analytical information on debt and equity securities, were upgraded in order to incorporate additional user needs.

In addition to the regular compilation and transmission of the monthly securities issues statistics to the ECB, the CBC participated in a parallel shadow production of monthly securities issues statistics derived directly from the CSDB. The dedicated work and combined efforts exerted, resulted in the publication of timely and highly policy relevant data. The first release of CSDB based Securities Issues Statistics (CSEC) with additional country and sector detail which improved timeliness and granularity, were released for the first time in

March 2022 to the ESCB users and to the general public in Q2 2022.

The new CSEC dataset replaced the previous Securities Issues Statistics dataset for all EU Member States and includes new valuation methods and new breakdowns by original and residual maturity, as well as further analysis per interest rate type. The new CSEC aggregates are the first ESCB micro-to-macro dataset, i.e. using micro (granular) data from the CSDB to compile official macro statistics in line with international statistical standards. The most relevant aspect for users is the impressive timeliness of CSEC data, with their availability being 10 working days after the end of the reference month.

As far as Securities Holdings Statistics are concerned, an improvement in the coverage has been effected in the course of 2022 via the inclusion of additional reporting agents, while an enhanced reporting template has been implemented.

Financial accounts

In June 2022, the second bunch of the new statistical requirements emanating from the amended ECB Guideline on Quarterly Financial Accounts (QFA) has been successfully implemented. These requirements concern the further breakdown and classification of the data into the subsectors of Other Financial Intermediaries, Financial Auxiliaries and Captive Financial Institutions and Money Lenders. In parallel with the implementation of the new subsectors, the quality controls that the data are subject to have also been extended and enhanced.

In parallel, the ECB Expert Group of Distributional Financial Accounts circulated internally the

first dataset, by the end of 2022, which covers quarterly data on assets and liabilities of households in a number of European countries. In 2022 updated datasets including improvements in the methodology were circulated.

External statistics

The geopolitical uncertainty and tension posed by the protracted war between Russia and Ukraine during 2022, imposed new exogenous challenges on external statistics. Additionally, the consequent sanctions enforced at European level were another blow to reporting units that were still trying to deal with the effects of the pandemic. As a result, the mitigation approaches and estimation methods to cover the information loss, which became even more pronounced for companies that were directly or indirectly connected to Russian natural or legal persons, continued.

At the same time, during 2022, all the necessary actions were taken to handle and resolve the three horizontal reservations imposed on the macroeconomic data of Cyprus by the European Commission and directly linked to external statistics. These reservations, which focused on the areas of globalisation, margins in trading of financial assets and reinvested earnings from foreign direct investment of specific sectors of the economy, were successfully lifted for Cyprus and the relevant figures resulting from the handling of reservations were incorporated into the external statistics data from 2019 onwards.

Furthermore, from October 2022 the revised Data Structure Definitions (DSD) for the balance of payments were implemented. The said DSD were extended to cover the mandatory transmission, to

both the ECB and Eurostat, of separate data for Special Purpose Entities in external statistics. The first transmission based on revised DSD concerned monthly balance of payments data for the month of September. Backward data with additional analysis for these entities is expected to be sent in September 2023.

Regarding foreign direct investment, within the framework of the participation of the SD in the respective specialised task force of the ESCB and Eurostat, Cyprus participated, for one more year, in the transmission of "experimental" data on foreign direct investment by country based on the country of the ultimate investor.

Finally, in September 2022, in the context of routine revisions, it was deemed necessary to revise/enhance the quality of external statistics data as from 2019 through the integration/adjustment of data of new entities identified during the ongoing process of reference sample alignment between the CBC and the Cyprus Statistical Service.

General economic and government finance statistics

During the year, the SD continued the submission of fiscal and general economic statistics to the ECB and participated in all relevant working groups and task forces held by the ECB and Eurostat.

In this context, the CBC completed all quarterly and annual submissions of government finance statistics to the ECB using the new international standard for transmitting statistical information, the Statistical Data and Metadata Exchange (SDMX). Similarly, the SD successfully completed the ECB pilot exercise for transmitting the prelim-

inary table for general government loans, currency and deposits liabilities.

In the area of general economic statistics, the CBC contributed to the compilation and transmission to the ECB of several new statistics, including real estate structural housing indicators, commercial property price indices, as well as the real estate questionnaire prepared by the Climate Change and Statistics Expert Group.

Registers

In 2022, the SD intensified the efforts for the classification of Cypriot entities according to economic activity, both in RIAD (Register of Institutions and Affiliates Database) and the register of legal / institutional units maintained by the ECB and the SD respectively. In addition, Cypriot entities submitted to the RIAD by other NCBs through AnaCredit were identified, while the quality controls of the said registers were enhanced. Moreover, RIAD was reviewed by the Internal Auditors Committee (IAC), with the participation of both the ECB and NCBs, in order to provide reasonable assurance on the adequacy and effectiveness of the risk management, control and governance processes related to RIAD.

Statistical publications

During 2022, following a request by the most important users of the data, a new annual publication regarding the trade in services was prepared and made publicly available to users. At the same time, actions were launched to assess the need of a new publication regarding the structure and activities of foreign affiliates. In addition, special reference with a dedicated Box on the

analysis of the first AnaCredit derived results for the period September 2018 to March 2022 referring to Cyprus was first published as part of the June 2022 *Economic Bulletin* of the CBC.

4.10 Information Technology

During 2022, the development of new systems and the upgrade of existing ones continued, based on the priorities agreed with the strategy and business section of the Bank. Priority was given to the completion of the T2/T2S Consolidation project, focusing on the readiness of the Bank and the banking community as a whole, for its final realisation within the Eurozone. At the same time, emphasis was given to the digital transformation project and the restructuring of the information technology services within the Bank (Phase A), focusing on the reallocation of roles and responsibilities among the IT Department staff as well as their upskilling and training.

As regards the CBC information systems infrastructure management, priority was given to the enhancement of the availability and efficiency of the operating systems, software applications and equipment, with relevant upgrades and enhancements.

The focus was on the maintenance of the availability and accessibility of the Bank's infrastructure and systems, the expansion of existing systems and services to meet new business needs and the introduction of new technology.

The information systems security continued to be strengthened through systematic checks of the IT infrastructure and risk assessments of applications and systems. Particular importance was given

to mitigating the risks related to remote access and the increasing cyber-attacks while, at the same time, the implementation of the CBC's 3-year cyber security enhancement programme continued.

The IT Department continued to represent the CBC in the ESCB Information Technology Committee and its working groups, the IT-related groups of the ESCB Statistics Committee, the ESCB Innovation Forum and the IT committees of the European Banking Authority (EBA) and the Single Resolution Board (SRB) and locally implemented their relevant directives and guidelines.

IT systems implementation and maintenance

During 2022, the Systems Development Section focused on meeting the annual strategic goals set for the IT Department.

Projects included the introduction of a new systems development methodology and development tools, based on modern technology to be used for the internal systems implementation as well as the acquisition of solutions and services from external providers, through relevant tenders, to meet the business needs of the Bank. The initial phase of the reallocation of roles and responsibilities of the staff as well as their upskilling/training on new methodologies and technologies (Scrum/Agile) also began.

A pilot internal implementation for the replacement of the externally provided system for the AnaCredit utilising the new methodology also started, aiming at a more efficient and cost-effective solution for the Bank.

Work continued towards the completion of the T2/T2S project, the upgrade of the Oracle development environment and the conversion of the

existing Oracle applications to the new version, the replacement of several reports with new reports technology and the extension and harmonisation of existing applications, based on the directives of the European Authorities (ESCB, EBA, SRB).

Information systems infrastructure management

During 2022 projects were implemented for the:

- A. Maintenance and enhancement of the availability and performance of the existing IT systems and services provided by the CBC, which included the replacement of the network firewalls infrastructure, the upgrade of the email system and the system responsible for issuing and maintaining digital security certificates, the upgrade and enhancement of the availability of the file rights management system of the intranet portal and the completion of the infrastructure-related tasks for the T2/T2S project.
- B. Extension of the existing systems and services in order to meet new business requirements, which included the extension of the calendar availability functionality of the email system and the expansion of the storage capacity of the backup system.
- C. Introduction of new technologies, which included a new endpoint and server management system and a new server health monitoring system.

Information systems security

The reinforcement of information systems security measures, continued throughout 2022. Technical controls were reviewed and enhanced in light of the North-East Europe crisis. Projects and indi-

vidual tasks under the Bank's CyberSecurity Programme progressed, as planned. The replacement of the Security Information and Event Management (SIEM) system was completed and the new SIEM is now in operation. Moreover, the Information Systems Security Officer participated and contributed to the workings of relevant ESCB groups.

4.11 Human Resources, Organisation and Planning

During 2022, the Human Resources, Organisation and Planning Department (Hereinafter "HR, O&P") focused its efforts on recruiting high calibre professionals who will be able to contribute to strengthening the efficiency and effectiveness of the CBC while dealing with the ongoing challenges and operational needs.

The various job vacancies were announced in early 2022 and the whole recruiting process was completed by the middle of the year. The process was carried out efficiently and in a fairly short period of time by maintaining constant communication with the candidates, posting relevant announcements on Bank's official website and by also applying innovative candidate assessment methods with the utilization of digital tools.

