



CENTRAL BANK OF CYPRUS
EUROSYSTEM

ANNUAL REPORT 2023

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Governor's
Introduction

2

Management and
Organisation
of the Bank

3

Economic
Developments

4

Functions
of the Bank

5

Financial
Statements
2023

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
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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 2024.

1. Governor's introduction

Prologue

The Cypriot economy continues to demonstrate resilience despite the ongoing challenges mainly arising from unstable international geopolitical developments. The prospects are positive, indicating a strengthening of GDP growth and further easing of inflation.

Economic Activity in Cyprus

The Cypriot economy recorded a real GDP growth rate of 2.5% in 2023, compared to 5.1% the previous year. The deceleration of GDP growth in 2023 is attributed to various factors, such as the base effect from 2022 due to the restart of the economy during that year, the fragile external environment, the impact of the monetary policy of the euro area on domestic demand (aimed at reducing inflation) and the impact of sanctions - due to the war in Ukraine - on the economic activity of professional services.

Despite these challenges, the economy of Cyprus has shown resilience, supported by the expansion of its productive base, the enhancement of competitiveness and the attraction of new investments. Additionally, as a result of the successful implementation of economic, fiscal, and banking reforms in recent years, the creditworthiness of the Republic of Cyprus has been at investment grade level since last September, according to all major credit rating agencies. However, it is essential to implement all necessary structural reforms to make our country's economy more productive and competitive. The swift implementation of the Recovery and Resilience Plan, both in

Cyprus and in other euro area countries, will contribute to increasing investments in green transition and digital transformation, as well as further boosting economic growth in the medium term.

According to the CBC's forecasts for March 2024, the GDP growth rate in Cyprus for 2024 is projected to reach 2.8%. In the years 2025 and 2026, GDP growth rate is projected to increase to 3.1% and 3.2%, respectively. Over the medium term, the anticipated uptrend in GDP is expected to stem from both domestic and external demand. More specifically, the rise in households' real disposable income, driven by further inflation moderation, wage rises and the sustained stability observed in the labour market, is poised to bolster domestic demand. Concurrently, the anticipated gradual recovery of external demand, alongside the continued reinforcement of sectors such as technology and shipping, which have experienced pronounced growth in recent years through foreign investments, is anticipated to augment the expansion in service exports, particularly from 2025 onward. Furthermore, lingering uncertainty surrounding the medium-term economic ramifications of the Middle East conflict persists, with the ultimate impact contingent upon the duration, intensity, and potential escalation of the conflict. Thus far, short-term repercussions remain limited and manageable.

Labour Market in Cyprus

The resilience observed in the labour market continues to support economic activity. Unemployment is projected to go down to 5.8% of the labour force in 2024, compared to 6.1% in 2023.

Reflecting the anticipated GDP growth, unemployment is projected to further decrease to 5.6% in 2025 and 5.3% in 2026, approaching conditions of full employment.

Inflation in Cyprus

Cyprus has observed a notable containment of inflation, reflecting broader deflationary trends observed across the entire euro area. Specifically, inflation in Cyprus decreased to 3.9% in 2023 from 8.1% in 2022. This development is mainly attributed to lower energy prices and the impact of monetary policy. Based on the most recent data for January and February 2024, inflation is close to the ECB's 2% target.

Medium-term inflation is projected to decline to 2% for the period 2024-2025 and to 1.9% in 2026 due to the anticipated continuous weakening of inflationary pressures created in previous years by mainly exogenous supply factors. Additionally, the impact of the single monetary policy, which continues to exert a dampening effect with a lag, is also contributing. Furthermore, the expected lower energy prices and the anticipated stabilisation both in profit margins of businesses and in wage rises are also projected to contribute to the deceleration of inflation during the period 2024-2026.

Economic developments in the euro area:

Economic developments in the euro area remained subdued in 2023. Specifically, the real GDP of the euro area increased by 0.4% in 2023, compared to 3.4% in 2022, due to the growth in

domestic demand and net exports. The slowdown in growth in 2023 was largely due to the economic impacts of the war in Ukraine, which varied across countries, reflecting each country's economic structure and the base effect relative to the previous year's GDP growth. While the industrial sector was particularly affected by restrictive monetary policy, high energy prices, and weakening global demand, the services sector showed greater resilience, continuing to benefit from the economic rebound following the pandemic. Towards the end of 2023, the subdued growth momentum widened as the impact of higher interest rates spread across various sectors, alongside secondary effects from the industrial sector to services. Nevertheless, recent indicators of economic activity suggest a gradual recovery within 2024 and the immediate subsequent years.

More specifically, according to the ECB's March 2024 projections, the annual real GDP growth in the euro area is projected to reach 0.6% in 2024 compared to 0.4% in 2023, and to strengthen to 1.5% in 2025 and 1.6% in 2026.

In 2023, inflation in the euro area continued its downward trend, reaching 5.4% compared to 8.4% the previous year. While most indicators of underlying inflation have further weakened, inflation may fluctuate at a higher level than expected, depending on the trajectory of wages and the level of profit margins imposed by companies. Financing conditions remain restrictive, and previous interest rate hikes continue to exert a dampening effect on demand, contributing to further downward pressure on inflation.

According to the aforementioned forecasts by the ECB, inflation is projected at 2.3% in 2024, 2%

in 2025, and 1.9% in 2026, on average. Forecasts for inflation excluding energy and food prices are projected at 2.6% for 2024, 2.1% for 2025, and 2% for 2026, on average.

Cyprus banking sector developments

Over the past years the Cyprus banking sector has proven to be resilient, despite the prolonged challenges stemming from the health crisis, the geopolitical developments which included war conflicts, as well as the strong inflationary pressures. In particular, similarly to the immediately preceding years, strong liquidity reserves are observed during 2023, with the liquidity coverage ratio reaching 358% in December 2023, almost double the corresponding Eurozone average. In addition, the Common Equity Tier 1 ratio (CET1) stood at 20,4% at 31 December 2023, compared to the European ratio which was 16% at the respective period. The robust indicators of the domestic banking system create prospects for the efficient response even to potential severe disruptions.

As at December 2023, Non-Performing Loans (NPL) as a percentage of total loans, have decreased further to 7,9%. Loans classified in Stage 2, i.e. loans that are a step before being classified as NPLs, have also recorded a decrease reaching 7% of total loans at the respective period. These indicators affirm that the asset quality of banks has not been impacted from the prolonged challenges during 2023. Nevertheless, the risk of NPLs remains high in the supervisory priorities of the CBC given the continuous uncertain external economic and geopolitical environment, in conjunction with the fact that the deleveraging achieved has not been

homogeneous, with significant reductions in NPLs observed by the larger banks. In this respect, the CBC has engaged with a consortium comprising international and well reputable companies, for the design of a systemic solution, which, with the existing available tools, will further foster banks in deleveraging their NPLs. The said project is at an advanced stage of design and analysis.

Another positive development in 2023 is the upgrade of the Cyprus economy to investment grade rating from all reputable credit rating agencies. A part of this achievement is attributed to the continued strict preventive supervisory policy exercised by the CBC, which ensures the stability and robustness of the banking system, and by extension, the broader economy of the country.

In 2023 ECB's monetary policy decisions for dealing with high inflation continued and resulted to a significant increase in reference interest rates and, consequently, market interest rates. The rise in interest rates in conjunction with the sharp price increase, inevitably reduced the disposable income of households and businesses, increasing the risk of a potential deterioration in banks' asset quality. Banks' continuous application of prudent practices on the management of their loan portfolio remains imperative and towards that direction is the ongoing supervision by the CBC. It is thus required that bank's closely monitor their portfolios and apply prudent practices, emphasising on the repayment ability when granting new loans.

Additionally, also in line with a series of recommendations issued to banks and credit acquiring companies, supervised institutions should continue focusing on providing viable restructur-

ings without undue delays in order to proactively address difficulties in repayments by vulnerable borrowers.

Furthermore, a stable, balanced and comprehensive legal framework for the resolution of existing, as well as, potentially new NPLs, which shall include foreclosures as a last resort on the basis of which the country's financial and economic stability will not be compromised, was and remains the CBC's stance.

In light of the sharp increase in reference interest rates since July 2022, banks recorded increased profitability during 2023. This is due to the steep increase in interest income, as a result of also the banks' high liquidity, reaching 358% as outlined above, a significant part of which results from placements with the ECB. The increased profitability, though, will not alter the supervisory authorities' views over the necessity to maintain a prudent policy with respect to banks' dividend payments, having as a priority further strengthening their capital adequacy. It is emphasized that during 2023, only one Cyprus bank was approved to distribute dividends.

Further to the above, additional challenges faced by the banking sector during the year under review, leave no room for complacency to the supervisory and regulatory authorities. Special reference is made to the risk arising from climate change, which is rapidly increasing and requires immediate and collective action from all involved parties. In 2023, the efforts, to make this risk an integral part of banks' strategic planning and decision making processes, were intensified. All banks, regardless of their size, should thus step up their efforts to complete their internal

assessment and subsequently measure the potential impact of climate change on the whole range of their activities.

It is also highlighted that Information, Communication and Technology risk remains relevant, as ever, amid the increased efforts of banks towards digitalization and also due to increased cyber-threats. The efforts of supervised institutions to enhance their resilience from such risks shall be intensified while actions shall be taken for the adequacy and ongoing updating of internal procedures and prudential measures. In 2023, the CBC carried on its policy of inviting supervised institutions to engage in a series of actions, including annual penetration testing of critical systems. The CBC kept monitoring and actively contributing, as a member of the European Banking Authority, in the course of action towards implementation of the EU Regulation on Digital Operational Resilience, known as DORA, which entered into force in 2023 with a final implementation date of January 2025.

Innovation Hub

In order to further encourage, promote and support domestic financial innovation, the Central Bank of Cyprus has continued in 2023, the operation of an Innovation Hub. The Innovation Hub is a crucial step in the broader context of the supervisory objectives and priorities of the CBC, which include innovation, digital transformation, digital operational resilience and cybersecurity.

Fostering innovation and greater collaboration, enhancing the understanding of financial technology, and aiding the development of innovative

products or services to ultimately benefit and enhance the financial system continue to be some of the Innovation Hub's objectives.

Through this channel, the CBC continues to support and encourage institutions to tackle regulatory and administrative obstacles when promoting innovative technologies by providing non-binding guidance on regulatory and supervisory prerequisites including any potential licensing requirements for innovative Fintech products or services.

Further details are available at <https://www.centralbank.cy/en/innovation-hub>

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 and priorities. 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 2023 exclusively by the CBC.

In 2023, the exchange of know-how and expertise between the CBC and the Bank of Greece continued, in the context of the Single Supervisory Mechanism's collaboration hub of on-site inspectors.

Conclusion

As inflation rates begin to align more closely with the ECB's target, the eurozone is entering a more stable economic environment, favourable for sustainable growth. For Cyprus, whose economy reflects the broader trends of the eurozone, the retreat of inflation, rational fiscal policy, and reforms in the economy and banking sector form the basis for enhancing economic resilience and growth.

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 until 10 April 2024.

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 an executive member of the CBC Board in the period May 2019 - May 2024.

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



**Ioannis
Charilaou**



**Andreas
Charitou**

number of international academic journals including *Econometric Reviews*, *Journal of International 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 an executive member of the CBC Board in the period May 2019 - May 2024.

Ioannis Charilaou

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

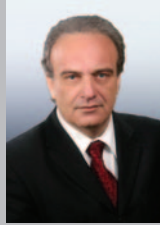
From 1988 until 1997, he worked in the Internal Audit Department of the Cyprus Telecommunications Authority. From 1997 until September 2003, he worked at the Central Ecclesiastical Fund and at the Audit Department of the Church of Cyprus. Since September 2003, he has

been the Chief Executive Officer of the Central Ecclesiastical Fund and the Auditor General of the Church of Cyprus. Between 2005 and 2014, he served on the Board of Hellenic Bank and, for a consecutive number of years, he was a member and then Chairman of the bank's Risk Management Committee as well as member of the Audit Committee. From 2005 until recently, he was a member of Pancyprian Insurance Company Ltd, holding at times the post of Chairman and Vice-Chairman of the Company's Board of Directors. From June 2015 until recently, he served as the first Chairman of the Governmental Examination Committee for Insolvency Practitioners. Additionally, he is a member of the Board of Directors of KEO Public Limited Company as well as a member of the Board of Directors of various companies belonging to the Hellenic Mining Company Group. He was appointed as a non-executive member of the CBC Board in October 2016 and he was reappointed as a non-executive member of the CBC Board on 18 October 2021.

Andreas Charitou

He is Professor of Accounting and Finance at the University of Cyprus (UCY). He also taught at the University of Toronto (Canada) and Pennsylvania State University (USA). He served as Dean and Deputy Dean of the School of Economics and Management, Chairman of the Department of Public and Business Administration, co-director of the MBA and Ph.D program in Finance and member of the Senate of the UCY.





**Stavros
Evagorou**

He studied Business Administration/Accounting at the Athens University of Economics and Business (BSc) and obtained M.Sc. and Ph.D degrees, with scholarship, from the Pennsylvania State University (USA). He holds the professional designation of the Certified Management Accountant (CMA, USA) and was a member of the American Institute of Certified Public Accountants. He was awarded for 'Teaching Excellence' at postgraduate (MBA) and graduate level from the University of Toronto and he holds the 'Higher Education Teaching Certificate' from Harvard University.

He served as a member of the Board of Directors in various organizations, among those: independent, non-executive member of the Board of Directors of Hellenic Bank, Chairman of the Audit Committee, member of the Risk Management Committee and member of the Remuneration Committee of the Bank; Independent Non-Executive Board Member of the Co-operative Central Bank, Chairman of the Risk Management committee, Member of the Bank's Remuneration & Appointments Committee; Member of the Board of Directors of the Cyprus Securities and Exchange Commission (CySEC); Member of the Board of Directors of the Cyprus Stock Exchange; Member of the Board of Directors of the Cyprus Fiscal Council; Deputy Chair of the Cyprus Council of Recognition of Higher Education Qualifications (KYSATS); and Member of the Disciplinary Committee of the Institute of Certified Public Accountants of Cyprus (ICPAC). He was also appointed by the Council of Ministers as an Expert of the Inquiry Committee on the Cyprus Economy.

He is Editor-in-Chief and Associate Editor of the international scientific journals 'International Journal of Accounting (USA)' and 'Abacus', respectively. He is also a member of the European Accounting Association and the Institute of Management Accountants (USA). He published in leading international academic journals on issues related to, among others, commercial and investment banking, risk management, credit analysis/bankruptcy prediction, corporate governance, executive compensation, ESG, international capital markets and M&A.

He was appointed as a non-executive member of the CBC Board in April 2023.

Stavros Evagorou

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

From 1984-1985, he served as District Manager in the Famagusta Area for Photis Photiou Estates Ltd. From 1985-1987, he served as Accountant and Payroll Officer in Dome Hotel, Ayia Napa and from 1987-2016 he was Head of the Economic and Social Research Advisory Office of AKEL. He also held the posts of member of the Nicosia Municipal Council (1991-2001), member of the Nicosia Sewerage Board (1991-2001), member of the Nicosia Water Board (1996-2001), Member of Parliament (2001-2016), Chairman of the House of Representatives Standing Committee on Crime and on the Fight Against Drugs and Addictive Substances (2006-2011), Head of the Delegation of the House of





**Angelos
Gregoriades**



**Konstantinos
Panayides**

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 a non-executive member of the CBC Board in the period July 2019 - April 2024.

Konstantinos Panayides

Konstantinos holds a Master's degree (MPhil) in Finance from the University of Cambridge (2006) and a double BSc with Summa Cum Laude in Finance and Economics from the Arizona State University after receiving the Arizona Board of Regents Scholarship (2000-2004). In 2003, he joined Merrill Lynch in Arizona, as an intern - portfolio manager assistant researching and analysing US equities and mutual funds. In 2006, he started his investment banking career as a euro Interest Rates Derivatives trader and later as a European government bond trader at BNP Paribas in London. In 2010, he joined Barclays Capital as Vice

President where he was responsible for managing the European periphery sovereign bond trading portfolio with particular focus in Greece and Cyprus. Furthermore, he was responsible in assisting to build a dynamic illiquid euro debt franchise to provide global coverage of the euro periphery market. In 2012 he joined RIA Capital Markets in London. While at RIA he developed further and spearheaded a successful euro periphery sovereign and credit bond market franchise by exploiting and capitalizing on illiquid and distressed opportunities. In 2014, he joined StormHarbour Securities LLM as a Director; an independent global markets and financial advisory firm based in London. His main focus was the Euro-

pean periphery bond market and global special situations. In 2017, he joined AstroBank (ex-Piraeus Bank Cyprus) as Head Treasury & Capital Markets and revamped the bank's asset-liability and liquidity management capabilities and developed the bank's treasury and trading desk to a major profit centre. In 2021, he joined FxPro as Group Treasurer and Portfolio Manager to optimise and manage the group's excess liquidity and proprietary capital and concurrently strategically enhanced the operational and transactional banking set up of the FxPro Cyprus and UK electronic money institutions (EMI). In November 2023, he was appointed as Non-Executive Board member of the Central Bank of Cyprus.