The on boarding process for new employees was complemented by a thorough induction-training programme, introducing for the first time the "Buddy System" which is a knowledge sharing method used to orient new employees.

Aiming at both strengthening the common culture of the European System of Central Banks (Hereinafter "ESCB") and the Single Supervisory

Mechanism (Hereinafter "SSM") and in promoting staff exchange and mobility, the CBC continued the staff secondments to the ESCB and the SSM, as well as to other EU institutions in accordance with the CBC secondment policy. In addition, the CBC participated in the fourth cycle of the "Schuman Programme", hosting a staff member of the Central Bank of Spain - Banco de España in the IT Department, and participated in the Deutsche Bundesbank student internship programme.

In the field of Training and Development, the CBC continued adopting flexible forms of training, combining classroom style training and online and e-learning training programmes for the development of managerial and strategy programmes, the enhancement of specialised skills, such as IT and Supervision skills, as well as for Health & Safety matters.

In line with the broader learning and development strategy of the ESCB & SSM, the HR, O&P encouraged and supported the participation of staff in training programmes in both general/soft skills and technical/specialised subjects. Within the framework of strengthening the presence and involvement of the CBC in the common training programmes of the ESCB/SSM, the "Economics for Non Economists" was organised in Cyprus.

The HR, O&P, through its participation in the "Human Resource Conference" committee of the European Central Bank and in sub-committees and conferences held within the ESCB/SSM, contributed to the collective efforts in strengthening the common culture within the ESCB and SSM, as well as in the exchange of best practices for issues related to human resource management. An important point of reference is the signing of the "ESCB and

SSM Equality, Diversity and Inclusion Charter" by the Governor of the CBC. The aim is to embrace inclusive and safe workplaces free from any form of discrimination and prejudice, where all employees feel they belong, each employee's voice is heard with respect and appreciation and each employee is empowered to attain his/her full potential.

Strategic Planning and Organisation

The Strategic Planning and Organisation Section (SP&OS) provided continuous support to the CBC's Departments on organisational matters. More specifically, it has performed studies in relation to the introduction of new and/or redesign of existing policies and procedures and the introduction of new work methods. During the year, the Section contributed to the CBC's Staff Recruitment and Selection project through the formulation of candidates' assessment procedures in close collaboration with the Human Resource Section.

The SP&OS has worked extensively in developing a new Framework for the next strategic planning cycle and for the formulation of the operational planning for the year 2022.

The Section continued its project management services, as well as its active participation in the Bank's Incident Response Team for the Covid – 19 pandemic.

In addition, the SP&OS actively contributed to the work programme of the ESCB's Organisational Development Committee and its substructures, and provided support for the CBC's participation in the High Level Task Forces of the Eurosystem.

Health and Safety

The Health and Safety of the staff and visitors/part-

ners of the CBC remains a primary and continuous goal.

Within 2022, fire safety training sessions were organised for CBC staff members and partners. In addition recommendations were made to staff members and partners regarding the proper management of liquid and gas chemical agents. A number of recommendations made were adopted by the various Departments in order to improve the organisation's occupational safety and health.

The CBC adopted all the measures of the decrees of the Ministry of Health for dealing with the Covid-19 pandemic. At the same time, it introduced additional Covid protection measures for the benefit of its staff and partners.

Corporate Social Responsibility

In 2022, as a consequence of the continuation of the pandemic, a limited number of activities were implemented in the context of Corporate Social Responsibility (CSR) with the primary and long-term goal of strengthening the CBC's contribution to issues related to the society, the environment, the art and culture. The CBC's activities focused mainly on the financial support of a number of charitable institutions, on the support of environmental organisations and on the provision of financial assistance to the Ukrainian people. Simultaneously, main focus was also given on the continuation of internship and graduate/post-graduate student employment programmes aiming to assist the students/graduates with their career development by providing real work experience and opportunities to enhance their professional skills and competencies.

4.12 Legal Issues

Cooperation with investigating authorities

The CBC occasionally accepts requests from the Cyprus Police Investigation Authorities for the disclosure of documents and information in the context of investigating possible criminal offenses in connection with the financial sector. These requests are being submitted to the CBC pursuant to relevant procedure rules. During 2022 the CBC disclosed information relevant to the aforementioned requests.

Pending litigation

During 2022, 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. The judgments issued so far have rejected the claims that the applicants had lodged against the CBC.

International arbitration on investment disputes

Since 2013 the CBC has been devoting resources to the Republic of Cyprus' response to investment disputes brought before international arbitration tribunals concerning the financial sector. In the course of 2022, the CBC continued contributing, through the Law Office of the Republic, to the

Republic's response insofar as it concerns the CBC's operations.

4.13 General Administration Services

During the year under review, the General Administration Services Department (GASD), aiming at the most efficient and effective operation of the CBC, has continued to handle all matters relating to the general administrative support, namely the proper operation and safety of the building's facilities, the equipment and technical infrastructure of the Bank, as well as the provision of administrative support to the Organisation.

4.13.1 Security and premises

During 2022, projects and measures were implemented in order to enhance the security of the Organisation's building facilities, staff and visitors. During the same period, the project for the preparation of studies for the renovation and maintenance of the Bank's building began by a team of consultant architects.

At the same time, the necessary preparations were made and suitable workplaces were created in the CBC's building in order to accommodate a large number of newly hired employees.

4.13.2 Administrative support

During 2022, the pilot implementation of the Bank's new electronic records management system, ERMIS, was completed. ERMIS will upgrade the security measures relating to the protection and integrity of records, will ease their access and will reduce the operating costs. This system is expected to be fully operational across the Organisation in due course.

In addition, the GASD completed the upgrading of the procedures for the organisation and management of the CBC's Central Archive, based on the international archival standards, as well as the infrastructure for the digital registration of the archival material.

During the year under review, the Department dealt with various administrative matters relating, among other things, to the implementation of the provisions of the Legislation governing the handling of sensitive information at the European and National level, the fulfillment of the Bank's obligations regarding the right of access of the public to public sector information, incoming and outgoing mail, the library, subscriptions to domestic and foreign press in print and electronic form, electronic databases and research journals, business travel, the insurance consultant, the cafeteria, as well as the stationery and consumables warehouse.



CENTRAL BANK OF CYPRUS
EUROSYSTEM

**5. AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR 2022**

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BALANCE SHEET AS AT 31 DECEMBER 2022

		31 Dec. 2022	31 Dec. 2021
		€'000	€'000
ASSETS		€'000	€'000
1	Gold and gold receivables	762.777	719.769
2	Claims on non-euro area residents denominated in foreign currency	1.128.077	1.067.078
2.1	Receivables from the IMF	640.150	554.390
2.2	Balances with banks and security investments, external loans and other external assets	487.927	512.688
3	Claims on euro area residents denominated in foreign currency	24.126	37.697
4	Claims on non-euro area residents denominated in euro	50.037	-
4.1	Balances with banks, security investments and loans	50.037	-
4.2	Claims arising from the credit facility under ERM II	-	-
5	Lending to euro area credit institutions related to monetary policy operations denominated in euro	5.214.950	6.513.300
5.1	Main refinancing operations	-	-
5.2	Longer-term refinancing operations	5.214.950	6.513.300
5.3	Fine tuning reverse operations	-	-
5.4	Structural reverse operations	-	-
5.5	Marginal lending facility	-	-
5.6	Credits related to margin calls	-	-
6	Other claims on euro area credit institutions denominated in euro	13	11
7	Securities of euro area residents denominated in euro	8.698.107	8.901.609
7.1	Securities held for monetary policy purposes	8.407.329	8.649.037
7.2	Other securities	290.778	252.572
8	General government debt denominated in euro	-	-
9	Intra-Eurosystem claims	17.223.659	14.667.727
9.1	Participating interest in ECB	42.064	40.751
9.2	Claims equivalent to the transfer of foreign reserves	86.811	86.811
9.3	Claims related to promissory notes backing the issuance of ECB debt certificates	-	-
9.4	Net claims related to the allocation of euro banknotes within the Eurosystem	2.382.433	1.988.231
9.5	Other claims within the Eurosystem (net)	14.712.351	12.551.934
10	Items in course of settlement	1.989	4.347
11	Other assets	154.827	129.038
11.1	Coins of euro area	-	-
11.2	Tangible and intangible fixed assets	6.691	4.706
11.3	Other financial assets	-	-
11.4	Off-balance sheet instruments revaluation differences	14	8
11.5	Accruals and prepaid expenses	129.309	108.153
11.6	Sundry	18.813	16.171
	Total assets	33.258.562	32.040.576

The "Notes to the Financial Statements" on pages 68 to 97 form part of these accounts.

Central Bank of Cyprus
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BALANCE SHEET AS AT 31 DECEMBER 2022 (continued)

LIABILITIES	31 Dec. 2022 €'000	31 Dec. 2021 €'000
1 Banknotes in circulation	3.112.625	3.057.884
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	23.870.522	22.784.343
2.1 Current accounts (covering the minimum reserve system)	700.145	22.784.343
2.2 Deposit facility	23.170.377	-
2.3 Fixed-term deposit	-	-
2.4 Fine-tuning reverse operations	-	-
2.5 Deposits related to margin calls	-	-
3 Other liabilities to euro area credit institutions denominated in euro	51.119	127.462
4 Debt certificates issued	-	-
5 Liabilities to other euro area residents denominated in euro	3.484.283	3.377.642
5.1 General government	3.163.359	3.165.147
5.2 Other liabilities	320.924	212.495
6 Liabilities to non-euro area residents denominated in euro	77.950	82.945
7 Liabilities to euro area residents denominated in foreign currency	315.475	365.595
8 Liabilities to non-euro area residents denominated in foreign currency	-	-
8.1 Deposits, balances and other liabilities	-	-
8.2 Liabilities arising from the credit facility under ERM II	-	-
9 Counterpart of special drawing rights allocated by the IMF	530.698	523.998
10 Intra-Eurosystem liabilities	-	-
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)	-	-
11 Items in course of settlement	2.152	4.510
12 Other liabilities	195.248	265.896
12.1 Off-balance sheet instruments revaluation differences	295	-
12.2 Accruals and income collected in advance	59.226	61.181
12.3 Sundry	135.727	204.715
13 Provisions	501.576	455.631
14 Revaluation accounts	798.094	675.850
15 Capital and reserves	318.820	318.820
15.1 Capital	150.000	150.000
15.2 General Reserve Fund	168.820	168.820
16 Profit for the year	-	-
Total liabilities	33.258.562	32.040.576

The "Notes to the Financial Statements" on pages 68 to 97 form part of these accounts.

Central Bank of Cyprus
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PROFIT AND LOSS ACCOUNT FOR THE YEAR 2022

	2022		2021	
	€'000	€'000	€'000	€'000
1.1 Interest income	244.077		152.174	
1.2 Interest expense	(106.996)		(48.871)	
1 Net interest income		137.081		103.303
2.1 Realised gains arising from financial operations	14.327		1.422	
2.2 Write-downs on financial assets and positions	(19.897)		(643)	
2.3 Transfer to provisions for foreign exchange and price risks	(45.945)		(50.529)	
2 Net result of financial operations, writedowns and risk provisions		(51.515)		(49.750)
3.1 Fees and commissions income	14.430		15.234	
3.2 Fees and commissions expense	-		-	
3 Net income from fees and commissions		14.430		15.234
4 Income from equity shares and participating interests		-		413
5 Net result from the pooling and redistribution of monetary income		(55.041)		(32.343)
6 Other income		251		382
Total net income		45.206		37.239
7 Staff costs	(29.072)		(25.636)	
8 Administrative expenses	(9.824)		(6.082)	
9 Depreciation of tangible fixed assets	(1.165)		(793)	
10 Banknote acquisition cost	(3.321)		(3.350)	
11 Other expenses	(1.824)		(1.378)	
Total expenses		(45.206)		(37.239)
Profit for the year for allocation		-		-

28 March 2023

Constantinos Herodotou
Governor

The "Notes to the Financial Statements" on pages 68 to 97 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 the article 57(2) of the *Central Bank of Cyprus Laws, 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 the 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 revaluation 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 revaluation 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.
- Accrued income and expenses are translated into euro, using the exchange rates ruling at the reporting date.

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

• Collateralised gold transactions

Collateralised gold transactions are treated as repurchase agreements. A repurchase agreement is defined as an agreement whereby an asset is sold and the seller simultaneously enters into an obligation to repurchase it at a specific price on a future date. The asset can be a security, an amount in foreign currency or gold which shall remain on the asset side of the balance sheet within item "A1 Gold and gold receivables" while the reverse transaction conducted under the agreement shall reflect the repurchase obligation, and is recorded on the liability side of the balance sheet within item "L6 Liabilities to non-euro area residents denominated in euro".

The difference between the spot and forward prices of the transaction shall be treated on an accrual basis and recognised in the income statement as interest income or expense.

• 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 (International Securities Identification Number).
- *Other securities classified as held to maturity* - are valued at amortised cost subject to impairment tests.

• Tangible and intangible fixed assets

Tangible and intangible 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	
Buildings	25 years
Furniture, building and other office equipment	10 years
Computer software and hardware	4 years
Motor vehicles	4 years

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

• 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, see note "P12. Key for subscription to the ECB's capital (ESCB capital 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 liability of the CBC is recognised in the liability item "L12.3 Sundry" and represents the present value that arises from retirement benefits schemes at the balance sheet date. The liability is calculated annually by independent actuaries and is estimated using the Projected Unit Method. The present value is calculated by applying a discount rate determined in accordance with the yields of high quality bonds in euro at the balance sheet date and a time horizon representing the duration of scheme's projected liability. Actuarial gains and / or losses arising from empirical adjustments, as well as changes in actuarial assumptions, are recognised in the balance sheet under liability item "L14 Revaluation accounts". The profit and loss account is charged with the current service cost, remeasurement of prior years' service cost and the interest accruing on the defined benefit liability. Changes in the present value of the post retirement benefit obligations, resulting from the schemes' amendments or curtailments, are recognised immediately in the profit and loss account.

• **Foreign exchange swaps/ Foreign exchange forwards**

The simultaneous spot purchase/sale of one currency against another currency (short leg) and the forward sale/purchase of the same amount of this currency against the other currency (long leg) are recognised in off-balance sheet accounts from the trade date to the settlement date at the ECB exchange rate at the date of the transaction. The difference between the spot and forward rates shall be treated on an accrual basis as interest income or expense in the income statement. The difference resulting from the quarterly revaluation of the off-balance sheet items is recognised on the asset side of the balance sheet within item "A11.4 Off-balance sheet instruments revaluation differences", if it is a profit, and on the liability side of the balance sheet within item "L12.1 Off-balance sheet instruments revaluation differences", if it is a loss.

The net position under foreign exchange forward transactions and swaps is presented in off-balance sheet positions (see note "Off-balance sheet items").

BALANCE SHEET

ASSETS

A1. Gold and gold receivables

This item comprises of the CBC's gold holdings as at 31 December 2022 which amounted to 446.987,04 fine ounces (31 December 2021: 446.976,67 fine ounces). The CBC's gold holdings are valued at market prices which at the end of the year were €1.706,08 per fine ounce (31 December 2021: €1.609,48 per fine ounce) amounting to €762,8 million (31 December 2021: €719,8 million).

Table 1 **Receivables from the IMF**

	31 Dec. 2022 €'000	31 Dec. 2021 €'000	Change €'000
Quota in IMF (equivalent to SDR303,8 million as at 31 December 2022 and SDR303,8 as at 31 December 2021)	380.267	375.466	4.801
IMF deposits	(274.075)	(270.700)	(3.375)
Reserve Tranche Position	106.192	104.766	1.426
SDR holdings	533.958	449.624	84.334
Total claims on the IMF	640.150	554.390	85.760

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 2022 resulted in an unrealised gain of €43,0 million (31 December 2021: €30,0 million). The increase in the CBC's gold holdings, which represents the difference between the value as at 31 December 2022 and the average acquisition cost, amounted to €748,7 million (31 December 2021: €705,7 million) and is accounted for as an unrealised gain. It is included in the balance sheet within liability item "L14 Revaluation accounts".

In 2022, collateralised gold transactions were carried out and treated as repurchase agreements. The gold relating to these transactions amounted to 42.000 fine ounces (2021: 51.000 fine ounces), which is valued at €71,7 million as at 31 December 2022 (2021: €82,1 million) and remains on the asset side of the balance sheet and the corresponding gold repurchase obligation amounting to €71,7

million (2021: €77,6 million) is recognised in the liability item "L6 Liabilities to non-euro area residents denominated in euro".

A2. Claims on non-euro area residents denominated in foreign currency

This item comprises of receivables from the International Monetary Fund (IMF) in special drawing rights (SDR) and other claims denominated in foreign currency against non-euro area residents. The SDR is determined on the basis of a set of currencies and its value is determined by the weighted sum of the exchange rates of the five major currencies (US dollar, euro, Chinese yuan, Japanese yen and British pound).

A2.1 Receivables from the IMF

The receivables from the IMF are analysed in **Table 1**.

The claims on the IMF were valued at the SDR rate prevailing on 31 December 2022 as reported by the ECB in its Exchange Rates Circular, i.e. SDR1= €1,2517 (31 December 2021: SDR1= €1,2359).

The increase in SDR assets is mainly due to the purchase of SDR70,0 million (€88,8 million) in

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

	31 Dec. 2022 €'000	31 Dec. 2021 €'000	Change €'000
Balances with credit institutions	326.540	369.708	(43.168)
Marketable securities	161.185	142.774	18.411
Other claims	202	206	(4)
Total	487.927	512.688	(24.761)

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

	31 Dec. 2022 €'000	31 Dec. 2021 €'000	Change €'000
Balances with credit institutions	4.675	9.901	(5.226)
Marketable securities	19.451	27.796	(8.345)
Total	24.126	37.697	(13.571)

exchange for euro within the framework of «Voluntary Trading Arrangement», in combination with the full repayment of the loan arrangement «New Arrangement to Borrow» of SDR8,0 million (€9,3 million) and the foreign exchange difference of €4,8 million in the reporting year.