New Appointments in the first half of 2024

In April 2024, Dr. Christodoulos Patsalides was appointed as Governor of the CBC. His tenure started on 11 April 2024.

In addition, in May 2024, Ms. Evgenia Christodoulou and Mr. George Karatzias were appointed as executive members of the CBC Board of Directors, and Mr. Kyriacos Stavrou was appointed as a non-executive member of the CBC Board of Directors.

Members of the Board who left during 2023:

Makis Keravnos left on 28 February 2023 and Yiannis Savvides on 23 October 2023.

2.2 SENIOR MANAGEMENT TEAM



Constantinos Herodotou
Governor



G. Kyriacou
Senior Director



A. Mylona
Senior Director
(until 31 August 2023)

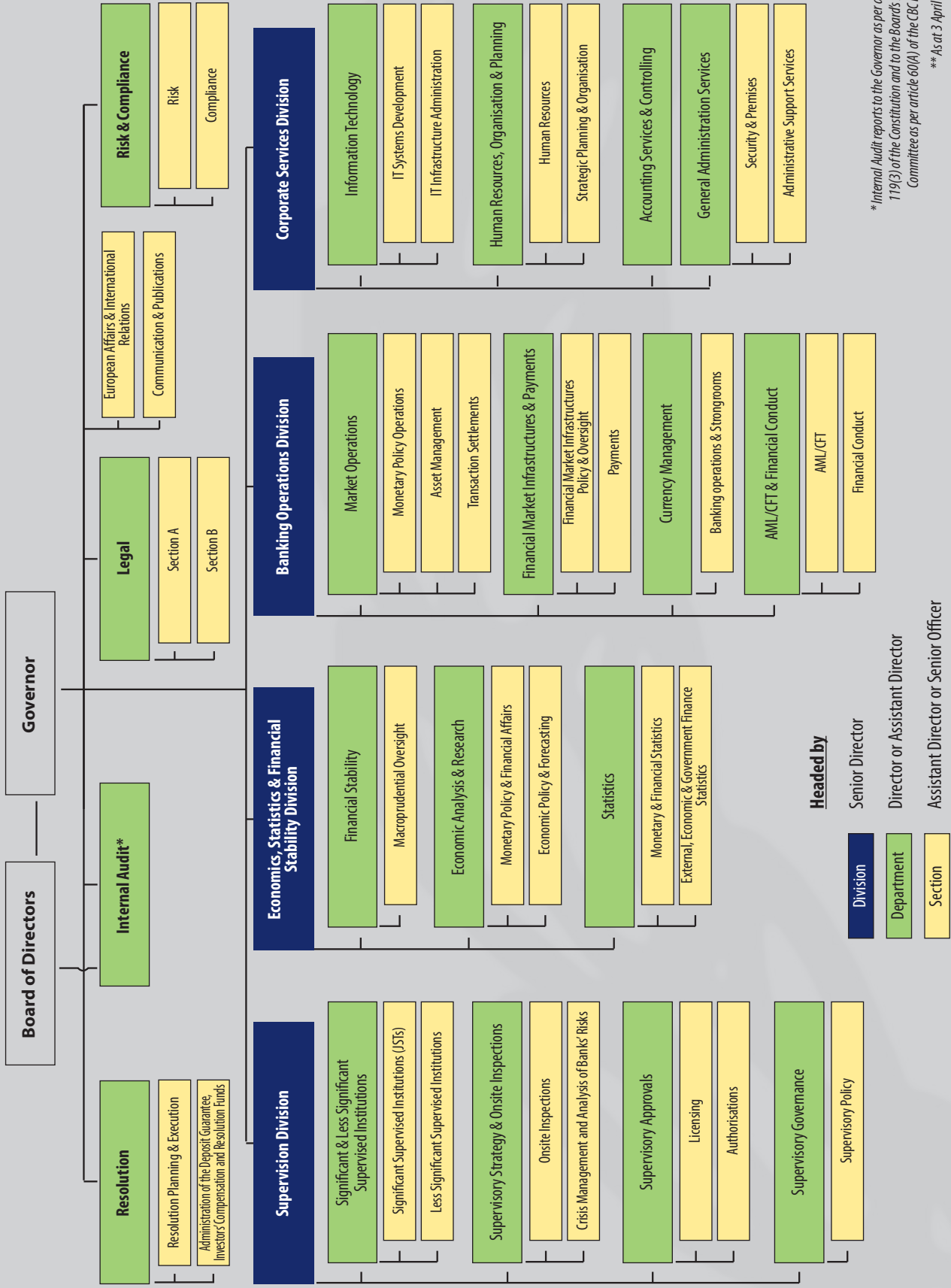


C. Phanopoulos
Senior Director



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(A) of the CBC Laws.
 ** As at 3 April 2023

3. ECONOMIC DEVELOPMENTS

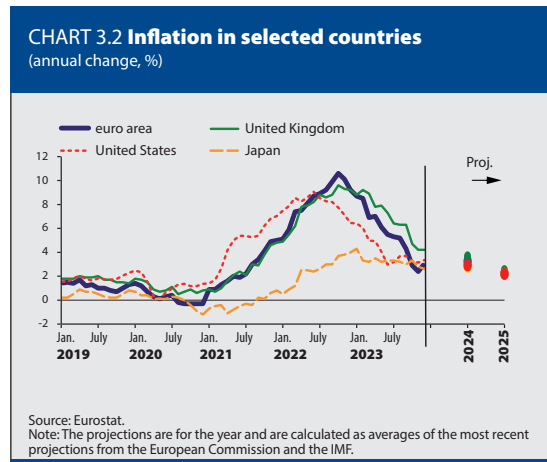
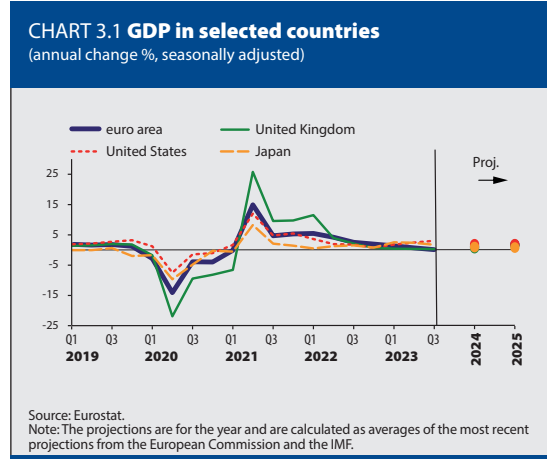
3.1 External developments

Similar to 2022, global economic developments in 2023 focused mainly on efforts to reduce inflation. The world's main Central Banks continued to raise their key interest rates in order to ease inflationary pressures, largely succeeding, especially in developed economies.

The impact from this monetary policy tightening caused a moderation in global economic growth over the second half of 2023, however to a smaller extent than previously expected. More specifically, GDP growth in the US has been revised upwards for 2024 (Chart 3.1), while, on the other hand, UK economic growth was revised downwards for 2024 and 2025. Similar revisions concerning lower growth over the next two years have been made for both the euro area and Japan.

As mentioned above, inflationary pressures have eased significantly as a result of rising interest rates and a decline in energy prices. Indicatively, inflation in the USA decreased from 8,0% in 2022 to 4,1% in 2023, with inflation in the United Kingdom declining from 7,9% in 2022 to 6,8% in 2023. Similarly, inflation in the euro area decreased from 8,4% in 2022 to 5,4% in 2023. In 2024, inflation is expected to continue falling in all economies under consideration (Chart 3.2).

As inflation is expected to continue above the 2% target in 2024, and uncertainty at the international geopolitical level remains elevated, the Governing Council of the ECB continues to closely monitor developments in the global economy,



combined with developments in the euro area, to maintain monetary flexibility to realize the objective of price stabilization.

3.2 Domestic Developments

3.2.1 Inflation

Domestic headline inflation¹ dropped to 3,9% in 2023 compared with 8,1% in 2022 (Chart 3.3, p. 22). The significant deceleration of HICP inflation during 2023 was mainly due to the substantial

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

CHART 3.3 Inflation in Cyprus
(annual change, %)

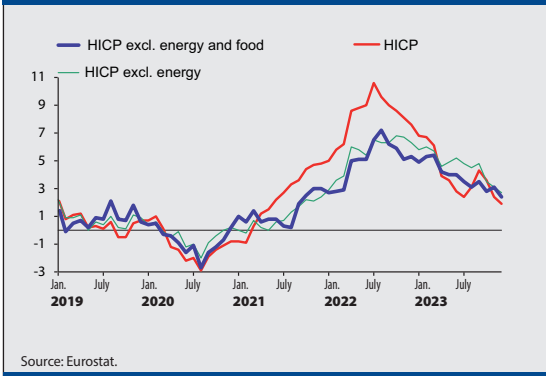
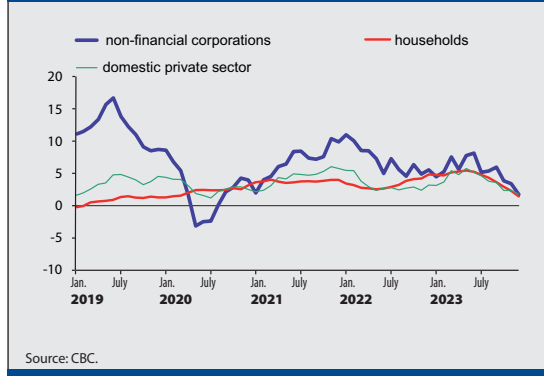
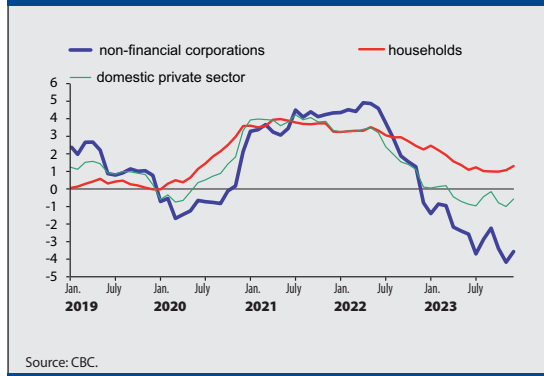


CHART 3.4 Loans to the domestic private sector
(annual change, %)



impact of tightening of the single monetary policy of the ECB for the euro area countries along with the developments in energy prices as well as due to the various domestic government mitigating measures related mainly to energy and food prices. Regarding core inflation (inflation excluding energy and food prices), this also slowed-down to 3,8% in 2023 compared with 5% in 2022 mainly driven by the substantial impact of the ECB's single monetary policy on demand and the overall domestic economic activity.

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



3.2.2 Monetary developments^{2,3}

In 2023, the domestic financial sector continued its positive path, despite the successive crises it has been facing. The sector's resilience and continuous progress played a key role in the investment grade status of the Cypriot economy by all credit rating agencies, one of the most important milestones of the year.

Domestic private sector deposits exhibited an upward trend in the first half of 2023, recording an annual increase of 5,2% in June 2023 compared

with 3,2% in December 2022. This was supported by the robust economic growth, as well as the continuous improvement in employment. In the second half of 2023, the annual change in deposits moderated from the high levels of the first half of the year, standing at 1,8% in December 2023 (Chart 3.4). At the same time, non-resident deposits (including SPEs) continued their downward trend, with their annual growth standing at -5,8% in December 2023, compared with -8,7% in December 2022.

Despite the significant increases in lending

2. Monetary data, including interest rates, unless otherwise indicated, refer to data excluding the CBC and/or the Euro system. 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>).

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

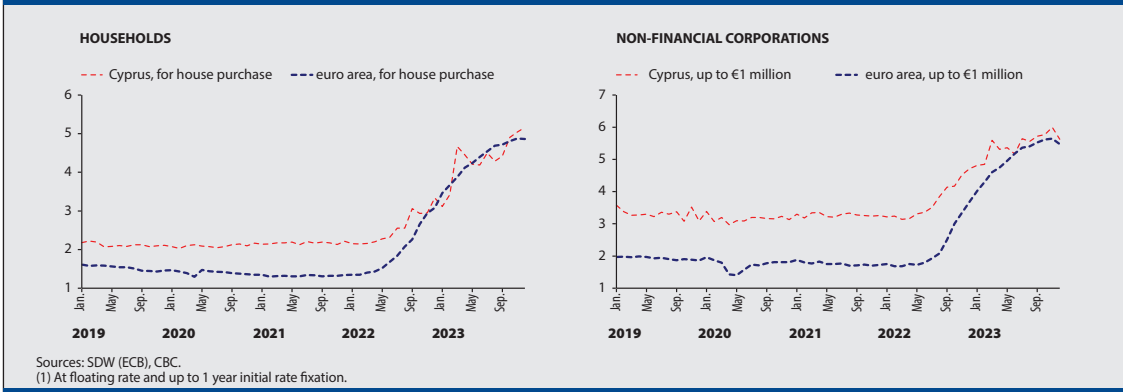
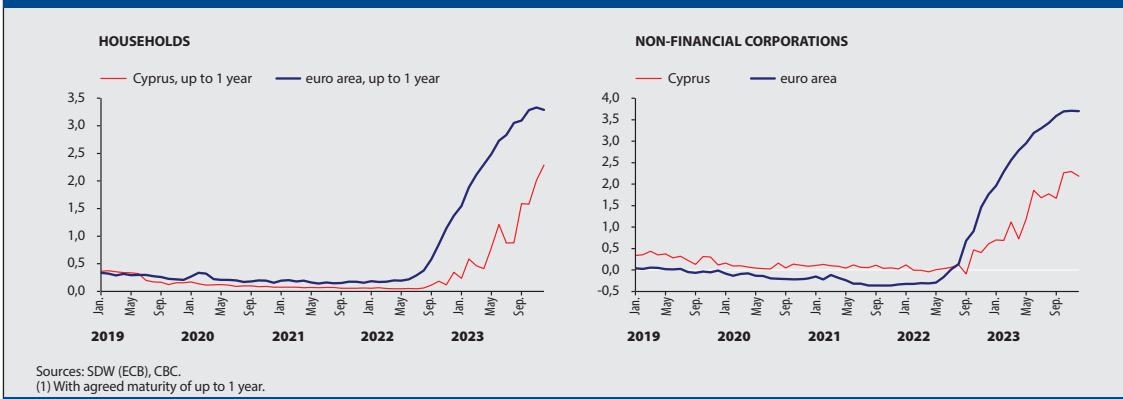


CHART 3.7 Euro area MFI interest rates on euro-denominated deposits (new business) by euro area residents⁽¹⁾
(% per annum, period averages)



rates and tighter financing conditions reflecting the ECB's tightening monetary policy, new lending to the non-financial private sector remained broadly stable at €3,3 billion in 2023, similar to the 2022 levels. However, the increased repayments during the year, resulted in a significant slowdown in credit growth. Specifically, the annual growth rate of net loans to the domestic private sector turned negative since April 2023, standing at -0,6% at the end of the year, compared with 0,1% at the end of 2022, indicating that loan repayments exceeded new lending (Chart 3.5, p. 22).

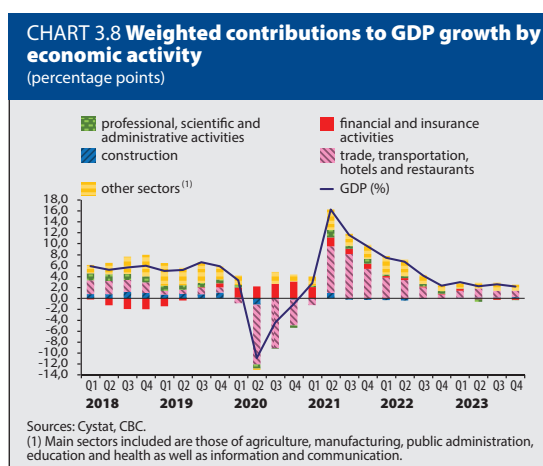
Regarding interest rates in Cyprus, the upward trend observed since the second half of 2022 became more pronounced in 2023, mainly reflecting the faster pace of ECB policy rate hikes. Households and non-financial corporations lending rates increased to 5,16% and 5,62% respectively at the end of 2023 compared with 3,34% and 4,71% at the end of 2022 (Chart 3.6). Domestic deposit rates recorded small increases in the first months of 2023, followed by relatively larger increases, closing at 2,29% for households and 2,19% for non-financial corporations at the end of 2023 (Chart 3.7).

Another positive development for the domestic financial sector was the further contraction of non-performing facilities (NPFs) on banks' balance sheets to €1,9 billion (7,9% of total loans) in December 2023 compared with €2,3 billion (9,5%) at the end of 2022 and €20,6 billion (43,7%) at the end of 2017. Overall, this reduction was achieved mainly through sales/transfers of loan portfolios to credit acquiring companies (CACs), as well as organic reductions such as loan write-offs, loan repayments and debt-to-asset swaps (real estate). It is reminded that, while NPFs sales to CACs improve the quality of the banking sector's loan portfolio, they remain part of private debt. These loans continue to burden borrowers, now managed by CACs.

In conclusion, despite the continuous progress recorded, the challenges emerging in the constantly changing domestic and international environment leave no room for complacency. Consequently, the financial sector needs to be adaptable and evolving, while maintaining its stability and credibility, to provide cushion against any future emerging risks.

3.2.3 Domestic economy

The GDP growth rate reached 2,5% in 2023, following 5,1% growth in 2022. The continued favourable developments in the labour market as well as the expansion of the turnover of companies of foreign interests (headquartering), especially in the technology sector, contributed to GDP growth. The positive, albeit decelerating, GDP path, points to the continued resilience and flexibility of the Cyprus economy in the face of adverse

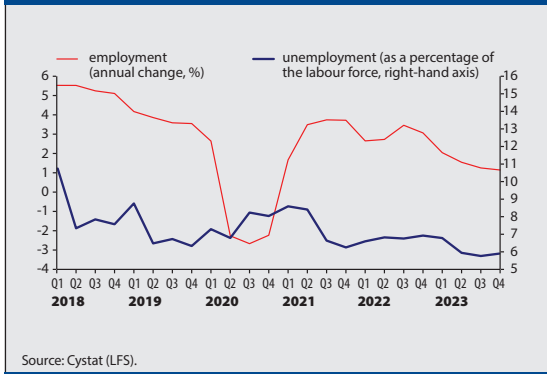


external factors relating to the ongoing Russian-Ukrainian war and the conflict in the Middle East.

From the sectoral perspective, trade, transportation, hotels and restaurants (1,3 percentage points) and, to a lesser extent, information and communication activities (0,5 percentage points) were the largest contributors to GDP growth in 2023 (**Chart 3.8**). From the expenditure side, private consumption and, to a lesser extent, investment were the main growth drivers, while net exports of goods and services recorded a negative contribution. The increase in imports outweighed the increase in exports and is attributed to imports of goods for domestic consumption and investment, as a result of the aforementioned rise in domestic demand.

The real estate sector in Cyprus continued its upward trend in 2023. During this year, property sales increased (16,1%) compared with 2022, while the volume of sales exceeded the levels of 2008 (15.567 sales contracts). Residential property prices registered an annual increase of 7,7%, mainly driven by increases in apartment prices. This trend was mainly driven by increased demand from both

CHART 3.9 Unemployment and employment

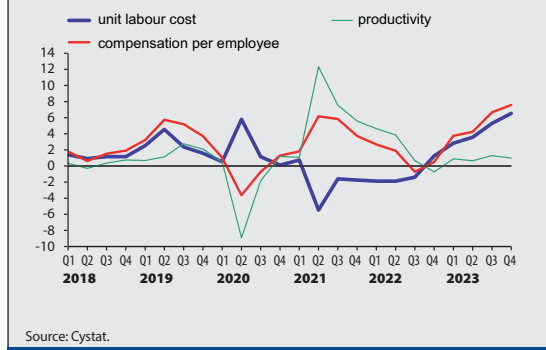


local and foreigner buyers, although during the second half of the year foreign demand showed signs of normalisation. At the same time, commercial property prices increased by 6,9% in 2023.

In line with GDP growth, employment increased by 1,5% in 2023. According to the Labour Force Survey (LFS), the unemployment rate stood at 6,1% in 2023 (Chart 3.9). In the fourth quarter of 2023, unemployment reached 5,9%, and the rate of long-term unemployed, with a duration of six months and above, reached 2,5%.

A correction in labour costs was recorded in 2023, with compensation per employee recording an increase of 5,6%. The 10,5% annual increase in expenditure per employee in the public sector is mainly due to the payment of the annual salary increases (ATA) and the abolition of reductions in benefits and pensions that were applied in previous years, while there was an increase of 3,7% in the private sector. The significant increase in nominal expenditure per employee led to a 4,6% increase in unit labour costs (Chart 3.10). It is noted that the level of the relevant indicator remains lower than in the euro area.

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



The current account deficit⁴ worsened in the first nine months of 2023, reaching €2.688,3 million (-12,2% of GDP) compared with €2.124,2 million (-10,3% of GDP) in the corresponding period of 2022 (Table 3.1, p. 26). This was primarily due to the widening of the deficit in the balance of goods, as a result of the net imports of Special Purpose Entities (SPEs) and the increase in domestic demand. To a lesser extent, it was due to the widening of the primary income deficit. The latter is inextricably linked to the influx of foreign-owned companies in Cyprus and the subsequent improvement in the services balance. The improvement in the balance of services came mainly from the growth in the telecommunications, computer and information (ICT) sector, due to the continued attraction of foreign companies to operate and/or expand their operations in Cyprus (headquartering). The tourism sector and other business services also contributed positively to the services balance, whereas the financial services sector declined due to the negative impact of the sanctions imposed against Russia. Adjusted for the impact of SPEs, the current account deficit

4. The external statistics data are significantly affected by the classification of special purpose entities (SPEs) as residents of Cyprus and, in particular, the entities 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 Current Account Balance (main categories)

	2022Q1-Q3 (€ million)	2023Q1-Q3 (€ million)	Change (€ million)
Current account balance	-2.124,2	-2.688,3	-564,1
Current account balance adjusted for the impact of SPEs	-1.959,3	-2.079,0	-119,7
Goods and services balance	-315,8	-520,7	-205,0
Trade balance	-4.869,5	-5.663,2	-793,8
Exports of goods	3.015,1	3.044,7	29,6
Exports of goods - SPEs	657,6	779,7	122,1
Imports of goods	7.884,5	8.707,9	823,4
Imports of goods - SPEs	1.107,6	1.689,1	581,5
Services balance	4.553,7	5.142,5	588,8
Exports of services	16.238,7	16.646,4	407,7
<i>of which:</i>			
Transport	2.938,8	3.043,7	104,9
Travel	2.164,0	2.658,1	494,1
Financial services	3.888,6	3.347,9	-540,7
Telecommunications, computer and information services	5.181,9	5.409,0	227,1
Other business services	1.135,1	1.175,1	39,9
Imports of services	11.685,0	11.503,9	-181,1
<i>of which:</i>			
Transport	1.993,3	2.217,6	224,3
Travel	980,7	1.244,0	263,4
Financial services	2.427,8	2.118,3	-309,5
Telecommunications, computer and information services	3.402,2	3.159,5	-242,7
Other business services	2.257,9	2.017,9	-240,0
Primary income (net)	-1.593,7	-1.909,5	-315,8
Secondary income (net)	-214,8	-258,1	-43,3
Current account balance (% of GDP)	-10,3	-12,2	
Current account balance adjusted for the impact of SPEs (% of GDP)	-9,5	-9,4	

Sources: Cystat, CBC.

amounted to €2.079,0 million (-9,4% of GDP), compared with €1.959,3 million (-9,5% of GDP) in the corresponding period of 2022. The net International Investment Position (NIIP) at the end of 2023Q3 reached -€28,3 billion (-95,0% of GDP). Adjusted for the impact of SPEs, it improved by 60,9 percentage points, reaching -€10,1 billion (-34,0% of GDP).

The government budget surplus reached at

Table 3.2 Accounts of general government

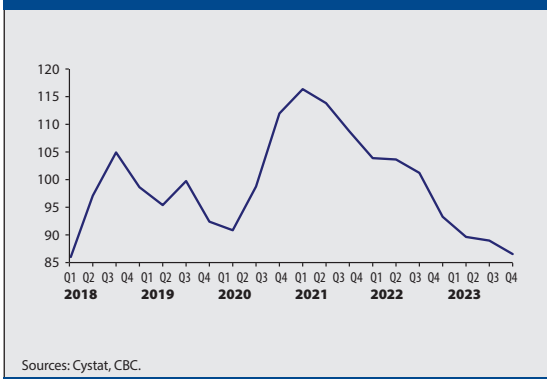
	2022 (€ million)	2023 (€ million)	Change %
EXPENDITURE			
Intermediate consumption	1.240,5	1.206,9	-2,7
Compensation of employees	3.179,3	3.583,6	12,7
Social transfers	4.211,7	4.532,6	7,6
Interest	409,7	439,0	7,2
Subsidies	139,4	163,6	17,4
Other current expenditure	648,6	744,8	14,8
Gross fixed capital formation	713,5	1.008,2	41,3
Other capital expenditure	236,8	208,2	-12,1
Total expenditure	10.780,3	11.886,9	10,3
Total expenditure as a % of GDP	38,8	39,9	2,9
REVENUE			
Taxes on production and imports	4.033,60	4.387,20	8,8
Current taxes on income, wealth, etc	2.924,1	3.257,4	11,4
Social contributions	3.122,0	3.573,7	14,5
Other current resources	254,0	297,7	17,2
Sales	805,7	817,1	1,4
Capital transfers received	202,1	298,3	47,6
Property income	114,0	131,8	15,6
Total revenue	11.456,3	12.763,2	11,4
Total revenue as a % of GDP	41,2	42,9	
Primary balance	1.086,1	1.315,3	
Primary Balance as a % of GDP	3,9	4,4	
Surplus (+) / Deficit (-)	676,4	876,3	
Surplus (+) / Deficit (-) % of GDP	2,4	2,9	

Sources: Cystat (preliminary data), CBC.

2,9% of GDP in 2023, compared with a surplus of 2,4% of GDP in 2022 (Table 3.2). The increase in the budget surplus compared with the previous year was due to the substantial growth in the main revenue categories, namely revenue from social contributions, current taxes, and taxes on production and imports. The rise in revenue was partly offset by the increase in some expenditure categories, more importantly, compensation of employees, gross fixed capital formation and social transfers (Table 3.2).

The public debt-to-GDP ratio stood at 77,4% at the end of 2023, recording a decrease of more than

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



8 percentage points compared to 2022 (Chart 3.11). This was due to the relative strong primary surplus (4,4% of GDP) and the continued economic growth.

3.2.4 Forecasts

According to the March 2024 forecasts, economic growth in 2024 is projected to rise to 2,8%, compared with growth of 2,5% in 2023, with further expansion by 3,1% in 2025 and 3,2% in 2026. The GDP path is attributed to the expected expansion in domestic and external demand. Domestic demand is supported by the recovery of real household disposable income. The projected rise in services exports, especially from 2025 onwards, reflects the correction in tourism and the dynamics of sectors such as technology, which have grown intensively in recent years through foreign investment. At the same time, there is still uncertainty about the medium-term economic consequences of the Middle East conflict, since the economic impact depends on its duration and possible extension, while so far any short-term effects appear to be contained.

HICP inflation (Harmonised Index of Consumer Prices) is expected to decelerate further compared with 2023, standing at 2,0% and 1,9% in 2024-2025 and 2026, respectively. This further drop of HICP is mainly due to the anticipated magnitude of the ECB's single monetary policy, the correction in energy prices, and the expected normalisation in both profit margins of firms and wage increases. Core inflation (inflation excluding energy and food prices) is also forecasted to decline further compared with 2023, standing at 2,6%, 2,3% and 2,2%, in 2024, 2025 and 2026, respectively.

Regarding the risks of a deviation from the baseline forecasts, these tend to be tilted slightly to the downside overall for GDP and to be balanced for inflation. The main downside risks to GDP relate mainly to the negative economic impact from ongoing geopolitical tensions and the fragile path of external demand. In relation to HICP Inflation, upside risks are mainly emanated from possible higher than expected energy prices, while downside risks could arise from a stronger-than-expected impact of the ECB's monetary policy.

Economic developments during the first half of 2024

GDP recorded a higher than expected annual increase in the first quarter of 2024, reaching 3,5%, following an annual increase of 2,1% in the fourth quarter of 2023. In short, the data reflect the waning impact of ongoing sanctions against Russia on the turnover of financial and professional services and, the limited impact of the Middle East conflict.

The pick-up in GDP in the first quarter of 2024 is primarily due to the rise in domestic demand, especially private consumption and, to a lesser extent, the rise in investments. To this contributed the rise in real disposable household income and the ongoing implementation of large private investments. At the same time, net exports had a positive contribution, due to the decrease in imports of goods for home consumption and the expansion of services exports (tourism and other services). The sectors with the largest contribution to GDP growth were those of trade, transportation, accommodation and food services with 0,7 percentage points (increase of private consumption and tourism), construction with 0,6 percentage points (positive investment growth), professional services with 0,5 percentage points and, information and communication with 0,4 percentage points (expansion of technology sector).

At the same time, the labour market continues to exhibit strong resiliency. In line with the positive trend of GDP, in the first quarter of 2024,

employment recorded an annual increase of 2,2% and unemployment decreased to 6%, compared with 2% and 6,8%, respectively, in the first quarter of 2023.

During the first four months of 2024, domestic average lending rates stabilised at the high levels prevailed in 2023, following the increases recorded over the previous year and a half. As regards deposit rates, they remained relatively stable in the first months of 2024, following a mild upward trend mainly in the second half of 2023. However, they continue to remain at low levels.

Domestic headline inflation continued its downward course, registering on average, a yearly increase of 2,2% during the period January-May 2024 compared with 5,4% in the corresponding period of 2023. The deceleration of the domestic HICP inflation is mainly related to the impact of the single monetary policy of the ECB for the euro area countries in conjunction with the developments in energy prices and the domestic government mitigating measures.

4. FUNCTIONS OF THE BANK

4.1 Regulatory and Supervisory Activities

4.1.1 Developments and prospects of the banking sector

Over the past years the Cyprus banking sector has proven to be resilient, despite the prolonged challenges stemming from the health crisis, the geopolitical developments which included war conflicts, as well as the strong inflationary pressures. In particular, similarly to the immediately preceding years, strong liquidity reserves are observed during 2023, with the liquidity coverage ratio reaching 358% in December 2023, almost double the corresponding Eurozone average. In addition, the Common Equity Tier 1 ratio (CET1) stood at 20,4% at 31 December 2023, compared to the European ratio which was 16% at the respective period. The robust indicators of the domestic banking system create prospects for the efficient response even to potential severe disruptions.

As at December 2023, Non-Performing Loans (NPL) as a percentage of total loans, have decreased further to 7,9%. Loans classified in Stage 2, i.e. loans that are a step before being classified as NPLs, have also recorded a decrease reaching 7% of total loans at the respective period. These indicators affirm that the asset quality of banks has not been impacted from the prolonged challenges during 2023. Nevertheless, the risk of NPLs remains high in the supervisory priorities of the CBC given the continuous uncertain external economic and geopolitical environment, in conjunction with the fact that the deleveraging achieved has not been

homogeneous, with significant reductions in NPLs observed by the larger banks. In this respect, the CBC has engaged with a consortium comprising international and well reputable companies, for the design of a systemic solution, which, with the existing available tools, will further foster banks in deleveraging their NPLs. The said project is at an advanced stage of design and analysis.

Another positive development in 2023 is the upgrade of the Cyprus economy to investment grade rating from all reputable credit rating agencies. A part of this achievement is attributed to the continued strict preventive supervisory policy exercised by the CBC, which ensures the stability and robustness of the banking system, and by extension, the broader economy of the country.

In 2023 ECB's monetary policy decisions for dealing with high inflation continued and resulted to a significant increase in reference interest rates and, consequently, market interest rates. The rise in interest rates in conjunction with the sharp price increase, inevitably reduced the disposable income of households and businesses, increasing the risk of a potential deterioration in banks' asset quality. Banks' continuous application of prudent practices on the management of their loan portfolio remains imperative and towards that direction is the ongoing supervision by the CBC. It is thus required that bank's closely monitor their portfolios and apply prudent practices, emphasising on the repayment ability when granting new loans.

Additionally, also in line with a series of recommendations issued to banks and credit acquiring companies, supervised institutions should continue focusing on providing viable restructurings without undue delays in order to proactively

address difficulties in repayments by vulnerable borrowers.

Furthermore, a stable, balanced and comprehensive legal framework for the resolution of existing, as well as, potentially new NPLs, which shall include foreclosures as a last resort on the basis of which the country's financial and economic stability will not be compromised, was and remains the CBC's stance.

In light of the sharp increase in reference interest rates since July 2022, banks recorded increased profitability during 2023. This is due to the steep increase in interest income, as a result of also the banks' high liquidity, reaching 358% as outlined above, a significant part of which results from placements with the ECB. The increased profitability, though, will not alter the supervisory authorities' views over the necessity to maintain a prudent policy with respect to banks' dividend payments, having as a priority further strengthening their capital adequacy. It is emphasized that during 2023, only one Cyprus bank was approved to distribute dividends.

Further to the above, additional challenges faced by the banking sector during the year under review, leave no room for complacency to the supervisory and regulatory authorities. Special reference is made to the risk arising from climate change, which is rapidly increasing and requires immediate and collective action from all involved parties. In 2023, the efforts, to make this risk an integral part of banks' strategic planning and decision making processes, were intensified. All banks, regardless of their size, should thus step up their efforts to complete their internal assessment and subsequently measure the

potential impact of climate change on the whole range of their activities.

It is also highlighted that Information, Communication and Technology risk remains relevant, as ever, amid the increased efforts of banks towards digitalization and also due to increased cyber-threats. The efforts of supervised institutions to enhance their resilience from such risks shall be intensified while actions shall be taken for the adequacy and ongoing updating of internal procedures and prudential measures. In 2023, the CBC carried on its policy of inviting supervised institutions to engage in a series of actions, including annual penetration testing of critical systems. The CBC kept monitoring and actively contributing, as a member of the European Banking Authority, in the course of action towards implementation of the EU Regulation on Digital Operational Resilience, known as DORA, which entered into force in 2023 with a final implementation date of January 2025.