A2.2 Balances with banks and security investments, external loans and other external assets

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

A3. Claims on euro area residents denominated in foreign currency

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

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

This item includes the CBC's investment in the euro-denominated green bond programme of Bank for International Settlements (BIS) for €50,0 million, entered in 2022. The green bond programme invests in renewable energy production, energy efficiency and other environmental friendly projects.

A5. Lending to euro area credit institutions related to monetary policy operations denominated in euro

This item consists of the 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

Table 4 Longer-term refinancing operations

	31 Dec. 2022 €'000	31 Dec. 2021 €'000	Change €'000
Longer-term refinancing operations	5,214,950	6,513,300	(1,298,350)
Total	5,214,950	6,513,300	(1,298,350)

the reporting year, the outstanding Eurosystem monetary policy operations amounted to €1.324,3 billion (2021: €2.201,5 billion), of which €5.215,0 million (2021: €6.513,3 million) was 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.

A5.2 Longer-term refinancing operations (Table 4)

These operations aim to provide counterparties with additional longer-term refinancing and are carried out as fixed rate tender procedures with full allotment of the requested liquidity. In 2021, long-term refinancing operations with 3-month maturity were carried out under the third series of Targeted Longer-Term Refinancing Operations (TLTRO III). Five of these operations were carried out as early voluntary repayments, of which four of them were scheduled and one was additional.

On 27 October 2022, the Governing Council of the ECB decided to introduce three early voluntary repayment dates where the participating credit

institutions had additional opportunities to partly, or fully, repay their respective TLTRO III borrowings before their maturity. In particular, the operations carried out by various participating credit institutions as voluntary repayments of TLTROs III amounted to €85,0 million in March, €213,4 million in June and €1,0 billion in December 2022.

According to the initial decisions of the Governing Council of the ECB in relation to the TLTRO III, the interest rate applied can be as low as up to the average deposit facility rate prevailing over the period of the TLTRO III. In response to the crisis due to the pandemic, the Governing Council of the ECB decided that for the period from 24 June 2020 until 23 June 2021 and the period from 24 June 2021 until 23 July 2022 – referred to as the *special interest rate period* and the *additional special interest rate period respectively* – the interest rate applied could be as low as 50 basis points below the average deposit facility rate but in any case, not less than –1%. Additionally, on 27 October 2022, the Governing Council of the ECB decided that, from 23 November 2022 until the maturity date or early repayment date of each respective TLTRO III operation, the interest rate of TLTRO III operations will be indexed to the average applicable ECB interest rate over this period.

Table 5 **Securities held for monetary policy purposes**

	31 Dec. 2022 Amortised Cost €'000	31 Dec. 2021 Amortised Cost €'000	Change Amortised Cost €'000
Securities market programme (SMP)	-	9.986	(9.986)
Third covered bond purchase programme (CBPP3)	18.000	83.648	(65.648)
Public sector purchase programme (PSPP)	6.315.715	6.468.350	(152.635)
Pandemic emergency purchase programme (PEPP)	2.073.614	2.087.053	(13.439)
Total	8.407.329	8.649.037	(241.708)

The effective interest rate for the purposes of calculating the accrued interest for the TLTRO III transactions will be known at the expiration of each transaction or on the early repayment date. Therefore, for the purposes of calculating the accrued interest on TLTRO III in the annual accounts of 2022, the following approach was applied: (i) until 23 June 2022 the applicable interest rate of -1%, (ii) for the period from 24 June 2022 until 22 November 2022, the applicable interest rate was set at the average deposit facility rate from the settlement date of the TLTRO III until 22 November 2022 and (iii) for the period from 23 November 2022 until 31 December 2022, the interest rate was set at the average deposit facility rate over this period. During 2021, the accrued interest was calculated based on interest rates for special periods until 23 June 2021, as these were communicated to the credit institutions on 10 September 2021 and during the remaining period until 31 December 2021 with -1%, i.e. 50 basis points below the deposit facility rate.

The non-targeted Pandemic Emergency Longer-Term Refinancing Operations (PELTROs), carried out by decision of the Governing Council of the ECB on 30 April 2020, expired in September 2021. The PELTROs had an interest rate 25 basis

points lower than the average interest rate of the Eurosystem's main refinancing operations during the respective PELTRO operation.

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

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

A7. Securities of euro area residents denominated in euro

A7.1 Securities held for monetary policy purposes (Table 5)

Table 6 (p. 76) refers to the market value of securities, not recorded in the balance sheet, but provided for comparison purposes only.

This item consists of securities acquired by the CBC for single monetary policy purposes under the securities markets programme (SMP), the scope of the covered bond purchase programme (CBPP3), the public sector purchase programme (PSPP) and the pandemic emergency purchase programme (PEPP). Securities purchased under these programmes are valued at amortised cost adjusted for amortisation of premiums or discounts and they are subject to impairment. The impairment tests

Table 6 Market value of securities

	31 Dec. 2022 Market Value €'000	31 Dec. 2021 Market Value €'000	Change Market Value €'000
Securities market programme (SMP)	-	10.091	(10.091)
Third covered bond purchase programme (CBPP3)	17.984	84.107	(66.123)
Public sector purchase programme (PSPP)	5.456.718	6.659.874	(1.203.156)
Pandemic emergency purchase programme (PEPP)	1.733.035	2.134.177	(401.142)
Total	7.207.737	8.888.249	(1.680.512)

are conducted on an annual basis and are approved by the Governing Council of the ECB.

The SMP terminated on 6 September 2012 by decision of the Governing Council of the ECB. At the end of the reporting year, the amount of public sector securities under the SMP throughout the Eurosystem amounted to €2,9 billion (2021: €6,5 billion). All securities held by the CBC under this programme matured during the reporting year (2021: €10,0 million).

In October 2014, the Governing Council of the ECB announced CBPP3 and in January 2015, the Governing Council decided that asset purchases should be expanded to include a secondary market PSPP. At the end of the reporting year, the amount of CBPP3 and PSPP amounted to €302,0 billion (2021: €298,2 billion) and €2.584,7 billion (2021: €2.487,1 billion) respectively, of which €18,0 million (2021: €83,7 million) and €6,3 billion (2021: €6,5 billion) respectively were purchased by the CBC.

During the first quarter of 2022, the Eurosystem continued its net purchases under the asset purchase programme (APP) at a monthly pace of €20,0 billion on average. In March 2022, the

Governing Council of the ECB revised the timetable of the purchases under the APP to €40,0 billion in April, €30,0 billion in May and €20,0 billion in June, whereas in June 2022 decided to end net asset purchases under the APP from 1 July 2022. The Governing Council of the ECB continued the reinvestments until the end of February 2023. Subsequently, the APP portfolio will decline at a measured and predictable pace, as the Eurosystem will not reinvest all of the principal payments from maturing securities. The decline will amount to €15,0 billion per month on average until the end of the second quarter of 2023 and its subsequent pace will be determined over time. The Governing Council of the ECB will reassess the pace of the APP portfolio reduction regularly to ensure it remains consistent with the overall monetary policy strategy and objective, to maintain market operation, and to maintain firm control over short-term money market conditions.

In March 2020 the Governing Council of the ECB launched a temporary pandemic emergency purchase programme (PEPP), to ease the overall monetary policy stance and to counter the severe risks to the monetary policy transmission mecha-

Table 7 **Other securities**

	31 Dec. 2022 €'000	31 Dec. 2021 €'000	Change €'000
Marketable securities other than held to maturity	-	3.014	(3.014)
Marketable securities classified as held to maturity	290.778	249.558	41.220
Total	290.778	252.572	38.206

nism and the outlook for the euro area posed by the coronavirus pandemic. During the first quarter of 2022, the Eurosystem continued its net asset purchases under the PEPP at a lower pace than in the previous quarter, following the decision of the Governing Council of the ECB in December 2021. Based on the same decision, the net PEPP purchases were discontinued at the end of March 2022. The Governing Council of the ECB intends to reinvest the principal payments from the maturing securities purchased under the PEPP until at least the end of 2024. The purchases were made with flexibility, in order to address the risks related to the pandemic within the monetary policy transmission mechanism.

In any case, the future roll-off of the PEPP portfolio will be managed so as to avoid interference with the appropriate monetary policy stance. At the end of the reporting year, the amount of assets under the PEPP throughout the Eurosystem amounted to €1.482,9 billion (2021: €1.400,2 billion), of which €2,1 billion (2021: €2,1 billion) were purchased by the CBC.

As at 31 December 2022, the total balance of securities held for monetary policy purposes in the Eurosystem amounted to €4.937,2 billion (2021: €4.713,5 billion), and according to the

Eurosystem capital key, the total investments corresponding to the CBC amount to €8,4 billion (2021: €8,7 billion).

The Governing Council of the ECB assesses on a regular basis the financial risks associated with the securities held under these programmes.

Impairment tests are conducted on an annual basis, using data as at the year end and are approved by the Governing Council of the ECB. In these tests, impairment indicators are assessed separately for each programme. In cases where impairment indicators were identified, further analysis was performed to confirm that the estimated future cash flows of the underlying securities were not affected by any impairment event. According to the results of the impairment tests of each programme for 2022 and 2021, the Eurosystem did not record any impairment losses in monetary policy portfolio securities.