4.1.2 Supervision of Significant, Less Significant and Non-Credit Institutions

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.

4.1.3 On-site Inspections

Within the remit of its supervisory powers and responsibilities, the CBC conducts on-site inspec-

tions of licensed credit institutions and credit acquiring companies in accordance with its annual plan derived from the identified risks and priorities. 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 2023 exclusively by the CBC.

In 2023, the exchange of know-how and expertise between the CBC and the Bank of Greece continued, in the context of the Single Supervisory Mechanism's collaboration hub of on-site inspectors.

4.1.4 Licensing and Assessment of the Suitability of persons

Licensing

Regarding the licensing of credit institutions that are registered in Cyprus as legal entities, the CBC submits its proposal to the ECB, which is the competent authority for the granting of a credit institution licence in the Eurozone countries.

Within the framework of its powers and responsibilities, the CBC is the authority responsible for the licensing of the following entities that intend to operate 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.

During the year 2023, nine entities were granted an operating license.

Assessment of the suitability of persons

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

For the significant credit institutions of Cyprus, which 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 proposed members of the management bodies and proposed key function holders of the less significant credit institutions of Cyprus which are under the direct supervision of the CBC, as well as for the other entities that are licenced and supervised by the CBC.

4.1.5 Legal and Regulatory framework

The CBC, in exercising its powers, issues Directives and Circulars towards the entities under its supervision and proposes legislative amendments for advancement to the Parliament by the competent Ministry responsible for each matter. The main objective is the adoption of best prac-

tices and procedures introduced and promoted by European banking and other transnational bodies, as well as the national harmonisation and alignment with the European regulatory framework. Moreover, the CBC adopts guidelines issued by the EBA on matters relating to credit institutions and other entities licensed and supervised by the CBC.

The CBC actively participates in the European bodies for the formation, adoption and implementation of regulations concerning the scope of its competencies. In this context, an important regulatory package that was agreed and completed on a European level within 2023, through the amendment of the European Regulation (EU) No. 575/2013 (CRR) and the European Directive 2013/36/EU (CRD), was the Basel III rules framework. Throughout the process, the CBC worked closely with the relevant government authorities for the development, promotion and explanation of Cyprus' positions.

4.1.6 Innovation Hub-Cybersecurity

In order to further encourage, promote and support domestic financial innovation, the Central Bank of Cyprus has continued in 2023, the operation of an Innovation Hub. The Innovation Hub is a crucial step in the broader context of the supervisory objectives and priorities of the CBC, which include innovation, digital transformation, digital operational resilience and cybersecurity.

Fostering innovation and greater collaboration, enhancing the understanding of financial technology, and aiding the development of innovative products or services to ultimately benefit and

enhance the financial system continue to be some of the Innovation Hub's objectives.

Through this channel, the CBC continues to support and encourage institutions to tackle regulatory and administrative obstacles when promoting innovative technologies by providing non-binding guidance on regulatory and supervisory prerequisites including any potential licensing requirements for innovative Fintech products or services.

Further details are available at <https://www.centralbank.cy/en/innovation-hub>

4.1.7 Prevention of the use of the financial system for money laundering and terrorist financing (AML/CFT), Financial Conduct

Prevention and suppression of money laundering activities

As per the *Prevention and Suppression of Money Laundering Activities Law of 2007, as subsequently amended, ("the Law")*, the CBC is designated as the competent authority for credit institutions, payment institutions, electronic money institutions as well as all licensed institutions by the CBC. In this respect, the CBC conducts off-site monitoring and on-site supervisory programmes and organises and participates in activities in Cyprus and abroad, aiming to improve the effectiveness of supervision. Furthermore, the CBC conducts examinations and assesses the compliance of supervised institutions with the restrictive measures of the Council of the European Union and the sanctions' provisions of the United Nations Security Council Resolutions.

One of the major and of utmost importance actions of the CBC, is the updating of the relevant regulatory framework in line with best international practices and of the 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 2023 the CBC, in cooperation with the Ministry of Finance and the other competent authorities, finalised the drafting of a bill to achieve compliance with the recommendations of the Moneyval Committee of the Council of Europe in relation to the areas of correspondent banking relations (Recommendation 13 of the FAFT) and of new technologies and crypto-assets (Recommendation 15 of the FAFT). The bill was enacted into Law on 20 October 2023.

During 2023, representatives of the CBC continued to be actively involved in the proceedings of the European Commission, of the Council of the EU 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 as well as for strengthening the existing legal framework. CBC representatives participated in the negotiations concerning the new legislative package of the EU on Anti-money Laundering and Terrorist Financing, consisting of four legislative measures. One of these concerns the establishment of a pan-European Anti-money Laundering Authority.

During 2023, the CBC carried out on-site and off-site examinations as well as special examina-

tions in a number of supervised institutions on various topics.

During 2023, the CBC continued to actively participate in two Committees which were established by decisions of the Council of Ministers, namely, the Advisory Committee on Economic Sanctions (SEOK) and the Unit for the Implementation of Sanctions (MEK). At the same time, the establishment and operation of the National Sanctions Enforcement Unit (EMEK) is underway. According to the initial planning, the CBC will be participating in this Unit.

During 2023, and within its competence to ensure the implementation by supervised institutions of the sanctions and restrictive measures as provided in the Law No. 58(I)/2016, the CBC evaluated the efficiency and effectiveness of the sanctions screening systems used by supervised institutions for their compliance with the existing legal and regulatory framework.

Supervision of Payment and Electronic - Money Institutions

The CBC, as the competent authority for the supervision of payment and electronic money institutions, conducts on-site examinations and off-site monitoring, and organises and contributes in initiatives, aiming at enhancing the effectiveness of the supervision it exercises. During 2023, the CBC carried out short supervisory onsite examinations at a large number of payment institutions and electronic money institutions, with the aim of assessing the degree of their compliance with the provisions of the legal framework and the terms and conditions of their licence.

CBC representatives also participated in the discussions for amending the EU legal framework for payment institutions and electronic money institutions. This consists of a package of three legal acts, which, *inter alia*, aim to further improve competition in electronic payments and strengthen consumers' protection, by enabling them to share their data with payment service providers in a secure way, so that they can have access to a wider range of financial products and services, at a lower cost.

Financial Conduct

The work plan of the Financial Conduct Section (FCS) of the CBC was developed on the basis of the CBC's supervisory responsibilities that arise from specific provisions of national and European legislation, which aim to ensure ethical market conduct, including the fair treatment of customers and trust-building in financial markets, which in turn can lead to financial inclusion, sustainable economic growth and financial stability.

An important tool of the FCS is a mechanism that is available on the CBC's website to facilitate

the submission to the CBC of reports of alleged breaches by supervised institutions. Reports may be submitted anonymously or by name. It should be 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 arising from activities such as the granting of residential loans, restructurings of credit facilities falling within the scope of the Code of Conduct, which is an Annex to the CBC's Arrears Management Directive, access to payment accounts, the provision of payment services and the provision by credit institutions of investment services.

During 2023, 180 reports were submitted to the FCS, compared to 174 during 2022 (Table 4.1). The major share of reports (96, or 54%) related to credit facility issues, of which 65 related to restructuring procedures. During 2022, 95 reports related to credit facility issues of which 76 related to restructuring procedures. Based on the investigations carried out by FCS, it appeared that the number of borrowers / complainants that filed an

Table 4.1 Analysis of reports of alleged breaches

Complaint issues	2 months from 1/11/2020								Total	
	to 31/12/2020		2021	2022		2023				
Credit Facilities	12	70%	91	68%	95	55%	96	54%	294	58%
<i>Of which for restructuring proceedings</i>	3	18%	60	45%	76	44%	65	36%	204	40%
Payment procedures	1	6%	13	10%	28	16%	31	17%	83	16%
Payment accounts with key features	2	12%	11	8%	15	9%	22	12%	50	10%
General complaints	1	6%	13	10%	14	8%	20	11%	49	10%
Due diligence procedures / sanctions	1	6%	6	4%	22	13%	11	6%	29	6%
Total	17		134		174		180		505	

Source: CBC.

appeal to the Appeals Committee of the credit institution and/or the credit acquiring company remained low. Similarly, the number of borrowers / complainants who exercised their right for mediation, remained very low in 2023.

31 of the reports submitted in 2023 relate to payment procedures (17%), while 22 of the reports relate to the procedures for opening/terminating payment accounts with basic features (12%). The corresponding figures for 2022 were 28 reports (16%) and 15 reports (9%) respectively. The reporting process to the CBC and the investigation of reports by the FCS are distinct from the complaint procedures to the complaint handling units of the supervised institutions as well as from the out-of-court dispute resolution procedures, which are the responsibility of the Alternative Dispute Resolution Bodies, including the Financial Ombudsman.

Supervision of the provision by credit institutions of Investment Services

The FCS is the responsible section of the CBC for the exercise of prudential supervision in relation to the provision of investment services by credit institutions. These services are governed by the Investment Services and Activities and Regulated Markets Law of 2017, which transposed the EU Directive on Markets in Financial Instruments, known as MiFID II, into national law, as well as by the «MiFIR» and «CSDR» Regulations for the reporting of transactions in financial instruments and internalised settlement transactions to ESMA respectively, and other relevant Regulations of the EU.

Furthermore, during 2023, the FCS conducted supervisory reviews in relation to the provision by credit institutions of custody services to investment funds and in relation to the provisions that ensure investor protection during the provision of investment services. Specifically, the relevant thematic supervisory reviews focused on the requirements regarding the categorisation of investors as retail or professional investors, the assessment of the suitability of the investment service and the appropriateness of the financial instrument in relation to the client, the information provided to clients and the process of selling MREL products to retail clients. The FCS also conducts prudential supervision in relation to the issuance of covered bonds in accordance with the Law that regulates the Issuance and Public Supervision of Covered Bonds.

The FCS continues to monitor the legal and regulatory developments in the European Union with respect to sustainable finance and has included in its supervisory program the assurance of the compliance of credit institutions with the EU Regulations insofar as they concern the provision of investment services. Specifically, on 1 January 2023, two Regulations came into force: a) in relation to the integration of sustainability factors, risks and preferences into certain organisational requirements of credit institutions and b) on sustainability related disclosures in pre-contractual documents concerning the principle of "do no significant harm", sustainability indicators and adverse sustainability impacts.

The CBC continued to monitor the negotiations in the Working Group of the Council of the EU of the European Commission's proposals aiming to

(a) improve small and medium sized enterprises growth markets, (known as the 'Listing Act Package'), (b) creating a central database of prices and volumes of financial instruments that are traded across the European Union and (c) regulating markets in crypto assets.

Furthermore, during 2023, the FCS started following the work of the Working Group of the Council of the EU in which the European Commission's proposals on the Retail Investment Strategy are being negotiated, to the extent that investment services are provided by credit institutions. This proposal aims to strengthen the confidence of retail investors and encourage greater participation of retail investors in the capital markets.

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 2023 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.

As part of the operating framework of the Single Resolution Mechanism (SRM), the SRB sets for every significant credit 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 2023 revised binding MREL targets based on the relevant SRB policy, were communicated by the SRB to the significant credit institutions.

During 2023, 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 2023, significant credit institutions made further 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 credit institutions made progress towards meeting the CBC resolvability expectations that were set on a proportional basis on the aforementioned SRB expectations.

On 29 June 2023, the District Court of Nicosia issued a decision for the liquidation of the branch of FBME Bank Ltd and the appointment of a liquidator on the basis of the agreement reached between the CBC and the Tanzanian authorities in December 2022.

It is noted that, on 24 February 2022 the Administrative Court issued a decision annulling the CBC decision to adopt resolution measures in relation to the branch. The CBC filed an Appeal against the said decision, which is still pending.

As regards the resolution regulatory frame-

work, during 2023, members of the CBC participated in the preparation of draft legislative proposals for the transposition of EU provisions on resolution matters and the better application of existing provisions of the Directive 2014/59/EU in national law.

The CBC, also, provided technocratic support to the Ministry of Finance during the discussions, at European Council level, of the European Commission proposal for the Crisis Management and Deposit Insurance (CMDI proposal). The CMDI proposal aims at improving the resolution tools to be used for managing the failure of medium and small size credit institutions in order to maintain financial stability and depositor confidence. Primary provisions of the CMDI proposal include the expansion of the resolution scope and the possibility to use the Deposit Guarantee Fund for financing the transfer of deposits in the context of the transfer of business resolution tool. Other provisions include the use under certain circumstances in both cases of the Deposit Guarantee Scheme to fund the transfer of deposits in case of winding up of a credit institution as an alternative measure to the piecemeal liquidation.

Finally, regarding the resolution regulatory framework, during 2023 the CBC issued to institutions circulars on specific issues on the basis of SRB and EBA recommendations.

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, which is managed by the Single Resolution Board based in Brussels.

The CBC provides administrative support for the execution of the DGS's tasks. During 2023, 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 €20,5 million in 2023. 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 €210 million approximately or 0,76% of covered deposits as at 31 December 2023. The remaining contributions until the target level is reached, will be invoiced during the year 2024.

With regard to resolution financing arrangements, during 2023, no contributions to the National Resolution Fund (NRF) were collected. This was due to the fact that the target level of 1% of covered deposits of banks has been met.

An important development for the DGS is the new EU proposal submitted in April 2023 relating to crisis management and deposit insurance. The relevant proposal constitutes a basis for future legislative development. The responsible department of the CBC participates in the discussions held at European level.

Finally, it is noted that, in 2023, physical and remote 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 addi-

tional 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 2023.

It is noted that in 2023, Banque Bemo sal (Cyprus Branch) ceased to be a member of the ICF since it terminated the provision of investment services. In addition, RCB Bank Ltd also ceased to be a member of the ICF in 2023, since it terminated its operations. Following the departure of the aforementioned bank, 7 banks remain as members of the ICF.

Finally, it is noted that in 2023, the Annual General Meeting of the members of ICF was held, with the participation of ACI representatives. The financial results of the ICF were presented during the meeting, as well as the proposed changes to the legislation governing 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 2023, 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 main macroprudential policy decisions in 2023, the following are noted:

- On 2 June 2023, the CBC, following the revised methodology described in its macroprudential policy², and acting proactively in order to fulfil its primary objective of safeguarding financial stability, deemed appropriate to increase the countercyclical buffer rate from 0,5% to 1,0% of the total risk exposure amount in the Republic of each licensed credit institution incorporated in the Republic. The new rate must be observed as from 2 June 2024, 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 a time when risks were neither particularly elevated nor subdued.
- During 2023, the CBC, following its annual reassessment, designated five credit institutions as Other Systemically Important Institutions (O-SII) and set the level of the capital buffer that they must maintain as a result of their systemic importance.
- The CBC continued during 2023, to comply with the European Systemic Risk Board (ESRB) Recommendations on voluntary reciprocity for macroprudential policy measures.

4.3.3 Publications

The CBC published in December 2023 its *Financial*

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

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

Stability Report (FSR) for 2022, which presents issues that are relevant for the safeguarding of financial stability. In the FSR, the CBC provided its assessment with respect to the main medium term risks to financial stability, which are as follows:

- (a) Challenges to the balance sheets of the domestic private non-financial sector stemming from the prolonged high inflation in combination with the rising lending interest rates, in particular, for loans linked to Euribor, or to the ECB base rate;
- (b) The possible deterioration in the quality of financial institutions' assets, despite the positive outlook with respect to their profitability and solvency;
- (c) The significant overall exposure of financial institutions to the real estate sector, making them vulnerable to any negative developments in the real estate market, despite the said market's resilience;
- (d) Emerging external risks, such as risks from climate change and cyber related risks.

In the FSR, reference is also made to the resilience that the financial sector as a whole has shown so far, as well as to the improvement recorded in the main solvency indicators. However, the uncertainty in the face of the ongoing challenges arising in the domestic and international environment, demonstrates the need for continued vigilance. Furthermore, the FSR provides, *inter alia*, information relating to the macroprudential policy followed by the CBC and the relevant macroprudential tools it applies within the framework of its responsibilities as a macroprudential authority, for the purposes of ensuring financial stability.

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

Despite the positive performance of the financial sector and the Cyprus economy in general in 2023, the full impact of the persistent high inflation and the consequent significant interest rate increases on the balance sheets of the private non-financial sector is expected to become more evident over time. Amid the high uncertainty in the financial environment and the ongoing challenges, the CBC monitors closely and continuously the risks that threaten financial stability, with the use of internal risk monitoring tools, in order to limit potential vulnerabilities in the system by taking the necessary macroprudential policy measures, where deemed necessary.

In particular, during 2023 the CBC continued to assess risks in the banking sector, through an internal risk monitoring tool in the form of a heatmap. In addition, the CBC assessed potential risks and vulnerabilities also in the non-bank financial sector, in particular in the insurance sector, through a new risk monitoring tool in the form of a risk dashboard.

In 2023, the CBC continued the collection of residential and commercial real estate data, in order to better evaluate possible risks to financial stability stemming from the real estate sector, in accordance with the ESRB Recommendation ESRB/2016/14 relating to real estate loans. In addition, the CBC has undertaken the coordination among the competent supervisory authorities of the financial sector of Cyprus, for the purposes of implementation of Recommendation ESRB/2022/9 regarding vulnerabilities in the commercial real estate sector.

Moreover, in order to understand the recent rising trends in interest rates, including the pass-through of monetary policy to borrowers, the CBC requested banks to submit information on the lending and deposit interest rates offered, conducting a relevant analysis.

4.3.5 Support to Governor and participation in ECB and ESRB committees and working groups

During 2023, the Financial Stability Department continued to contribute to the preparation of the Governor for his participation in the ECB's Governing Council meetings, particularly on issues relating to financial stability and to macroprudential analysis and policy, as well as for his participation in the meetings of the ESRB General Board.

The CBC, through the Financial Stability Department, 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.

In addition, the CBC participated 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 2023, 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

- TARGET-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 year 2023 has brought significant changes to the field of FMIs. Up until 19 March 2023, various transactions were settled in central bank money in the Eurosystem's Trans-European Automated Real-time Gross Settlement Express Transfer system (TARGET2), such as the refinancing operations of commercial banks with national central banks. At the same time, the Eurosystem provided to Central Securities Depositories (CSDs) a separate technical platform for the settlement of securities transactions, called TARGET2-Securities (T2S). The Eurosystem brought together securities accounts in CSDs that are connected to T2S and dedicated cash accounts in central banks also connected to T2S, thereby enabling the simultaneous exchange of securities and payments between buyers and sellers, in central bank money and in real-time.

In 2023, the Eurosystem concluded the ambitious project that entailed the technical and operational consolidation of TARGET2 and T2S, and which aimed at achieving synergies and further facilitating related procedures. In specific, on 20 March 2023 the new system TARGET became operational thereby replacing TARGET2.

TARGET now supports the following services:

- **T2:** supports the real-time gross settlement of

payment orders and capital transfers, hence the broad reference to RTGS. This service is also used for the settlement of ancillary system transactions, which exchange and/or clear payment instructions.

- **TARGET2-Securities (T2S):** provides securities settlement services.

- **TARGET Instant Payment Settlement (TIPS):** provides instant payment settlement services.

Compared to TARGET2, the new generation TARGET system offers to its users new operational functionalities. A prominent example is the new 'Central Liquidity Management module' (CLM) that optimises the steering, management, and monitoring of central bank liquidity across all 3 TARGET services. Additional interesting aspects of the upgraded services entail the possibility of data analysis given that such business information is kept for at least 10 years, as well as the settlement of transactions in currencies other than the euro.

The technical consolidation of T2-T2S has brought to users various benefits, notable of which are the enhanced cyber resilience, the incorporation of new technology, the possibility to connect via various network providers and the migration to the new ISO 20022 standard that is expected to bring extensive benefits due to the enriched data offered, thereby accentuating the efficiency for the detection and prevention of fraud, as well as the processing of payments in general.

Migration of the Cypriot market to T2, the 'successor' of TARGET2

On 20 March 2023 the migration of the Cypriot market to the successor of TARGET2 was smooth,

due to the CBC’s ongoing support and guidance. The participants of T2-CY are credit institutions that were previously connected to TARGET2-CY and the four Cypriot ancillary systems (Cyprus Stock Exchange, the Cypriot SDD, CCH and JCC Cards Payment System).

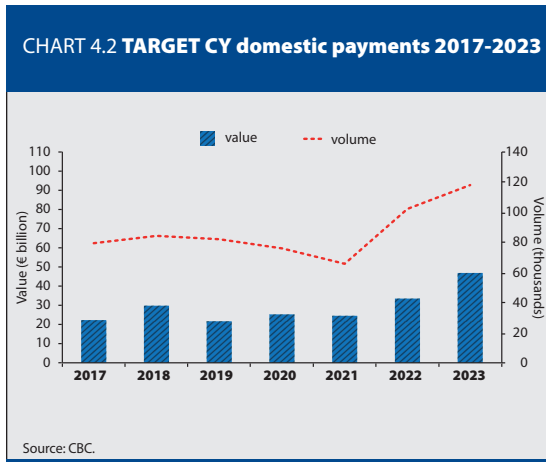
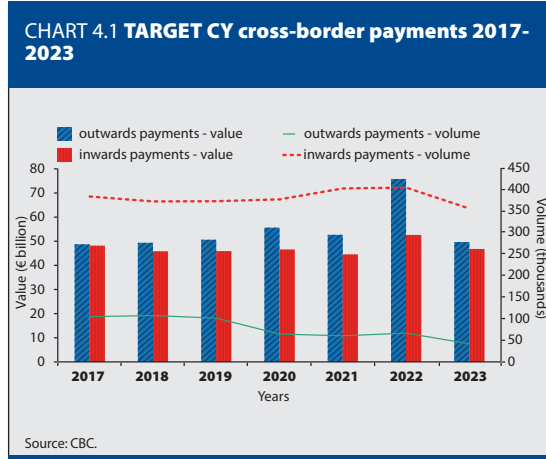
As from 20 March 2023, the CBC offers to the Cypriot market T2 services only. In 2023, the CBC did not provide services for the settlement of instant payments in TIPS, because the Cypriot payment service providers had not yet made available instant payments to their customers. Likewise, the CBC did not offer securities settlement services, because the CSE is not connected to T2S.

TARGET-CY: the Cypriot component of the new system TARGET

TARGET is a single shared platform for payments that is managed by the Eurosystem and it is legally comprised by national components. Since 20 March 2023, the CBC has the responsibility to manage its own component, this being TARGET-CY, in line with Guideline ECB/2022/8, as amended (ECB/2023/22) and the TARGET-CY CBC Directive of 2023 (Κ.Δ.Π. 58/2023) as amended (Κ.Δ.Π. 356/2023).

TARGET-CY settles the following:

- a) CBC payments related to monetary policy operations,
- b) payments between credit institutions that participate in TARGET-CY which are carried out either on behalf of their customers (customer payments) or for their own account (interbank payments),
- c) the final positions of each of the four Cypriot ancillary systems.



In addition, the Cypriot credit institutions that participate in TARGET-CY and hold minimum reserves with the CBC are now able to use cumulatively the balance available in the new ‘Central Liquidity Management module’ with the available balance that corresponds to each of the 3 TARGET services.

In 2023, the total volume of outward and inward cross-border transactions settled through TARGET-CY decreased by 37% and 12%, respectively, compared to 2022. In value terms, in 2023, the outward and inward cross-border transactions

settled through TARGET-CY decreased by 34% and 11% respectively, compared to 2022.

In terms of domestic transactions, in 2023 the total volume of transactions settled through TARGET-CY increased by 15%, while the total value increased by 40% compared to 2022.

The volume and value of cross-border and domestic payments settled in TARGET-CY are illustrated in Charts 4.1 and 4.2 (p. 43), respectively.

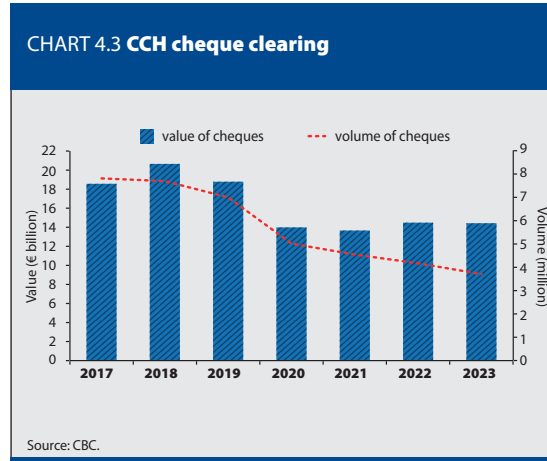
Cyprus Clearing House

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

During 2023, the new Electronic Cheques' Clearing System (ECCS) was put into operation through which important steps have been achieved towards the modernisation and the enhancement of the security of the Cyprus Clearing House operation.

In addition, the CCH has forwarded to the Ministry of Finance a proposal for the amendment of the Bills of Exchange Law (Cap. 262) and the Penal Code Law (Cap. 154), so as to enable the clearing of a cheque through digital representation by the banks' systems, without presenting the original cheque to the bank.

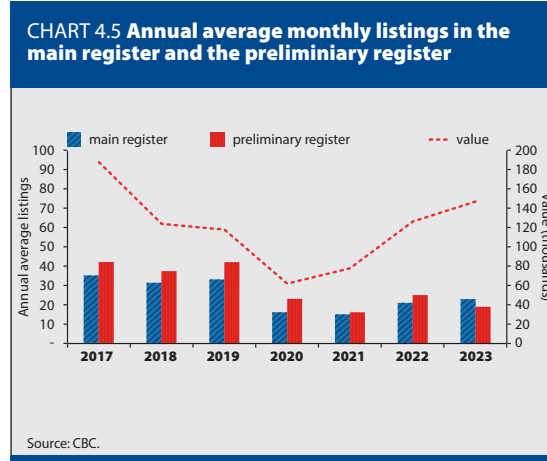
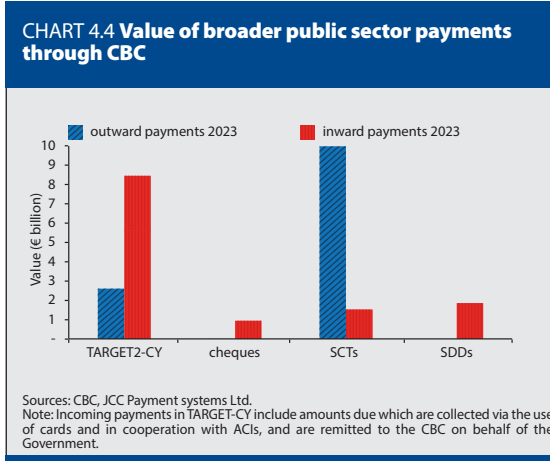
Chart 4.3 illustrates the volume and value of cheques cleared through the Electronic Cheque Clearing System (ECCS) platform, for the period 2017-2023. It shows that there is a continuous decrease in the volume of cheques reflecting the market trend favouring the usage of electronic means of payments against cheques, while the value of cheques remained at the same level.



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 continues 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 (p. 45), which illustrates the use of payment instruments for incoming and outgoing government payments via the CBC, shows clearly that the government payments are mainly effected through electronic means, via TARGET-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)

The Central Information Register (CIR) for issuers of bounced cheques was launched on February 1, 2003 to address and prevent the problem of bounced cheques. During 2023, the CBC has consulted with the members of the CIR Management Committee and the member banks of the CCH with a view to adopting a new Directive on the operation of the CIR within 2024.

In 2023, the average monthly number of new registrations of natural or legal persons in the main CIR register showed an increase of 10%, while in the preliminary register showed a decrease of 24%, compared to 2022 (Chart 4.5). At the same time, there was a 16% increase in the

average monthly total value of cheques placed on the preliminary register, compared to 2022.

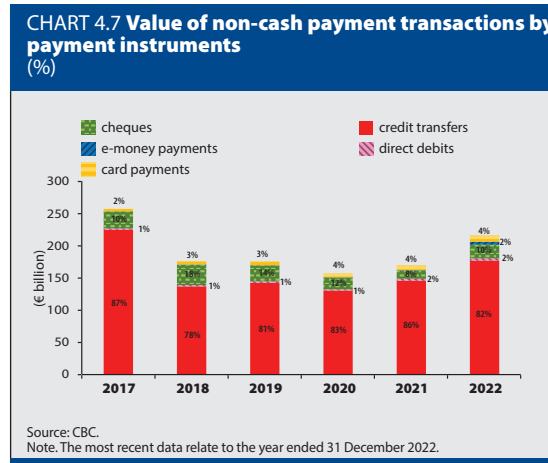
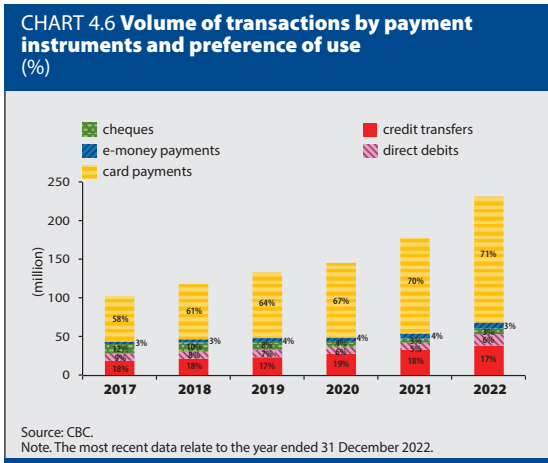
Interchange fees for card-based payment transactions: Regulation (EU) 2015/751 (Interchange Fee Regulation - IFR) and Law (N.77 (I)/2018)

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

A prerequisite for taking catalyst action entails the analysis of payment statistics collected by virtue of Regulation (EU) 2020/2011. As shown in Charts 4.6 and 4.7 (p. 46), card payments continue to account for the largest share of the volume of cashless



transactions, whereas credit transfers largely dominate the total value, followed by cheques.

Payments data analysis for the year 2022 reveals that Cypriots are increasingly favouring a secure, convenient, fast and seamless experience for retail transactions. In specific, contactless card payments amounted to more than half (53%) of all card transactions at physical shops. Moreover, the use of the mobile phone is rather popular for making remote payments and it is getting close to the EU average (CY: 10%; EU: 14%). Likewise, mobile payments are used frequently also for cross-border transactions via cards, especially to the Netherlands and to Lithuania (45% and 21% of the total volume of mobile payments respectively).

As regards payment fraud statistics, the CBC continued to leverage synergies since the entry into force of Regulation (EU) 2020/2011, due to the legally binding provision “collect data only once”. In effect, payment service providers report payment fraud data only to the CBC and no longer to various reporting units, as was previously the case.

Moreover, through the National Payments Committee (NPC) that it chairs, the CBC continued

to promote instant payments as the new norm for making retail payments, according to the strategies of the Eurosystem and of the European Commission. In this respect, the CBC invited representatives of the ECB, the Bank of Italy and the Bank of Slovakia for thoroughly informing Cypriot payment service providers about the TARGET Instant Payment Settlement (TIPS). In addition, the CBC facilitated the exchange of views amongst NPC members in order to formulate a national action plan, such that the Cypriot market is more closely aligned with the Eurosystem’s revised retail payments strategy. This would be especially relevant with respect to continuing to support innovation and digitalisation in payments, enhancing the safety and efficiency of payment instruments and reducing the environmental footprint when making retail payments.

Aiming at raising public awareness about the Eurosystem’s ongoing work on the possible issuance of a digital euro, the CBC presented the decisions taken by the Governing Council of the ECB during the previous two (2) years that lasted the investigation phase of the project and outlined the next steps of the preparation phase.

In addition, the CBC represented Cyprus at EU Council discussions as regards legislative proposals of the European Commission with respect to: a) making instant payments in euro available to all citizens and businesses holding a bank account in the EU and in EEA countries, b) the establishment of the digital euro, and c) the legal tender of euro banknotes and coins.

Aside retail payments work, the CBC continued to inform the Cypriot banking community about the implementation of a wholesale central bank digital currency-CBDC, which entails 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 the annual exercise for monitoring compliance with European standards for the processing of corporate actions and for the identification of shareholders.

Oversight

Cybersecurity and the smooth operation of FMIs

The CBC monitored the readiness of the domestic

FMIs in relation to cyber resilience, which remains a key priority for the Eurosystem.

Central Securities Depositories

The CBC assessed and 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 2023 amounted to €1.567 billion, recording a marginal annual decrease of 0,3%. 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 149,5 million pieces of banknotes were processed (i.e. counted and checked for authenticity and fitness before recirculation), of which 17,7% (or 26,5 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 and other entities involved in cash handling to verify compliance with the provisions of its Directive of 2014 on the Authenticity and Fitness of Euro Banknotes and their Re-issuance, 24 such inspections were carried out throughout 2023 (2022: 25) and covered all districts.

As far as coins are concerned, during 2023, 0,6 million euro coins were processed, out of which 0,32% (1.686 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.

4.5.2 Counterfeit euro banknotes and coins found in Cyprus in 2023

During 2023, 642 counterfeit pieces of euro banknotes of various denominations were detected in circulation, compared to 451 pieces in 2022. The €20 banknote was the most frequently counterfeited, representing 41,7% of the total number of pieces. The majority of the counterfeited banknotes (59,73%), which were withdrawn from circulation, were detected by the CIT company. The number of counterfeit euro banknotes (642 pieces) in Cyprus is very small (0,14%) and is one of the lowest in the euro area countries. Finally, regarding coins, a small number of counterfeit coins (107 coins) were detected in 2023 (2022: 91 coins) all of €2 value.

4.5.3 Issue of numismatic items

Collector coin set

In October 2023, the CBC issued 5.000 pieces of the Cyprus collector euro coin set, minted in 2023, in brilliant uncirculated condition. This is the second of three sets of the three-ply collector coin set series of Cyprus euro coins dedicated to the folk tradition of Cyprus. The set is dedicated to the traditional musical instruments of Cyprus. There was great interest in the issue both from Cyprus and abroad.