A7.2 Other securities (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 variable investment portfolio in the context of the investment policy. They are valued at mid-market price at the reporting date.

Marketable securities classified as held to maturity

These securities are valued at amortised cost and constitute a fixed investment portfolio which is intended to be held until maturity. They are valued at acquisition cost, adjusted for amortisation of premiums or discounts and are subject to impairment.

The market value of the fixed investment securities portfolio, which is reported for comparability purposes only, amounted to €277,2 million (2021: €253,9 million).

A9. Intra-Eurosystem claimsA9.1 Participating interest in ECB

Pursuant to Article 28 of the Statute of the ESCB, the NCBs are the sole subscribers to the capital of the ECB. Subscriptions depend on shares which are fixed in accordance with Article 29 of the ESCB statute and subject to adjustment every five years or whenever there is a change in composition of the ESCB NCBs. 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.

This item includes (a) the CBC's paid up share in the ECB's subscribed capital, (b) the net amount paid by the CBC due to the increase in its share in the ECB's capital and (c) contributions in accordance with Article 48.2 of the Statute of the ESCB.

The subscribed capital of the ECB amounts to €10.825,0 million and the CBC's share in the

ECB's subscribed capital is 0,1750% (see note "P12. Key for subscription to the ECB's capital (ESCB capital key)").

The ECB's paid-up capital increased to €8.880,0 million in 2022 (2021: €8.270,0 million) however, the CBC's share remains at 0,2152%. On 29 December 2021, the CBC paid one of the two installments of €1,3 million, representing its share of the paid-up capital of the Bank of England. On 28 December 2022, the CBC paid the second installment of €1,3 million, increasing its total participation in the net equity value of the ECB as at 31 December 2022 to €42,0 million (2021: €40,7 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 the ESCB statute.

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

These claims were converted in euro at the exchange rate prevailing at the time of their initial transfer. 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.

Following (a) the increase in the share of euro area NCBs (which transferred foreign exchange reserves to the ECB) in the ECB's subscribed capital as a result of the Bank of England withdrawal from the ESCB and (b) the decision of the

Table 8 **Other claims within the Eurosystem (net)**

	31 Dec. 2022 €'000	31 Dec. 2021 €'000	Change €'000
Claim related to TARGET2	14.767.039	12.583.648	2.183.391
Liability related to the reallocation of monetary income	(55.041)	(32.343)	(22.698)
Claim related to ECB's profits	-	413	(413)
Claim related to SURE	353	216	137
Total	14.712.351	12.551.934	2.160.417

Governing Council of the ECB to reduce the proportion of the euro area NCBs contributions, so that the total amount of foreign reserve assets already transferred by the euro area NCBs remain unchanged, the CBC's claim was marginally adjusted to €86,8 million.

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

This item refers to the claims of the CBC from 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 is positive as from 27 July 2022 (2021: 0%) (see Profit and Loss Account, note "P1.1 Interest income").

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

Intra-Eurosystem balances

These balances include the net claims of the CBC against the ECB arising from transactions of the CBC with other euro area NCBs with the ECB, as

well as non-euro area NCBs 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, note "P5 Net result from the pooling and redistribution of monetary income"). The claim related to the interim distribution of the ECB's profits for 2021 is also included (see Profit and Loss Account, note "P4 Income from equity shares and participating interests").

The claim in relation to SURE (Support to mitigate Unemployment Risks in an Emergency) of €0,4 million (2021: €0,2 million) consists of an interest repayment by the Government, which was transferred to the ECB, 20 TARGET working days before the repayment date based on the loan agreement.

A10. Items in course of settlement

This item includes balances under settlement of various intermediate accounts. This claim mainly results from the process of cheques in the Cyprus Clearing House.

Table 9 **Tangible and intangible fixed assets**

	31 Dec. 2022 €'000	31 Dec. 2021 €'000	Change €'000
Cost			
Land and buildings	23.102	23.102	-
Furniture, building and other equipment	15.767	13.741	2.026
Computer software and hardware	9.781	10.809	(1.028)
Motor vehicles	131	439	(308)
Total cost	48.781	48.091	690
Accumulated depreciation			
Land and buildings	20.089	19.996	93
Furniture, building and other equipment	12.803	12.528	275
Computer software and hardware	9.096	10.452	(1.356)
Motor vehicles	102	409	(307)
Total accumulated depreciation	42.090	43.385	(1.295)
Net book value	6.691	4.706	1.985

A11. Other assets**A11.2 Tangible and intangible fixed assets (Table 9).****A11.5 Accruals and prepaid expenses**

This item mainly includes the accrued interest on monetary policy securities amounting to €74,0 million (2021: €80,0 million), accrued interest income on the claim related to TARGET2 amounting to €26,6 million (2021: €0) and the claim related to the allocation of banknotes amounting to €10,8 million (2021: €0), accrued income of supervisory and resolution fees amounting to €10,7 million (2021: €20,6 million) and accrued income from coin issuance amounting to €2,7 million (2021: €2,7 million).

A11.6 Sundry

This item mainly consists of the loans to CBC's employees of €18,8 million (2021: €16,2 million).

LIABILITIES**L1. Banknotes in circulation (Table 10, p. 81)**

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.

The CBC's banknote allocation key is 0,1980% (see note "P12. Key for subscription to the ECB's capital (ESCB capital key)").

During 2022, the total value of banknotes in circulation within the Eurosystem increased by 2%. According to the allocation key, the CBC's total value of euro banknotes in circulation amounted to €3,1 billion as in 2021.

This change is due to the increase in euro banknotes put into circulation by all NCBs of the

Table 10 **Banknotes in circulation**

	31 Dec. 2022 €'000	31 Dec. 2021 €'000	Change €'000
Net value of euro banknotes in circulation by the CBC	730.192	1.069.653	(339.461)
Liability arising from the share of banknotes issued on behalf of the ECB ⁽ⁱ⁾	(270.612)	(265.852)	(4.760)
Claim arising from the allocation of euro banknotes within the Eurosystem	2.653.045	2.254.083	398.962
Net claim related to the allocation of euro banknotes within the Eurosystem (A9.4)	2.382.433	1.988.231	394.202
Total value of euro banknotes in circulation by the CBC on the basis of the banknote allocation key	3.112.625	3.057.884	54.741

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

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

	31 Dec. 2022 €'000	31 Dec. 2021 €'000	Change €'000
2.1 - Current accounts (covering the minimum reserve system)			
Current Accounts	197.143	22.282.694	(22.085.551)
Minimum Reserves	503.002	501.649	1.353
2.2 - Deposit facility	23.170.377	-	23.170.377
Total	23.870.522	22.784.343	1.086.179

euro area, which amounted to €1.572,0 billion as at 31 December 2022 compared with €1.544,4 billion as at 31 December 2021.

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

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

This item consists of the credit institutions' 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 2022, amounted to €503,0 million (2021: €501,6 million). On 27 October 2022 the Governing Council of the ECB decided that, starting from 21 December 2022, these balances will be remunerated at the Eurosystem's deposit facility rate. The reserve holdings exceeding the required minimum reserves bear zero interest.

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. Following the decision of the Governing Council of the ECB, the deposit facility rate became positive as from 14 September 2022. As a result, the excess liquidity of the current accounts of the credit institutions was transferred from item "L2.1 Current accounts (covering the minimum reserve system)" to the item "L2.2 Deposit facility".

L3. Other liabilities to euro area credit institutions denominated in euro

This item represents the deposits of euro area credit institutions other than monetary policy operations.

L5. Liabilities to other euro area residents denominated in euroL5.1 General government

This item mainly includes the deposits of the Government and other organisations of the wider public sector, amounting to €3.163,4 million (2021: €3.165,1 million).

L5.2 Other liabilities

This item mainly includes the balances of the deposits of the institutions under resolution amounting to €320,2 million (2021: €211,8 million).

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

This item mainly consists of CBC's liability in rela-

tion to the collateralised gold transactions which amounted to €71,7 million as at 31 December 2022 (2021: €77,6 million).

Collateralised gold transactions are treated as repurchase agreements. The reverse transaction conducted under a repurchase agreement is recorded on the liabilities side of the balance sheet and represents the obligation to repurchase the gold on the maturity of the agreement. The gold provided as a collateral remains on the asset side of the balance sheet within the item "A1 Gold and gold receivables".

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 2022 amounting to €530,7 million (2021: €524,0 million) of special drawing rights of SDR424,0 million (31 December 2021: SDR424,0 million).

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 €2,0 million (2021: €4,3 million).

L12. Other liabilitiesL12.1 Off-balance sheet instruments revaluation differences

This item includes adjustments to the value of

foreign exchange transactions in SDR in off-balance sheet accounts amounting to €295,0 thousand (2021: €0).

L12.2 Accruals and income collected in advance

The balances mainly include the accrued interest on TLTRO III transactions amounting to €46,9 million (31 December 2021: €58,0 million).

L12.3 Sundry

This item mainly represents the CBC's net liability for the pension plan of its employees amounting to €126,3 million (31 December 2021: €196,9 million) as well as the CBC's net liability for the pensioners healthcare scheme which amounted to €1,5 million (31 December 2021: €1,7 million).