Commemorative coin

In September 2023, the CBC issued a common commemorative coin, with a nominal value of €2



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 sold out during the first days after selling had begun.

Collector coin



In November 2023 the CBC issued a silver collector coin, with a nominal value of €5, in proof condition. The coin depicts the head of a statue representing the god Apollon Hylates, which was discovered in his temple in the ancient city of Tamassos. The statue was sculptured around 460 BC. Parts of the statue are found in various museums all over Europe. The coin was designed by the Greek artist Stylianos Gavalas and was minted in November 2023 by the State Mints of Baden-Wuerttemberg in Germany in a limited quantity of 2.000 pieces.



on the occasion of the 60th anniversary of the establishment of the Central Bank of Cyprus. The national side of the coin depicts tools calibrating a microchip symbolising the stability of the economy in the modern industrial and digital era ensured by the Central Bank of Cyprus. The designer was Mr. George Stamatopoulos and the coin was minted by the Printing Works Department of Bank of Greece.

The issue consisted of 3.000 coins in proof

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 and Risk Management Framework (IP&RMF), 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 core principles of the IP&RMF is the safety and preservation of the value of the CBC’s reserves in euro, foreign currencies and gold, as well as the safeguarding of an adequate level of liquidity. Subject to the fulfilment of these principles, the primary objective of the management of reserves is the maximisation of the long-term return on investment. In addition, subject to the principle of reserves safety and the primary aim of achieving a satisfactory level of return, the CBC aims to enhance the sustainability profile of its reserves. Reserve management activities serve also 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 integral 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 (“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 €834 million at the end of 2023, amounted to €1.892 million, compared with €1.284 million at the end of 2022. The increase in the size of the holdings in 2023 as compared with the end of 2022, was brought about by (a) the increase in investments in euro-

denominated securities during the year and (b) the increase in the price of gold at the end.

The tightening of monetary policy by most NCBs, in order to address high inflation, clouded the economic environment and led interest rates in the main markets on a sharp upward trajectory during 2023. Considering the favourable increasing bond market yields, the investment strategy followed by the CBC was to gradually increase the size of reserves.

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 NCBs beyond monetary policy, are set out in the "Agreement on Net Financial Assets" (ANFA)³ between the members of the Eurosystem. Such assets are, for example, the financial assets corresponding to NCB's capital and accounting reserves, foreign reserves or employee pension funds.

The CBC's net financial assets under the ANFA, were estimated to be on average -€4,1 billion during 2023.

3. The Agreement, along with an explanatory text, is published on the ECB's website.
https://www.ecb.europa.eu/explainers/tell-me-more/html/anfa_qa.en.html

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

Other developments

During 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&RMF, 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 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 Board for the initial framework and report information across the four pillars, namely "Governance", "Strategy", "Risk management" and "Metrics and targets". The relevant publication for 2023 is expected to be available in the second quarter of 2024⁴.

4.6.2 Monetary policy operations

The CBC is responsible for the implementation of the Eurosystem's single monetary policy in Cyprus. The main policy instruments employed and used, particularly in Cyprus over 2023, are analysed below:

Standing facilities

Standing facilities aim to provide and absorb

overnight liquidity and bound overnight market interest rates. The Eurosystem offers credit institutions the following standing facilities:

- **Deposit facility:**

Counterparties can use the deposit facility to place overnight deposits with their NCB. The interest rate on the deposit facility is the deposit facility rate (DFR), which during 2023 provided a floor for the overnight interbank market interest rate and thus anchored short-term wholesale money market rates.

The balances of CY counterparties at the deposit facility at the end of 2023 summed up to €23,2 billion, at the same level they were at the end of 2022.

- **Marginal lending facility:**

Counterparties can use the lending facility to obtain overnight liquidity, against the provision of adequate eligible collateral. The marginal lending facility (MLF) rate is the rate at which the eligible counterparties can borrow overnight. The MLF rate typically provides a ceiling for the overnight interbank market interest rate.

There was no lending via the MLF to CY counterparties outstanding at the end of 2023.

Open Market Operations

The Eurosystem uses open market operations to steer short-term market interest rates, to manage the amount of liquidity in the financial system and to signal the monetary policy stance. Counterparties can participate voluntarily at the open market

operations against the provision of adequate eligible collateral.

The regular open market operations conducted by the Eurosystem are the following:

- **Main Refinancing Operations (MROs):**

MROs are one-week liquidity-providing operations in euro, the purpose of which is to provide liquidity. The rate at which MROs are conducted is the MRO rate.

At the end 2023, there was no CY counterparties participation to the MROs.

- **Longer Term Refinancing Operations (LTROs):**

LTROs are three-month liquidity-providing operations in euro. In 2023, the LTROs were carried out as fixed rate tenders with full allotment at the average MRO rate.

At the end 2023, there was no CY counterparties participation to the LTROs.

The non-regular market operations that complement the regular operations in recent years are:

- **Targeted longer-term refinancing operations (TLTROs):**

TLTROs are operations that provide financing to credit institutions for periods of up to four years. They offer long-term funding at attractive conditions to credit institutions in order to further ease private sector credit conditions and stimulate bank lending to the real economy.

The interest on these operations is charged at an individual rate geared to the respective counterparty's eligible net lending.

This rate lies between the average DFR and MRO rate prevailing over the life of the respective operation.

Outstanding TLTROs from CY counterparties were reduced from €5,2 billion at the end of 2022 to €4,5 billion at the end of 2023, as a result of TLTRO repayments.

During 2023, there were six early repayment windows for the outstanding TLTROs as well as maturity dates for some of the outstanding operations of the TLTRO III series. CY counterparties repaid in total €0,7 billion.

Asset Purchase Programme and Pandemic Emergency Purchase Programme

The ECB's Asset Purchase Programme (APP) started as part of a package of non-standard monetary policy measures that also included targeted longer-term refinancing operations. It was initiated in mid-2014 to support the monetary policy transmission mechanism and provide the amount of policy accommodation needed to ensure price stability. Such purchases influence broader financial conditions and, eventually, economic growth and inflation, through different channels.

As a response to the coronavirus emergency, in March 2020, the Governing Council (GC) of the ECB announced the Pandemic Emergency Purchase Programme (PEPP), to address the unprecedented situation faced by the monetary union⁵. The ECB and national central banks bought a range of assets under these programmes, including government bonds, securities issued by European supra-

national institutions, corporate bonds, asset-backed securities and covered bonds.

Given that the Eurosystem did not reinvest all of the principal payments from maturing securities, the APP portfolio recorded a measured and predictable decline during the first half of 2023, which amounted on average to €15 billion per month. As of July 2023, the GC discontinued the reinvestments under the APP whilst PEPP full reinvestment continued throughout 2023.

The CBC continued to participate in the implementation of the APP and the PEPP in 2023. The total book value of CBC's monetary policy portfolios, as at 31 December 2023, was reduced to €7,92 billion, compared to the balance of €8,65 billion recorded on 31 December 2022. 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.

Minimum reserve requirements and remuneration

Minimum reserves are the average funds that credit institutions are required to hold in their reserve accounts at their national central bank over a maintenance period of six to seven weeks. The amount of funds to be held is calculated on the basis of the credit institution's balance sheet prior to the start of each maintenance period. For the duration of a maintenance period, credit institu-

5. 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>

Box 1. Key ECB Governing Council decisions affecting the implementation of the monetary policy during 2023

- Increase of the three ECB policy rates

The GC of the ECB continued raising interest rates significantly through 2023 to ensure a timely return of inflation to its 2% medium-term target. The GC raised the three key ECB interest rates in February and March by 50 basis points and in May, June, July and September by 25 basis points. Accordingly, the interest rate on the main refinancing operations, the marginal lending facility and the deposit facility, increased to 4,50%, 4,75% and 4,00%, respectively.

- Remuneration of reserves

In July 2023 the GC decided to set the remuneration of minimum reserves at 0%. The change became effective as of the beginning of the reserve maintenance period starting on 20 September 2023. Minimum reserves were remunerated at the DFR rate since October 2022. Given the conditions of ample liquidity, the GC's main instrument for setting the monetary policy stance in its fight against inflation is the interest paid on the reserves that banks hold in the ECB's deposit facility – i.e. reserves beyond the minimum required level. The decision to reduce the remuneration on minimum reserves preserves the effectiveness of monetary policy by main-

taining the same degree of control over the monetary policy stance and at the same time, improving the efficiency of monetary policy by reducing the overall amount of interest that needs to be paid on reserves in order to implement the appropriate stance.

- Remuneration of non-monetary policy deposits

In February 2023, the GC decided to adjust the ceiling for the remuneration of government deposits held with the Eurosystem, as of 1 May 2023, in order to provide incentives for a gradual and orderly reduction of those holdings, thereby minimising the risk of adverse effects on market functioning and ensuring the smooth transmission of monetary policy. The decision also altered the remuneration of deposits held under the ERMS framework. As of 1 May 2023 the ceiling for the remuneration of government deposits is the €STR minus 20 basis points.

- Asset Purchase Programmes

In June 2023, the GC confirmed that it will discontinue the reinvestments under the APP as of July 2023. In December 2023, the GC announced its intention to reinvest the principal payments from maturing securities purchased under the PEPP until the end of June 2024 and to reduce the PEPP portfolio by €7,5 billion per month on average over the second half of the year. The GC also announced it intends to discontinue reinvestments under the PEPP at the end of 2024.

Table 4.2 Summary Table – CY counterparties credit operations & liquidity
(EUR billion)

	31.12.2022	31.12.2023
CY counterparties deposits		
Deposit facility	23,2	23,2
Current account	0,503	0,611
CY counterparties MLF and open market operations		
MLF	-	-
MROs	-	-
LTROs	-	-
TLTROs	5,2	4,5
Sources: ECB and CBC.		

tions have to ensure that the average level of funds they hold as reserves meets their minimum reserve requirements. They do not need to hold the full amount in their accounts at the NCB at all times. This allows credit institutions to react to short-term changes in the money markets by adding or withdrawing funds from their reserves. In turn, this helps to stabilise money market rates.

In July 2023 the GC decided to set the remuneration of minimum reserves at 0%. Minimum reserves were remunerated before that, at the DFR (see **Box 1**, p. 54).

The total of minimum reserve balances for credit institutions deposited at the current account of the CBC increased to €611 million on 31 December 2023 from €503 million at the end of 2022.

4.7 Risk Management and Compliance

4.7.1 Financial risk management

As regards the organizational set-up, the management of financial risks is carried out independently from the business function conducting operations

in the financial markets, and, in particular, by the Risk Management Section, as part of the CBC's "second line" against risks.

The financial 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 of the asset.

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

- *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 a maximum remaining maturity limitation at the security level as well as via the application of measures that seek to induce a minimum degree of diversification. Exposure to interest rate risk is also contained by maintaining most the Bank's investment assets in euro-denominated bonds that are classified as held-to-maturity positions.
- *Foreign exchange risk:* During 2023, 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:** 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 credit quality and high correlation with the relevant reference sovereign bonds.

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

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. In particular, the said risk pertains to the impact of interest rate changes to income and expenses relating to interest rate-sensitive assets and liabilities and to the Bank's economic value. Accordingly, it is also measured under sensitivity and interest rate shock scenarios in order to assess the CBC's capacity to withstand such scenarios.

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.

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 agreements⁶ that contain, *inter alia*, all the necessary terms as regards the rights and obligations of each 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 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 – Governing policy framework

Investment activities are governed by the CBC Investment Policy & Risk Management Framework, which is approved by the Governor and the Board

6. They apply to the following transaction types: foreign exchange forwards and swaps, and gold swaps.

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 Bank'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 Guidelines encompass the detailed operational framework and the full spectrum of risk control measures in force for the management of risks assumed by the CBC in the context of its investment activities. With the aim to better understand, and subsequently manage, the financial sustainability risks in its portfolios, as well as to reduce the environmental carbon footprint of its reserves, the CBC has established and implemented in 2023 an internal rating-based framework for the approved issuers and institutions that ranks their performance in the areas of environmental and climate action and mindfulness.

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 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 afore-mentioned 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 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 Business Continuity Policy aims at ensuring the smooth continuity of the Bank's critical operations, thereby facilitating the fulfilment of its statutory tasks as well as the achievement of its strategic objectives. The said objective is achieved through the development and implementation of a Business Continuity Programme, namely, a set of actions that supports the Bank's capacity to effectively manage incidents and business continuity crisis situations that could affect the smooth continuity of its operations.

The CBC implements the "Three Lines Model" in managing risks. The business departments, which belong in the first line, are responsible for their management through the formulation and implementation of appropriate internal policies and procedures. The Risk Management Section is in the second line and, as regards operational risks, is responsible for the designing and maintenance of the relevant policy frameworks, the methodological support of business areas, the monitoring and assessment of operational risk incidents, and the critical assessment of identified risks in an independent manner. In the third line is the Internal Audit Department, which provides independent assurance to the decision-making bodies as regards the satisfactory operation of the previous two lines and the overall risk management adequacy. Moreover, the Operational Risk Committee of the CBC is responsible for facilitating and overseeing the implementation of the Opera-

tional Risk Management Framework and the Business Continuity Framework, with the aim to enable the timely identification and mitigation of the related risks, including their monitoring.

During 2023, the CBC continued, on a regular basis, to monitor and evaluate the evolution of the most significant operational risks, including the associated mitigation plans, and to evaluate the operational risk incidents. It also effected a number of bank-wide, cross-functional actions, which included the strengthening of the human capacity of most business areas, in order to ensure the mitigation of operational risks. Moreover, for the mitigation of cybersecurity risks, the Bank has endorsed and implemented a multi-year cybersecurity programme, whose progress of implementation is monitored by the Bank's upper management team, the Operational Risk Committee, and the Bank's decision-making bodies.

Regarding business continuity, potential crisis scenarios were studied and prioritized with the ultimate goal of strengthening the Bank's resilience level. The Risk Management Section is responsible for supporting the Bank's decision-making bodies in ensuring the smooth continuity of the CBC's critical functions.

4.7.3 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 CBC's accumulated risk provision and overall financial buffers against risks stemming from CBC's main operations.



4.7.4 Information security risk management

The Risk and Compliance Department, in performing tasks of the second line, is also responsible to develop and maintain the Bank's information security risk management framework. Effective management of information security risks is attained through the establishment of an internal information security 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 information risk management.

In 2023, 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 security directives, on the assessment and reporting of information security risks to competent bodies of the CBC, and on staff awareness activities. In this context, they organized simulations of social engineering attacks to evaluate staff awareness on security threats.

At the same time, the implementation and monitoring of the CBC's strategic cybersecurity programme continued and the programme was enriched with additional long-term projects during the year. In the context of continuous professional development, the Information Security Officers attended various seminars and events throughout the year, to remain informed on the latest technological achievements and cyber threats.

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 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.

On 2 June 2023, Regulatory Administrative Act 180/2023 was published in the Official Gazette of the Republic of Cyprus, amending the Central Bank of Cyprus Employees (Terms of Employment) Directives of 2004 to 2022. The aim of the amending Directive is the implementation, by the CBC, of the rules and measures of Guideline ECB/2021/49 laying down the principles of the Eurosystem Ethics Framework and of Guideline ECB/2021/50 laying down the principles of the Ethics Framework for the Single Supervisory Mechanism, replacing the respective Guidelines issued in 2015, and aiming to further align with best practices and standards in relation to professional ethics.

In this context, the provisions of the new Directive include, *inter alia*, the implementation of new and/or amended regulations in relation to the conduct of private financial transactions and the introduction, for the first time, of an "Internal Whistleblowing Framework". The Framework consists of (a) an Internal Whistleblowing Proce-

procedure and Follow-up, (b) a Code of Conduct to prevent retaliation and (c) an Information Leaflet for Whistleblowers. The latter obligation also arises from national legislation (The Protection of Persons who Report Breaches of Union and National Law of 2022 (Law 6(I)/2022)).

In addition, the Directive introduces stricter provisions in particular on preventing the misuse of confidential information and managing conflicts of interest and strengthens the role and status of the Compliance Section.

Furthermore, in the year under review, a mechanism was put in place to manage conflicts of interest that arise in the cases of prospective staff members due to, *inter alia*, their previous occupational activities, financial holdings, private activities or personal relationships. This mechanism includes the completion and submission of a specific form whereby prospective staff members disclose information to the CBC in relation to potential conflicts of interest.

The Compliance Section organised informative presentations to the CBC staff, during which the new and/or amended provisions of the Directive were explained in detail, clarifications were provided, and questions and queries were answered.

Additionally, 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 provided suggestions for appropriate action to be taken in relation to reported actions that may have been incompatible with the ethical and regulatory framework governing the staff members of the Bank.

The Compliance Section, through its participation in the Ethics and Compliance Committee, 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.

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 financial institutions;
 - the oversight of the smooth operation of payment, clearing and/or settlement systems, 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 macroeconomic 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 2023 the two regular issues of the Economic Bulletin (June and December) were published. The Economic Bulletin presents the main macroeconomic and financial developments in the domestic and international environment as well as the CBC forecasts for the Cyprus economy. It also includes an analysis of current issues that, for 2023, concerned the impact of profit margins on the inflation of services, an analysis of the Balance of Payments, and results from the latest research on the financial situation and consumer habits of households in Cyprus.