Retirement benefits

The CBC provides to its employees, who held a permanent and pensionable position 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 as at 31 December 2022 revealed net actuarial gain of €69,8 million compared with the net actuarial gain of €19,4 million, as at 31 December 2021. The main reason for this gain is the increase of the discount rate from 1,07% to 3,86%, in combination with the increase of the inflation rate and the increases in social insurance pensions from 1,50% to 2,50%. The main reason for the actuarial gain in 2021 was the increase of the discount rate from 0,48% to 1,07%.

The actuarial valuation with reference date 31 December 2022 for the healthcare scheme for pensioners, was carried out, as in the financial statements of 2021, based on the CBC's Board of Directors decision to modify the scheme after the full implementation of the General Health System. The valuation revealed that the liability has been reduced to €1,5 million (2021: €1,7 million). The main reason of the actuarial gain was the increase in the discount rate from 1,14% to 3,86%. Similarly, the main reason of the actuarial gain in 2021 was the increase in the discount rate from 0,59% to 1,14%. The cost covering the scheme of 2022 was estimated at 1,0% (2021: 0,80%) over pensions, which may vary depending on the results of specific procedures and consultations regarding the differentiation / evolution of the healthcare scheme for pensioners.

The actuarial assumptions used for the actuarial valuations are stated in **Table 12**, p. 84.

The movement in net retirement benefits liability is analysed in **Table 13** (p. 85).

In relation to the pension benefits of the permanent employees of the CBC with employment

Table 12 Actuarial assumptions used for the actuarial valuations

	2022	2021
Actuarial assumptions for CBC pension scheme		
Discount rate	3,86%	1,07%
Inflation rate	2,50%	1,50%
General salary increases	0,50%	0,50%
Total salary increases	1,75%	1,25%
Increases in social insurance pensions	2,50%	1,50%
Rate of increase in pensions	1,50%	1,00%
Rate of increase in the basic insurable earnings	2,50%	2,00%
Mortality table	60% of PA90 (Males) and 65% of PA90 (Females)	60% of PA90 (Males) and 65% of PA90 (Females)
Actuarial assumptions for pensioners' healthcare scheme		
Discount rate	3,86%	1,14%
Rate of increase in pensions	1,50%	1,00%
Mortality table	60% of PA90 (Males) and 65% of PA90 (Females)	60% of PA90 (Males) and 65% of PA90 (Females)

date after 1 October 2011, and the benefits of the employees on contract for an indefinite period, the CBC's Board of Directors decided to participate in the new professional pension scheme for employees of the public sector and the general public sector. Under the new scheme, both employees and the employer are required to contribute a financing rate of 5% on their monthly pensionable income. The contribution of the CBC is approximately €150 thousand for 2022 and €350 thousand for past service, a total of €500 thousand (see Profit and Loss Account, note "P7. Staff Costs"). For the purposes of calculating the contribution rate corresponding to the member for the past service, the social insurance contributions are included pursuant to the article 6 of the Social Insurance Law (Law 59(I)/2010). Therefore, a cost of approximately €123 thousand

arises for 2022 and €277 thousand for past service, totalling to €400 thousand (see Profit and Loss Account, note "P7. Staff costs"). The CBC's total liability to the State for the new professional pension scheme is €900 thousand.

L13. Provisions (Table 14, p. 85)

Provision against risks arising from the main activities of the CBC

The CBC forms and maintains a general provision against the risks arising from its activities, applying appropriate assumptions, valuation principles and rules, governed by the principle of prudence. The maintenance of sufficient financial reserves ensures the financial and operational independence of the CBC, which as per the Treaty of the European Union and the ESCB Statute and the ECB

Table 13 Movement in net retirement benefits liability

	2022 €'000	2021 €'000	Change €'000
Liability related to the CBC's pension scheme			
Net liability as at 1 January	196.878	217.597	(20.719)
Employees			
Provision for the year	2.089	2.560	(471)
Arrangement/Deductions (transfer to public sector)	(820)	-	(820)
Net actuarial gain of the actuarial liability	(68.491)	(18.134)	(50.357)
Executives			
Provision for the year	49	74	(25)
Net actuarial gain of the actuarial liability	(1.336)	(1.282)	(54)
Capitalisation of interest	2.096	1.040	1.056
Contribution of employees and executives	647	664	(17)
Benefits paid	(4.830)	(5.641)	811
	126.282	196.878	(70.596)
Liability to the State for new professional pension scheme			
Net liability as at 1 January	-	-	-
Provision for the year and past service cost	900	-	900
	900	-	900
Liability related to the pensioners' healthcare scheme			
Net liability as at 1 January	1.735	1.932	(197)
Provision for the year	53	73	(20)
Net actuarial gain of the actuarial liability	(351)	(281)	(70)
Capitalisation of interest	20	11	9
	1.457	1.735	(278)
Total liability as at 31 December	128.639	198.613	(69.974)

Table 14 Provisions

	31 Dec. 2022 €'000	31 Dec. 2021 €'000	Change €'000
Provision against risks arising from CBC's main activities	501.576	455.631	45.945
Total	501.576	455.631	45.945

is a requirement for all Eurosystem NCBs. Additionally, it enhances the CBC's ability to withstand potential losses without the erosion of its capital or affecting its ability to carry out its operations in an effective manner.

The provision is focused on the following risks:

For the purpose of evaluating the appropriate level of the risk provision against the risks of the CBC or the required level of total financial reserves and capital of the CBC, depending on the case, the following risks are assessed:

- Market risk and credit risk inherent in the management of own funds.
- Credit risk assumed or corresponding to the CBC from the implementation of the Eurosystem single monetary policy, such as open market operations (liquidity providing operations) and Eurosystem securities purchasing programmes.
- Operational risk related to the operations and activities of the CBC.
- Interest rate risk related to the current or future risk on profits and the CBC's capital position resulting from interest rates fluctuation.

The measurement of market risk and credit risk is based on the Expected Shortfall tool at a 99% confidence level and one year time horizon. The interest rate risk on CBC's banking book is assessed, as a rule, through sensitivity analysis and forward-looking projections. With regard to operational risk, the Basic Indicator Approach of the Basel Accord is used for its measurement.

After assessing the amount of the provisioning account against an updated estimate of the risks arising from the CBC's main activities, the Board of Directors of the CBC decided to increase this provision by €45,9 million to €501,6 million by transfer-

ring the full profit of the year in the provisioning account. The updated risk assessment for the CBC's main activities also includes the dynamic risks associated with the implementation of the single Eurosystem monetary policy, which includes the emergency measures decided by the Governing Council of the ECB to mitigate the effect of the pandemic, deceleration of inflation and the normalization of conditions in the euro bond markets as a means of transmitting monetary policy to all euro area economies.

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.

L14. Revaluation accounts

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 €52,1 million (2021: increase €41,3 million) and are shown in detail in **Table 15** (p. 87). The total of the revaluation accounts including the effect of the remeasurement of the retirement benefits liability amounted to €798,1 million (2021: €675,9 million), showing an increase of €122,2 million.

Pre-stage III revaluations relate to accumu-

Table 15 **Revaluation accounts**

	31 Dec. 2022 €'000	31 Dec. 2021 €'000	Change €'000
Pre-stage III revaluations			
- Gold	240.030	240.030	-
- Foreign currency	977	977	-
	241.007	241.007	-
Other revaluations			
- Gold	508.662	465.661	43.001
- Foreign currency	25.304	14.031	11.273
- Prices of debt instruments	-	2.208	(2.208)
	533.966	481.900	52.066
	774.973	722.907	52.066
Remeasurement of the pension scheme liability	22.988	(46.839)	69.827
Remeasurement of healthcare scheme for pensioners liability	133	(218)	351
Total	798.094	675.850	122.244

lated 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 above.

On 31 December 2022, the largest exchange rate revaluation arose from the valuation of the CBC's holdings in US dollars due to exchange rate changes. In accordance with the Eurosystem's accounting rules, any unrealized losses arising from foreign currency revaluations which exceed the accumulated unrealised gains on a specific currency are recognised in the profit and loss account.

The main exchange rates used for the revaluations against the euro as reported in the exchange rates circular of the ECB on 31 December 2022 are the following: Sterling

€0,8869 (31 December 2021: €0,8403) and US dollar €1,0666 (31 December 2021: €1,1326).

L15. Capital and reserves (Table 16, p. 88)

The capital of the CBC amounts to €150,0 million and is wholly owned by the Republic of Cyprus.

The CBC has a reserve fund, named the General Reserve Fund, where CBC's net profits are transferred at the end of each financial year. 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.

Other notes

Pending court cases

On 31 December 2022, a number of court cases

Table 16 **Capital and reserves**

	31 Dec. 2022 €'000	31 Dec. 2021 €'000	Change €'000
Capital	150.000	150.000	-
General Reserve Fund	168.820	168.820	-
Total	318.820	318.820	-

were pending against the CBC in many cases as co-defendant with the Government and others in relation to its operations. The majority of these court cases were initiated as a result of the decrees issued in 2013 for the implementation of the resolution measures as well as in connection with the bonds issued by the supervised institutions and the decrees issued by the CBC in relation to FBME Bank Ltd.