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

Throughout 2023, 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.

In more detail, the CBC actively participates in the preparation of the ESCB's regular forecasts via its participation in the Working Group of Forecasting, which are produced in the context of a broad projection exercise, every June and December covering important macroeconomic variables. In the context of this ESCB exercise, the CBC prepares forecasts for key macroeconomic variables for the Cyprus economy and which are published in the CBC Economic Bulletin every June and December. In addition, the CBC prepares and publishes corresponding interim forecasts every March and September. Additionally, since March 2023, the CBC has been participating in the specialized Working Group (NIPE Expert Group) for the study and improvement of short-term (12-month horizon) inflation forecasts of the ESCB.

In 2023, 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"), (2) the construction of multi-country models for the analysis of the impact of climate change on the economy, and (3) the compilation of high-frequency economic activity indicators. Furthermore, the macroeconomic model of the CBC continued being 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 macroeconomic 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 two technical work teams, for public debt sustainability analysis and the interaction between fiscal policy and climate change, respectively.

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 2023, 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 2023, Cyprus's progress. The CBC actively participated in the discussions.

Research and related activities

Household Finance and Consumption Survey

The CBC continued its participation in the Eurosystem's Household Finance and Consumption Network, which conducts the Household Finance and Consumption Survey (HFCS)⁷. In 2023, the micro-data of the fourth wave of the HFCS survey were technically validated, in collaboration with the ECB, as well as compared favourably with external benchmarks. The results of the survey for

the euro area countries, including Cyprus, were published by the ECB in July 2023. Over the year, the fifth wave of the HFCS also began, with the fieldwork starting in March and ending in December 2023.

Residential Property Price Indices

During the year under review, the publication of Residential Property Price Indices, based on valuations, continued. In addition, the CBC continued the estimation of the unpublished Residential Property Price Indices based on actual real estate transactions and the estimation of the, also unpublished, quarterly Commercial Property Price Index. In the context of enhancing information and transparency in the market, the CBC received technical help from two missions of the International Monetary Fund, with the purpose of constructing Land Price Indices and the establishment of a model regarding the valuation of residential property prices in relation to the fundamentals of the market.

Bank Lending Survey

In 2023, the publication of the domestic results of the Bank Lending Survey continued.

The Bank Lending Survey is conducted quarterly by the Eurosystem among a representative sample of credit institutions from all euro area countries, with the main objective of improving the information on financing conditions in the euro area. The questionnaire covers a broad area of relevant topics, such as changes in banks' credit standards, credit terms and conditions as agreed in the loan contract and demand for loans, as well as the effect of the factors behind

7. For more information on the HFCS survey, see Central Bank of Cyprus - Household Finance and Consumption Survey: <https://www.centralbank.cy/en/publications/surveys/hfcs>

these changes. The CBC has been taking part in the Survey since 2008.

Ad-hoc research

Furthermore, the WGPF work team for the interaction between fiscal policy and climate change, in which the CBC participates, published its work on the fiscal instruments and policies in the EU that relate to the climate change challenge⁸.

Financial Literacy

The CBC continued its work as the coordinator of the Ad-Hoc Committee for the formulation of the National Strategy for the promotion of Financial Literacy and Education in Cyprus ("National Strategy"). Following the adoption of the National Strategy Report by the Council of Ministers on 28 June 2022, CBC staff finalised all the necessary aspects and parameters of the governance framework of the new Committee that will implement the National Strategy. The Committee held its first meeting on December 5, 2023.

Concurrently, since October 2022, CBC staff have been consistently collaborating with experts from the Organisation for Economic Co-operation and Development (OECD) to implement three initiatives outlined in the National Strategy. This collaboration is taking place under the framework of a €250,000 grant, which the CBC obtained through the Ministry of Finance from the Directorate-General for Structural Reform Support of the European Commission, specifically allocated for these initiatives.

Additionally, in 2023, affirming its pivotal role in the promotion of Financial Literacy in Cyprus, the CBC took on the mantle of coordinator for the

"Global Money Week" initiative within the country. Under this action, the CBC also successfully held an International Conference in Cyprus dedicated to Financial Literacy.

Finally, since January 2023, the CBC has been a full member of the OECD's International Network for Financial Education, actively participating in shaping a unified policy for financial literacy.

Other activities

Expert staff in the Department continued to brief the CBC Board of Directors on various issues. At the same time, CBC staff participated and presented in various economic conferences.

In the context of corporate social responsibility, the CBC participated in a summer internship programme in collaboration with domestic universities.

On October 4, 2023, the CBC hosted with great success its first annual conference on "The Role of Monetary Policy in Tackling Inflationary Pressures", with Keynote Speaker Mr. Luis De Guindos, Vice-President of the European Central Bank (ECB), and other dignitaries from the Eurosystem and Cyprus. This conference marked the beginning of CBC's series of annual conferences that will tackle contemporary economic issues and challenges, with the aim to promote fruitful discussions in the context of joint research and learning.

4.9 Statistics

During 2023, the aftermath of Russia's continued invasion in Ukraine and the tightening of sanctions imposed on it at the European level, together with

8. The climate change challenge and fiscal instruments and policies in the EU". Published on 20 April 2023, ECB Occasional Paper Series No. 315.

the list of US and British sanctions on natural and legal persons residents of Cyprus, reinforced the already existing challenges for the economy of Cyprus, with consequent effects in the field of statistics. At the same time, within this fluid environment, the war between Israel and Hamas was added, thus intensifying the climate of uncertainty and creating the need for the production of additional statistics and information for the main users of data regarding the bilateral relations of Cyprus and Israel.

At the beginning of 2023, a new “Microeconomic Statistics and Integrated Reporting System” Unit was created under the Statistics Department, bringing all the micro data (Securities, Loans, Registers) together, with the aim to further streamline the data collection and transformation processes, maximise the benefits of integration of the relevant reporting obligations and enhance the overall efficiency and data quality. The responsibilities for the development of the new and demanding ESCB Integrated Reporting Framework (IReF) project were also moved to this new Unit, given that the integration of the requirements related to the granular datasets are a primary focus of the IReF project.

An important milestone was also the internal development of a new system for the AnaCredit project at the CBC. The new system was successfully completed and went live in September 2023. As regards the AnaCredit data quality, Cyprus continues to rank among the Eurosystem’s countries with the highest ECB Data Quality Indicators.

Finally, during 2023, the Statistics Department (SD) participated, as a user of official statistics as well as a data provider, in the evaluation of the

Statistical System of Cyprus in relation to the implementation of the Code of Practice for European Statistics by a Peer Team.

Visit of the ECB and Eurostat Team

In June 2023, an important development for the SD was the visit of the ECB and Eurostat team to conduct a methodological on-site assessment of Cyprus on the statistical indicators used to identify emerging or persistent macroeconomic imbalances. In anticipation of the aforementioned visit, the procedures, methodology and quality of the compiled data covered by the mission, in particular the Financial Accounts and External Statistics, were evaluated. At the same time, enhancements were performed to the methodology applied to calculate specific variables, improvements were made regarding the integration of new sources, specific data were updated, identified inconsistencies were resolved and detailed instructions/explanations were drafted to aid the discussions during the physical meetings.

The results of the said assessment, taking into account the comments of the involved parties, were communicated to the SD in the form of a final report which includes, among other, a number of recommendations as well as a timetable for their implementation.

The implementation of the abovementioned recommendations is already on track and a large part of which is expected to be implemented within the next year, as part of the benchmark revision valid for statistical purposes. It is worth mentioning that the timetable for the necessary actions needed for the lifting of the recommenda-

tions is closely monitored by the SD and the ECB and Eurostat.

Monetary and financial statistics

At the beginning of 2023 the Statistics Department undertook the responsibility of the production of payment statistics, on the basis of the new ECB Regulation which entered into force in January 2022. The statistics cover, inter-alia, detailed information on card functions, card accepting devices, volume and value of payment transactions as well as fraudulent payment transactions broken down by payment service. The payment statistics are submitted by all resident payment service providers (including electronic money issuers) and payment system operators.

During the year under review, the national system for the submission, compilation and transmission of payments data to the ECB was upgraded and additional tools were designed and implemented, aiming at improving further the quality of statistical data. In parallel, the SD has granted access to confidential data to CBC qualified users, while the aggregated payment statistics data for the two semesters of 2022 were published on the ECB data portal in November 2023.

In addition to the above, developments regarding the ECB legal framework on the collection of statistics for the financial sector were recorded. In particular, the ECB Regulation on statistics of investment funds is in the process of being revised and a public consultation has been launched in December 2023. The draft recast Regulation addresses a number of high priority requirements for additional data necessary for the

analysis of developments in the euro area investment fund sector. The proposed new reporting requirements underwent an extensive “merits and costs procedure” in line with the principles decided by the Governing Council, in which users as well as reporting agents have participated.

Furthermore, during the year, preparatory work was undertaken regarding the implementation of the revised framework on infringement procedures in cases of non-compliance of reporting agents with the statistical reporting requirements emanating from relevant ECB Regulations, which will enter into force in the first quarter of 2024. The new framework streamlines the relevant procedures and clarifies the roles of the involved institutions in the process. In this context, the SD has communicated to the affected reporting agents the relevant instructions and has also participated in workshops and testing in collaboration with the ECB.

In addition, revised guidelines regarding the classification of institutional units into institutional sectors in accordance with ESA 2010 were communicated to the MFIs, in which certain clarifications and practical criteria regarding the identification of Special Purpose Entities have been included, closing one of the recommendations of the aforementioned ECB/Eurostat assessment.

Financial accounts

In June 2023, the third bunch of the new statistical requirements emanating from the amended ECB Guideline on QFA has been successfully implemented. These requirements concern the further breakdown of technical reserves of insurance

companies and pension funds, as well as the presentation of the Foreign Direct Investment as a new sub-category in the sector of non-residents.

Finally, in the fourth quarter of 2023 an internal audit for the QFA took place, following the work programme of the Internal Audit Committee of the ECB. The scope of the audit encompassed organisational, procedural, governance and control issues regarding the production of QFA at the CBC.

External statistics

In 2023, the geopolitical uncertainty and tension posed by the war of the Israel-Hamas as well as by the protracted war between Russia and Ukraine, imposed additional exogenous challenges on external statistics. Moreover, the tightening of sanctions enforced on Russia at European and international level effected another blow to statistics. As a result, a series of meetings was established with representatives of the legal and accounting sectors of Cyprus, with the aim of exchanging views and providing guidance regarding the impact of these developments on statistics as well as the application of estimation methods to cover the loss of information, especially for companies that are directly or indirectly connected to Russian or Israeli natural and legal persons.

At the same time, during 2023, the European Commission approved the content of the report prepared for the handling of the horizontal reservation in the field of globalization and gave the green light to activate the procedure for lifting the said reservation for Cyprus.

Furthermore, within the framework of the

External Statistics Working Group, following the ECB's request, a presentation regarding the collection and compilation of data on Special Purpose Entities in Cyprus was given, with an emphasis on the use of the "sum of cost" approach in the compilation of data on financial Special Purpose Entities.

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 2023, in the context of routine revisions, it was deemed necessary to revise/enhance the quality of external statistics data as from 2021. This was effected 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 (CYSTAT), as well as through the changing of the methodological framework for calculating specific amounts of the financial transactions account. Also, the series for external statistics for previous years were reproduced to be compatible with the ECB's revised legal framework.

General economic and government finance statistics

During the year under review, the SD continued the submission of new, as well as, revised fiscal statistics to the ECB in close cooperation with CYSTAT and actively contributed to the written procedures initiated by the relevant working

groups and task forces for updating the compilation of annual government finance statistics.

In the area of general economic statistics, the SD participated in two new ECB initiatives concerning the compilation and updating of the harmonized index of consumer prices and the collection of information on rental transactions and regional residential property price indices.

Microeconomic Statistics and Integrated Reporting System

During 2023, the loan-by-loan analytical credit data (*AnaCredit*) for Cyprus continued to be successfully collected, processed and timely disseminated to the ECB. At the same time, as part of the monthly quality checks and on-going analysis conducted on the basis of enhanced Data Quality Indicators, revised data were submitted to the ECB, where deemed necessary. As a result of the CBC's intensive efforts and good cooperation with the reporting banks, Cyprus continues to rank among the Eurosystem's countries with the highest data quality indicators on the basis of the Data Quality Criteria set by the ECB. In parallel, the internal development at the CBC of a new *AnaCredit* system was completed with success, following an intensive testing involving all the reporting banks from March 2023 to August 2023. The new system went live in September 2023.

Noteworthy were also the developments regarding the *Integrated Reporting Framework (IReF)* project, the most strategically important and largest statistical project of the ESCB, seeking to integrate ESCB statistical data requirements for banks into a single, standardised reporting

framework applicable across the euro area. In the initial phase, the IReF focuses primarily on ESCB statistical requirements, covering monthly Balance Sheet and Interest Rates statistics, Securities Holdings Statistics and *AnaCredit*, while integrating in parallel reporting banks' obligations for external statistics, financial accounts and securities issued. In addition, the feasibility of aligning the IReF with the supervisory requirements starting from the Financial Reporting (FINREP) at solo level is also being assessed. In this context, the ECB, in collaboration with the NCBs via the relevant working group, worked on many deliverables, including the launch of a complementary cost-benefit assessment (cCBA) in May 2023, aiming to clarify additional topics related to the IReF. As a result of the intensive efforts by the CBC, and the excellent cooperation with the reporting banks, the coverage of the cCBA for Cyprus reached 92%, well above the overall euro area coverage of 80%.

As regards the *Securities Issues Statistics* and the functioning of the ESCB's Centralised Securities Database (CSDB), additional releases were successfully implemented during 2023, with upgraded system specifications and attributes' content, in the ECB's and the CBC's systems. The CBC continues to use the CSEC dataset deriving directly monthly securities issues statistics from the CSDB. The CSEC dataset includes new valuation methods and new breakdowns by original and residual maturity, as well as further analysis per interest rate type. The 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, with

an impressive timeliness of 10 working days after the end of the reference month.

Regarding the *Securities Holdings Statistics*, in the course of 2023 improved coverage was achieved, as a result of the inclusion of additional reporting agents. Furthermore, supplementary checks on the submitted data were implemented on a monthly basis regarding the completeness and correctness of the data, further enhancing the overall data quality.

In the area of *Registers*, the SD intensified the efforts for the classification of Cypriot entities according to economic activity both in the Register of Institutions and Affiliates Data (RIAD) system and in the national Register of institutional and legal units (RILU), maintained by the ESCB and the CBC's SD respectively. In addition, the identification of the Cypriot entities submitted to RIAD by other NCBs, primarily for AnaCredit purposes, was completed, while the quality controls were enhanced. Moreover, enhancements were implemented as regards the coverage and the frequency of the updates, further improving the usefulness of these reference datasets for the users.

Publications and Statistical Communication

The year 2023 marked the launching of the new ECB working group on "Statistical Communication" in which the CBC fully participates. During the year, the working group held its first two meetings and elaborated on a number of important topics such as: the promotion of climate change statistics, researchers' access to microdata, the creation of common infrastructures and procedures for the benefit of statistical data users, as

well as, promoting statistical literacy among the general public for better understanding and using the statistics produced by central banks.

In this context, a special area has been created on the website of the CBC, which provides information on the statistical indicators related to climate change produced by the ECB and includes the web links for accessing the relevant databases.

Furthermore, in 2023 the SD published for the first time data for the Insurance Companies sector, while the publications of Monetary and Financial Statistics and the quarterly explanatory note on External Statistics were further enhanced.

4.10 Information Technology

During 2023 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. With the new staff hired the year before, priority was given to the reorganisation of the Department and the provision of IT services across the Bank with the introduction of new tools and technologies and appropriate staff upskilling and training. The T2/T2S Consolidation project has been completed and allowed the Bank to connect to the new Eurosystem Payment platform. Within the year, the AnaCredit system has been introduced, which has been internally developed, based on the newly adopted Agile methodology; similarly the internal development of the new system automating the recording of the Eurosystem FTEs has been completed based on a Cloud ready technology.

As regards the CBC information systems infrastructure management, priority was given to the

enhancement of the availability and efficiency of the operating systems with equipment and systems enhancements. Priority was given 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 technologies.

Focus was on enhancing the security and protection of the bank's databases along with the information backups.

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 the Bank's 3-year cyber security enhancement program with reassessment of the technical security measures and the expansion of the program with additional projects and activities.

The IT Department continued to represent the Bank 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. Worthingly noted is the active involvement of ITD staff for the development of the *Common Data Management* system, implemented at Eurosystem level, participating in the project steering and management groups as well as within the ECB system development teams.

IT systems implementation and maintenance

During 2023 the Systems Development Section

focused on meeting the annual strategic goals set for the IT Department.

With the new staff hired the year before, the introduction of the new agile methodology continued and allowed the introduction of new tools and technologies for internal systems development as part of the IT Restructuring project. The acquisition of solutions and consultancy services continued from external providers, through relevant tenders, to meet the business needs of the Bank. The reallocation of roles and responsibilities of the staff continued with the introduction of SCRUM teams as well as the training on the new agile methodology and the newly introduced technologies and system development tools.