The CBC has consulted its legal advisers and in consideration of the grounds of defence based on the legal and institutional framework as well as the facts, no provisions are deemed necessary in the financial statements in this respect.

Off-balance sheet items

As at 31 December 2022, the Bank had outstanding balances from foreign exchange forwards and swaps contracts amounting to net payables of €2,6 million against other currencies (mainly SDRs), while as at 31 December 2021 the outstanding balances amounted to net receivables of €21,0 million. As at 31 December 2022, the net unsettled spot transactions were €0,1 million (2021: €0,1 million). As a result of the valuation at the year-end, a gain of €13,8 thousand (2021: €8,0 thousand) arose from the

outstanding foreign exchange contracts which is recorded under the balance sheet item "A11.4 Off-balance sheet instruments revaluation differences".

Post-balance sheet events

Pursuant to the European Union Council decision dated 12 July 2022, Croatia adopted the single currency on 1 January 2023. Hrvatska Narodna Banka paid up the remainder of its capital subscription and transferred foreign reserve assets to the ECB in an amount corresponding to its subscribed capital share, with effective date 1 January 2023. As a result of the change in the capital key following Hrvatska Narodna Banka's entry into the Eurosystem, CBC's share in the ECB's paid-up capital (Eurosystem key) decreased from 0,2152% to 0,2134%. The CBC's share in the ECB's subscribed capital remains at 0,1750%.

The CBC and its Board of Directors monitor the developments very closely, direct or indirect, resulting from the recent events of bankruptcies and liquidity problems of banks abroad. The CBC does not own any assets related to the, to date, said banking institutions. The CBC monitors its counterparties closely on a daily basis, in accor-

dance with the relevant risk control frameworks of the Eurosystem and/or of the CBC, depending on the nature of the operation and the characteristics of those assets, in order to ensure the appropriate level of protection against the risks for both the Eurosystem and the CBC is in place. The ECB assured that it is fully equipped with all the financial tools to provide liquidity support to the finan-

cial euro area system if this is necessary to maintain the smooth transmission of monetary policy.

In addition, the CBC and its Board of Directors, monitor the developments resulting from the Russian invasion in Ukraine closely, as well as any impact on the CBC's assets. Nevertheless, CBC's balance sheet does not have any exposure to Russia's activities.

PROFIT AND LOSS ACCOUNT

P1. Net interest income

This item comprises of interest income less interest expense. Net interest income increased by €33,8 million and amounted to €137,1 million compared with €103,3 million in the previous year.

P1.1 Interest income (Table 17, p. 91)

Increased by €91,9 million and amounted to €244,1 million compared with €152,2 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), of public debt securities in the context of the securities markets programme (SMP), the secondary market public sector purchase programme (PSPP) and the pandemic emergency purchase programme (PEPP) (see note "A7.1 Securities held for monetary policy purposes"). The increase of €5,0 million in 2022 is mainly due to the increase in the purchases of PSPP and PEPP programmes, in combination with the decrease in the income from other monetary policy security purchase programmes.

- **Claims from TARGET2**

This item consists of interest amounting to €81,7 million calculated on the daily balances of the TARGET2 account. As from March 2016 the interest rate was zero and from 27 July 2022 until 31 December 2022, gradually increased to 2,5% (see Note "A9.5 Other claims within the Eurosystem (net)").

- **Securities for investment policy purposes**

The interest generated from these securities increased by €0,2 million to €2,8 million in 2022, compared with €2,6 million in 2021. An increase of €0,2 million was also reported in the interest income from foreign securities to €2,0 million compared to €1,8 million in 2021.

- **Net claim on euro banknote allocation**

This item consists of interest amounting to €13,5 million calculated on the daily balances of the net claim related to the allocation of euro banknotes as from 27 July 2022, and then due to the increase in the main refinancing operations rate from zero to positive (see note "A9.4 Net claims related to the allocation of euro banknotes within the Eurosystem").

- **Negative interest**

Following the decision of the Governing Council of the ECB to increase the key interest rates of the ECB from negative to positive, as from 14 September 2022 the positive deposit facility rate was imposed on bank deposits. As a result, the interest income from negative interest rates decreased by €23,3 million in 2022.

- **Other interest**

Includes interest income in foreign currency mainly from investment in US Treasury bills amounting to €6,5 million (2021: €95,1 thousand). Also included in this item is the CBC's remuneration of €1,3 million (2021: €51,1 thousand) on the Reserve Tranche Position with the IMF which is part of the asset item "A2.1 Receivables from the IMF" and the interest on SDR holdings amounting to €6,1 million (2021: €69,4 thousand). The Reserve Tranche Position is a claim against the IMF and arises from the excess

Table 17 **Interest income**

	2022 €'000	2021 €'000	Change €'000
Interest income in euro			
<i>On monetary policy operations</i>			
Securities	62.149	57.127	5.022
	62.149	57.127	5.022
<i>Other interest income</i>			
Claims from TARGET2	81.703	-	81.703
Securities for investment policy purposes	2.823	2.557	266
Claims arising from transfer of foreign exchange reserves to the ECB	433	-	433
Net claim on euro banknote allocation	13.487	-	13.487
Staff loans	72	73	(1)
Negative interest	66.988	90.262	(23.274)
Other interest	179	173	6
	165.685	93.065	72.620
Total interest income in euro	227.834	150.192	77.642
Interest income in foreign currency			
Securities	1.982	1.788	194
Other interest income	14.261	194	14.067
Total interest income in foreign currency	16.243	1.982	14.261
Total interest income	244.077	152.174	91.903

Table 18 **Interest expense**

	2022 €'000	2021 €'000	Change €'000
Interest expense in euro	100.432	48.750	51.682
Interest expense in foreign currency	6.564	121	6.443
Total interest expense	106.996	48.871	58.125

of Cyprus' quota with the IMF over the IMF's deposits in euro. The significant increase in interest income is mainly due to the increase in the interest rates of US Dollar and SDR during the reporting year.

P1.2 Interest expense (Table 18)

• **Interest expense in euro**

Interest expense in euro mainly refers to accrued interest on bank deposits due to the increase in the deposit facility rate to positive

as from 14 September 2022. It also includes the accrued interest on TLTRO III, which was calculated at the interest rate of –1% i.e. 50 basis points below the deposit facility rate, over the special interest rate periods until 23 June 2022. For the calculation of the accrued interest for the remaining period of each TLTRO III, the deposit facility rate was used, which according to the relevant ECB's decision was zero as from 27 July 2022 and became positive as from 14 September 2022. This was deemed a prudent approach (see asset item "A5.2 Longer-term refinancing operations"). In addition, following the decision of the Governing Council of the ECB, as from 23 November 2022, the interest rate of TLTRO III operations will be adjusted to the average applicable ECB interest rate over this period until the maturity date or early repayment date of each respective TLTRO III operation.

- **Interest expense in foreign currency**
Interest expense in foreign currency mainly refers to interest of €6,6 million (2021: €0,1 million) paid by the CBC for its liabilities on special drawing rights as a result of Cyprus's counterparty in the IMF (see liability item "L9 Counterpart of special drawing rights allocated by the IMF").

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

P2.1 Realised gains arising from financial operations

This amount includes foreign exchange gains of €14,3 million (2021: €1,4 million), which mainly

arise from SDR transactions. More specifically, during the reporting year, the average cost price of SDR against euro was decreased due to the high volume of SDR transactions. The conversion of the SDR balances has led to increased euro balances and to realised exchange gains. However, the corresponding unrealised foreign exchange loss arose as a result of the devaluation of euro during the year (see Profit and Loss Account, note "P2.2 Write-downs on financial assets and positions").

P2.2 Write-downs on financial assets and positions

Write-downs 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. Specifically, unrealized foreign exchange loss of €14,4 million results from the devaluation of the euro against the SDR during the year.

P3. Net income from fees and commissions

P3.1 Fees and commissions income

This item mainly includes the recovery of costs relating to supervision which for 2022 amounted to €9,3 million (2021: €9,7 million).

P4. Income from equity shares and participating interests

ECB profit distribution

The Governing Council of the ECB decided on 17 January 2023 that no interim profit distribution will take place for the year 2022, compared to the €150,0 million interim distribution in 2021 (CBC's share: €322,7 thousand).

In addition, no final profit distribution will take

place due to the loss recorded by the ECB for the year, which was fully covered by realising the equivalent amount from the ECB's General Risk Provision account, compared to 2021 when the remaining net profit of €41,7 million was distributed (CBC's share: €89,8 thousand).

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

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

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

The liability base consists of the following items:

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

Any 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 €54,9 million (2021: €32,7 million) between monetary income of €70,3 million (2021: €35,2 million), which the CBC earned in 2022, and its reallocated monetary income of €15,4 million (2021: €2,5 million), based on its Eurosystem key share on the total monetary income pooled, was paid on 31 January 2023.

In addition, the CBC paid €158,9 thousand due to revisions of the monetary income for the year 2021 and received €18,4 thousand due to revisions for the year 2020.

P6. Other income

This item includes income from numismatic collection of coins issue amounting to €250,0 thousand (2021: €382,5 thousand).

Table 19 **Staff costs**

	2022 €'000	2021 €'000	Change €'000
Employees' benefits			
Remuneration (basic salary, wage indexation, allowances, overtime payments)	20.003	17.705	2.298
Pension benefits – provision for current service cost	2.089	2.560	(471)
Arrangement/Deductions (transfer to public sector)	(820)	-	(820)
Social insurance and other contributions	3.742	3.479	263
New pension scheme cost—including past service cost	500	-	500
Social insurance contributions—current service cost and retrospective cost of new pension scheme	400	-	400
Total	25.914	23.744	2.170
Governor's and Board's benefits			
Remuneration (basic salary, wage indexation, allowances)	441	421	20
Pension benefits – provision for current service cost	49	74	(25)
Social insurance and other contributions	55	60	(5)
Remuneration of non-executive directors	150	145	5
Total	695	700	(5)
Interest expense on pension scheme	2.096	1.040	1.056
Healthcare scheme for pensioners			
Current service cost	53	73	(20)
Interest expense	20	11	9
Total	73	84	(11)
Cost of leaves not taken	294	68	226
Total Staff costs	29.072	25.636	3.436

P7. Staff costs (Table 19)

Executives and employees' remuneration is subject to the deductions applied to the general public sector either by applying the relevant law or by following the decisions of the CBC's Board of Directors, where the provisions of the law are not applied.

Remuneration of Governor and Board of Directors (Table 20, p. 95)

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

	2022 €'000	2021 €'000
Governor		
Constantinos Herodotou (Governor from 11 April 2019)	173	165
Executive Directors		
Stavros Agrotis (Executive Director from 15 May 2019)	134	128
Maria Heracleous (Executive Director from 15 May 2019)	134	128
Total	441	421
Non-Executive Directors		
Angelos Gregoriades (from 1 July 2019)	30	29
Stavros Evagorou (from 1 March 2017)	30	29
Makis Keravnos (from 24 October 2018 to 28 February 2023)	30	29
Yiannis Savvides (from 24 October 2018)	30	29
Ioannis Charilaou (from 18 October 2016)	30	29
Total	150	145

Table 21 **Administrative expenses**

	2022 €'000	2021 €'000	Change €'000
Consultancy services	375	175	200
Legal expenses	2.899	1.295	1.604
Maintenance, repairs, cleaning	2.090	1.847	243
Travel and subsistence expenses	373	32	341
Communications	659	340	319
Electricity, heating and water costs	955	592	363
Buildings, equipment and vehicle insurance	104	103	1
IT Services	1.257	639	618
Membership fees of committees other than the ECB	405	389	16
Miscellaneous	707	670	37
Total	9.824	6.082	3.742

P8. Administrative expenses (Table 21)

During the year, administrative expenses increased by €3,7 million to €9,8 million (2021:

€6,1 million) mainly due to the €1,6 million increase in legal expenses.

P9. Depreciation of tangible fixed assets

Depreciation of tangible fixed assets for the year 2022 amounted to €1,2 million (2021: €0,8 million).

P10. Banknote acquisition cost

Expenses related to acquisition and handling of banknotes and coins for 2022 is €3,3 million (2021: €3,4 million).

P11. Other expenses

This item relates to the CBC's various operating expenses for the year 2022 of €1,8 million (2021: €1,4 million).

P12. Key for subscription to the ECB's capital (ESCB capital key) (Table 22, p. 97)

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 NCB's shares in the ECB's subscribed capital are presented in **Table 22** (p. 97).

The ECB's subscribed capital amounts to €10.825,0 million and the CBC's share in the ECB's subscribed capital is 0,1750%.

The ECB's paid-up capital increased to €8.880,0 million in 2022 (2021: €8.270,0 million), however the CBC's share remains at 0,2152%. On

29 December 2021, the CBC paid one of the two installments of €1,3 million, representing its share of the paid-up capital of the Bank of England. On 28 December 2022, the CBC paid the second installment of €1,3 million, increasing its total participation in the net equity value of the ECB as at 31 December 2022 to €42,0 million (2021: €40,7 million).

Pursuant to the European Union Council decision dated 12 July 2022, Croatia adopted the single currency on 1 January 2023. Hrvatska Narodna Banka paid up the remainder of its capital subscription and transferred foreign reserve assets to the ECB in an amount corresponding to its subscribed capital share, with effective date 1 January 2023. As a result of the change in the capital key following Hrvatska Narodna Banka's entry into the Eurosystem, the CBC's share in the ECB's paid-up capital (Eurosystem key) decreased from 0,2152% to 0,2134%. The CBC's share in the ECB's subscribed capital remains at 0,1750%.

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)

	31/12/2022 %	31/12/2021 %
Nationale Bank van België/Banque Nationale de Belgique	2,9630	2,9630
Deutsche Bundesbank	21,4394	21,4394
Eesti Pank	0,2291	0,2291
Bank of Greece	2,0117	2,0117
Banco de España	9,6981	9,6981
Banque de France	16,6108	16,6108
Central Bank and Financial Services Authority of Ireland	1,3772	1,3772
Banca d'Italia	13,8165	13,8165
Banque centrale du Luxembourg	0,2679	0,2679
De Nederlandsche Bank	4,7662	4,7662
Oesterreichische Nationalbank	2,3804	2,3804
Banco de Portugal	1,9035	1,9035
Suomen Pankki – Finlands Bank	1,4939	1,4939
Banka Slovenije	0,3916	0,3916
Latvijas Banka	0,3169	0,3169
Central Bank of Malta/ Bank Centrali ta' Malta	0,0853	0,0853
Central Bank of Cyprus	0,1750	0,1750
Narodna banka Slovenska	0,9314	0,9314
Lietuvos bankas	0,4707	0,4707
Total amount for euro area NCBs	81,3286	81,3286
Ceska narodni banka	1,8794	1,8794
Danmarks Nationalbank	1,7591	1,7591
Magyar Nemzeti Bank	1,5488	1,5488
Narodowy Bank Polski	6,0335	6,0335
Sveriges Riksbank	2,9790	2,9790
Bank of England	-	-
Bulgarian National Bank	0,9832	0,9832
Banca Natională a României	2,8289	2,8289
Hrvatska Narodna Banka	0,6595	0,6595
Total amount for non-euro area NCBs	18,6714	18,6714
Total amount for NCBs that are members of the ESCB	100,00	100,00
Central Bank of Cyprus		
Eurosystem Capital Key	0,2152	0,2152
Banknote Allocation Key	0,1980	0,1980

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 the Central Bank of Cyprus (the "Bank"), which are presented on pages 65 to 97 and comprise the balance sheet as at 31 December 2022 and the profit and loss account for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Central Bank of Cyprus as at 31 December 2022 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' International Code of Ethics for Professional Accountants (including International Independence Standards)* (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 Board of Directors is 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 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 and the Board of Directors.

Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors is 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 Central Banks (ESCB) as these are determined by the European Central Bank (ECB) in the Accounting Guideline ECB/2016/34, as amended and for such internal control as 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 Board of Directors is responsible for assessing the appropriateness of the basis used for the preparation of the financial statements and using the going concern basis of accounting in accordance 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 and in accordance with the *Central Bank of Cyprus Law, 2002–2017*.

The Board of Directors is responsible for overseeing the Bank'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 Board of Directors.
- Conclude on the appropriateness of 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 Board of Directors

regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant 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 of 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.

Anna Loizou

Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited

Certified Public Accountants and Registered Auditors
City House, 6 Karaïskakis Street, CY-3032 Limassol, Cyprus

28 March 2023



CENTRAL BANK OF CYPRUS
EUROSYSTEM

**6. ANNEX:
COMMITTEES OF THE CBC**

Enter/
Exit



Full
Screen



1

Governor's
Introduction

2

Management and
Organisation
of the Bank

3

Economic
Developments

4

Functions
of the Bank

5

Financial
Statements
2022

6

Annex

6.1 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		
Members	Position	
Ioannis Charilaou	Non-Executive Director	Chairman
Yiannis Savvides	Non-Executive Director	Member
Makis Keravnos	Non-Executive Director	Member

6.2 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		
Members	Position	
Constantinos Herodotou	Governor	Chairman
-----	Deputy Governor ⁽¹⁾	Member
Stavros Agrotis	Executive Director	Member
Maria Heracleous	Executive Director	Member
Ioannis Charilaou	Non-Executive Director	Member
Stavros Evagorou	Non-Executive Director	Member

(1) The position of the Deputy Governor is provided by the Constitution and is currently vacant.

6.3 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	
Constantinos Herodotou	Governor	Chairman
Stavros Agrotis	Executive Director	Member
Maria Heracleous	Executive Director	Member
Yiannis Savvides	Non-Executive Director	Member
Stavros Evagorou	Non-Executive Director	Member

6.4 Risk Management Committee

Established by the Board of Directors in order to assist the Board of Directors in fulfilling its responsibilities with regard to the identification, assessment, monitoring and effective management of risks that stem from the Bank's operations.

Members	Position	
Makis Keravnos	Non-Executive Director	Chairman
Angelos Gregoriades	Non-Executive Director	Member
Ioannis Charilaou	Non-Executive Director	Member

6.5 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	
Angelos Gregoriades	Non-Executive Director	Chairman
Stavros Evagorou	Non-Executive Director	Member