The modification of the banks' systems for the introduction of the T2T2S Eurosystem platform have been completed with a successful go-live implementation in March 2023.

The newly internally developed AnaCredit system has been introduced and the migration of all existing Oracle applications to the new version has been completed. 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) continued. Systems development section's members are actively engaged in the development of the Eurosystem Common Data Management system of the ECB.

Information systems infrastructure management

During 2023 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 completion of the required activities for the introduction of the T2T2S Consolidation system, the enhancement of the Network Fax system and the replacement and enhancement of infrastructure equipment with more advanced technologies; the enhancement of the availability of the database firewall as well as the security enhancement of the backup system with new tape libraries with encryption.

- B. Extension of the existing systems and services in order to meet new business requirements, which included the extension of the online communication and collaboration system to all staff.
- C. Introduction of new technologies, which included network protection technologies (Threat emulators) and Application Control as well as the introduction of a new Security Information and Event Management (SIEM).

Information systems security

The reinforcement of information systems security measures, continued throughout 2023. Further to the annual security assessments to identify and handle vulnerabilities, as part of the Bank's Cyber Security Program, there was a re-evaluation of the technical security measures and further expansion of the Program with additional projects and tasks. The existing projects and the work of the Program progressed according to the plan.

In addition, The SIEM system has been enhanced and improved along with existing technical and organizational security measures. At the

same time, the IT Systems Security Officer participated and contributed to the workings of the relevant ESCB groups.

4.11 Human Resources, Organisation and Planning

During 2023, the Human Resources, Organisation and Planning Department (Hereinafter 'HR, O&P') continued focusing its efforts towards achieving effective management of the CBC's human resources, improving the internal procedures and practices and introducing new methods to enhance the organization and efficiency of the Bank's operations.

Human Resource

In the context of the continuous support for proper and adequate staffing and with the aim to further strengthen the CBC's human resources, HR O&P proceeded to fill the vacancies in order to meet the operational needs of the Bank.

In relation to Training and Development, HR, O&P continued aiming to develop and enhance the knowledge and skills of both existing and new staff members. Staff members were encouraged to participate in both general and technical/specialized training programs within Cyprus, the European System of Central Banks (Hereinafter 'ESCB') and the Single Supervisory Mechanism (Hereinafter 'SSM'). In the context of strengthening the CBC's presence and involvement in ESCB/SSM programs, HR, O&P undertook the organisation and delivery of a three - day seminar of common interest titled "Discovering the ESCB & the SSM" where staff members of

the CBC, the European Central Bank (Hereinafter 'ECB') and other national central banks and supervisory authorities had the opportunity to participate. In addition, HR, O&P proceeded with the adoption and implementation of the new e-learning training platform called 'Eureka', which provides opportunities to staff members to participate in asynchronous and distance learning activities as well as to register in other joint ESCB/SSM onsite training activities. Aiming to increase distance learning activities within the organisation, HR, O&P proceeded with acquiring a number of user licenses for an international online training platform. All the above mentioned actions contributed towards increasing the annual average number of training days per employee.

Aiming at further strengthening the common culture of the ESCB and the SSM and promoting staff exchanges and mobility with other national central banks, supervisory authorities and the ECB, staff secondments to the ESCB and the SSM, as well as in the EU continued, in accordance with the CBC approved secondment policy. In addition, CBC participated in the fifth cycle of the "Schuman Programme" by hosting one staff member from the ECB in the Financial Stability Department and two staff members from the Bank of Greece and the Oesterreichische Nationalbank (OeNB) respectively, in the Information Technology Department. In addition, CBC participated in the Deutsche Bundesbank student internship program by hosting three students for the year 2023.

Through its participation in the "Human Resource Committee" of the ESCB and in sub-committees and conferences held within the ESCB/SSM, HR, O&P 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. Furthermore, CBC continued its actions in implementing the principles of the "ESCB and SSM, Equality, Diversity and Inclusion Charter" with the aim to embrace inclusive and safe workplaces free from any form of discrimination and prejudice, where all employees feel they belong.

In the field of industrial relations, the dialogue continued with the Trade Union (ETYK) on labour issues concerning the staff members. In addition, the HR, O&P worked extensively on updating the CBC Employees' Directives, with the aim of harmonizing the Directives with the new legislation, incorporating the agreement between the CBC and ETYK for the reorganisation of the Bank, as well as revising and adding new provisions to address operational issues.

Strategic Planning & Organization

The Strategic Planning & Organization Section (SP&OS) provided continuous support to the CBC's Departments in organisational matters, contributed to the introduction of new, or revision of existing, policies and procedures and performed studies in order to improve work methods. In the context of its role, the Section submitted suggestions and comments on the adjustment of the Bank's organisational structure.

The SP&OS worked extensively during the year on activities related to the next strategic planning cycle and the implementation of operational planning in the CBC.

In collaboration with the Human Resource Section, the SP&OS was involved in staffing proposals for individual departments. During the year, it performed the secretariat role for the management team meetings, where horizontal issues of common interest are being discussed among the department Heads.

During the first half of the year, the Section continued to provide project management services to other Departments, as well as actively participated 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.

Health and Safety

The Health and Safety of the staff members and visitors/partners of the CBC remains a primary and continuous goal. The Bank's strategy, policies and procedures regarding health and safety, provide the guiding principles to ensure that high standards are achieved while offering a means of promoting continuous improvement.

In the beginning of 2023, fire safety training sessions were organized for all CBC staff members and partners, followed by a fire drill in February in collaboration with the local Fire and Civil Defence Departments. Through proactive measures, the Bank aims to promote a quick, orderly, and safe evacuation of the building while avoiding the risk of injuries or casualties in case of an emergency.

In addition to weekly checks of other work environmental factors such as light, humidity, temperature and water quality, CBC has installed

24/7 indoor air quality monitors. Environmental conditions monitoring along with regular inspections aim to enhance employees' mental and physical well-being, while maintaining a safe work environment for all.

Knowing that health and safety literacy plays a fundamental role in fostering a culture of well-being, CBC has implemented a new approach to staff education and awareness. Apart from brochures and seminars, videos have been used in 2023 as a new way of educating and raising awareness on topics such as: fire safety, evacuation procedures, blood donation, health and safety practices, healthy eating, and on the consequences of smoking.

The Bank is not just confined by its regulatory responsibilities with regards to health and safety issues, it goes above and beyond by fostering a culture of well-being while promoting physical and mental health among its employees, via events such as blood donation, yoga sessions, and mindfulness.

As regards the Covid – 19 pandemic, the CBC adopted all the measures of the decrees of the Ministry of Health and introduced additional Covid protection measures for the benefit of its staff members.

Corporate Social Responsibility

In 2023, a 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, arts and culture. The CBC's activities focused mainly on the

financial support of organized social groups who perform charity work and on the support of environmental organisations. Simultaneously, focus was also directed on the continuation of internship and graduate/post graduate student employment programs 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.

Pending litigation

During 2023, 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.

On July 3 2023, the CBC announced that it will

accept applications for the reduced payment of legal costs, from natural or legal persons who have filed legal actions against the CBC, in connection with resolution and bonds in relation to the Bank of Cyprus and/or Laiki Bank.

According to the latest announcement of the CBC dated October 30 2023, the deadline for submitting applications has been extended until November 29 2023.

The conditions for the reduced payment of legal costs, the application process and the forms are included in the CBC's announcements dated July 3 and July 10 2023.

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 2023, 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, aiming at the most efficient and effective operation of the CBC, has continued to handle all matters relating to general administration services, namely the smooth operation and maintenance of the Bank's building facilities, physical security and the security of the CBC's staff and visitors as well as the provision of administrative support across the organisation.

4.13.1 Security and premises

During 2023, projects and measures have been implemented to enhance the security of the Bank's building facilities, personnel and visitors. Also, the evaluation of the preliminary study for the renovation and maintenance of the CBC's building carried out by a team of consultant architects has continued, while specific actions have been launched for the upgrade and replacement of part of the Bank's mechanical and electrical equipment. Additionally, pending the appointment of a liquidator, interim and remedial measures have been taken to ensure the protection of the FBME Bank Ltd branch's building and equipment. At the same time, various issues have been handled by the Department relating to the implementation of the provisions of the legislation governing the handling of classified information at the national and European levels.

4.13.2 Administrative support

During the reference year, the Department has dealt with various administrative matters relating, among others, to the provision of guidance to the Bank's employees regarding the public's right of access to public sector information, the review of the policy for the management of the CBC's documents and archives, the central archive, the implementation of the Bank's new automated records management system, incoming / outgoing mail and document traffic, the library, the subscriptions to domestic and foreign press in printed and electronic form, electronic databases and research journals, staff travelling, the CBC's insurance policies, the cafeteria, the stationery and consumables warehouse, the print, copy and scan centre as well as the call centre.



CENTRAL BANK OF CYPRUS
EUROSYSTEM

**5. AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR 2023**

Central Bank of Cyprus
Eurosystem

BALANCE SHEET AS AT 31 DECEMBER 2023

ASSETS	31 Dec. 2023		31 Dec. 2022	
	€'000	€'000	€'000	€'000
1 Gold and gold receivables		835.490		762.777
2 Claims on non-euro area residents denominated in foreign currency		1.046.059		1.127.582
2.1 Receivables from the IMF	620.582		640.150	
2.2 Balances with banks and security investments, external loans and other external assets	425.477		487.432	
3 Claims on euro area residents denominated in foreign currency		30.085		24.621
4 Claims on non-euro area residents denominated in euro		282.532		110.846
4.1 Balances with banks, security investments and loans	282.532		110.846	
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		4.500.000		5.214.950
5.1 Main refinancing operations	-		-	
5.2 Longer-term refinancing operations	4.500.000		5.214.950	
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		12		13
7 Securities of euro area residents denominated in euro		8.233.225		8.637.298
7.1 Securities held for monetary policy purposes	7.663.839		8.407.329	
7.2 Other securities	569.386		229.969	
8 General government debt denominated in euro		-		-
9 Intra-Eurosystem claims		17.823.539		17.223.659
9.1 Participating interest in ECB	42.064		42.064	
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	2.908.500		2.382.433	
9.5 Other claims within the Eurosystem (net)	14.786.164		14.712.351	
10 Items in course of settlement		1.779		1.989
11 Other assets		324.816		154.827
11.1 Coins of euro area	-		-	
11.2 Tangible and intangible fixed assets	6.281		6.691	
11.3 Other financial assets	-		-	
11.4 Off-balance sheet instruments revaluation differences	8		14	
11.5 Accruals and prepaid expenses	298.565		129.309	
11.6 Sundry	19.962		18.813	
Total assets		33.077.537		33.258.562

The "Notes to the Financial Statements" on pages 79 to 109 form part of these accounts.

Central Bank of Cyprus
Eurosystem

BALANCE SHEET AS AT 31 DECEMBER 2023 (continued)

LIABILITIES	31 Dec. 2023		31 Dec. 2022
	€'000	€'000	€'000
1 Banknotes in circulation		3.079.601	3.112.625
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro		23.773.223	23.870.522
2.1 Current accounts (covering the minimum reserve system)	611.060		700.145
2.2 Deposit facility	23.162.163		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		50.004	51.119
4 Debt certificates issued		-	-
5 Liabilities to other euro area residents denominated in euro		3.314.185	3.484.283
5.1 General government	3.166.456		3.163.359
5.2 Other liabilities	147.729		320.924
6 Liabilities to non-euro area residents denominated in euro		184.022	77.950
7 Liabilities to euro area residents denominated in foreign currency		250.734	315.475
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		515.434	530.698
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		1.896	2.152
12 Other liabilities		173.870	195.248
12.1 Off-balance sheet instruments revaluation differences	-		295
12.2 Accruals and income collected in advance	9.665		59.226
12.3 Sundry	164.205		135.727
13 Provisions		571.663	501.576
14 Revaluation accounts		844.085	798.094
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		33.077.537	33.258.562

The "Notes to the Financial Statements" on pages 79 to 109 form part of these accounts.

Central Bank of Cyprus
Eurosystem

PROFIT AND LOSS ACCOUNT FOR THE YEAR 2023

	2023		2022	
	€'000	€'000	€'000	€'000
1.1 Interest income	945.817		244.077	
1.2 Interest expense	(774.775)		(106.996)	
1 Net interest income		171.042		137.081
2.1 Realised (losses)/gains arising from financial operations	(633)		14.327	
2.2 Write-downs on financial assets and positions	(323)		(19.897)	
2.3 Transfer to provisions for foreign exchange and price risks	(69.995)		(45.945)	
2 Net result of financial operations, writedowns and risk provisions		(70.951)		(51.515)
3.1 Fees and commissions income	15.425		14.430	
3.2 Fees and commissions expense	-		-	
3 Net income from fees and commissions		15.425		14.430
4 Income from equity shares and participating interests		-		-
5 Net result from the pooling and redistribution of monetary income		(60.453)		(55.041)
6 Other income		1.948		251
Total net income		57.011		45.206
7 Staff costs	(35.396)		(29.072)	
8 Administrative expenses	(9.857)		(9.824)	
9 Depreciation of tangible fixed assets	(1.196)		(1.165)	
10 Banknote acquisition cost	(1.252)		(3.321)	
11 Other expenses	(9.310)		(1.824)	
Total expenses		(57.011)		(45.206)
Profit for the year for allocation		-		-

Nicosia, 19 December 2024

Christodoulos Patsalides
Governor

The "Notes to the Financial Statements" on pages 79 to 109 form part of these accounts.

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING POLICIES

General principles for the preparation of the financial statements

The financial statements of the Central Bank of Cyprus (CBC) are prepared in accordance with article 57(2) of the *Central Bank of Cyprus Laws, 2002–2024*, 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).
- *Marketable securities classified as held to maturity* - are valued at amortised cost subject to impairment tests.

• Tangible and intangible fixed assets

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 2023 which amounted to 446.987,04 fine ounces (31 December 2022: 446.987,04 fine ounces). The CBC's gold holdings are valued at market prices which at the end of the year were €1.867,83 per fine ounce (31 December 2022: €1.706,08 per fine ounce) amounting to €835,5 million (31 December 2022: €762,8 million).

The valuation of gold is carried out on the basis of the price in euro per fine ounce in force at the end of the year, as reported in the ECB special report on exchange rates. The price in euro per fine

Table 1 **Receivables from the IMF**

	31 Dec. 2023 €'000	31 Dec. 2022 €'000	Change €'000
Quota in IMF (equivalent to SDR303,8 million as at 31 December 2023 and SDR303,8 as at 31 December 2022)	369.330	380.267	(10.937)
IMF deposits	(266.334)	(274.075)	7.741
Reserve Tranche Position	102.996	106.192	(3.196)
SDR holdings	517.586	533.958	(16.372)
Total claims on the IMF	620.582	640.150	(19.568)

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 2023 resulted in an unrealised gain of €72,7 million (31 December 2022: €43,0 million). The increase in the CBC's gold holdings, which represents the difference between the value as at 31 December 2023 and the average acquisition cost, amounted to €821,4 million (31 December 2022: €748,7 million) and is accounted for as an unrealised gain. It is included in the balance sheet within liability item "L14 Revaluation accounts".

In 2023, collateralised gold transactions were carried out and treated as repurchase agreements. The gold relating to these transactions amounted to 72.000 fine ounces (2022: 42.000 fine ounces), which is valued at €132,4 million as at 31 December 2023 (2022: €71,7 million) and remains on the asset side of the balance sheet and the corresponding gold repurchase obligation amounting to €132,4 million (2022: €71,7 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 2023 as reported by the ECB in its Exchange Rates Circular, i.e. SDR1= €1,2157 (31 December 2022: SDR1= €1,2517).

The decrease in SDR assets is mainly due to the sale of SDR3,7 million (€4,6 million) in exchange for euro within the framework of «Voluntary Trading Arrangement» and the foreign exchange difference of €15,0 million in the reporting year.

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

	31 Dec. 2023 €'000	31 Dec. 2022 €'000	Change €'000
Balances with credit institutions	268.577	326.045	(57.468)
Marketable securities other than those held to maturity	156.695	161.185	(4.490)
Other claims	205	202	3
Total	425.477	487.432	(61.955)
Balance by currency:	€'000	€'000	€'000
USD	418.574	480.880	(62.306)
GBP	6.720	6.374	346
CHF	128	118	10
CAD	45	46	(1)
Other currencies (AUD, DKK, JPY, NOK, SEK)	10	14	(4)
Total	425.477	487.432	(61.955)

Table 3 Claims on euro area residents denominated in foreign currency

	31 Dec. 2023 €'000	31 Dec. 2022 €'000	Change €'000
Balances with credit institutions	12.159	5.170	6.989
Marketable securities other than those held to maturity	17.926	19.451	(1.525)
Total	30.085	24.621	5.464
Balance by currency:	€'000	€'000	€'000
USD	26.806	21.528	5.278
GBP	3.277	3.091	186
Other currencies (CHF, JPY)	2	2	-
Total	30.085	24.621	5.464

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.

In 2022 comparative balances, an adjustment was made to the balance with credit institutions for correct classification purposes, and an amount

of €0,5 million was transferred to the asset item "A3. Claims on euro area residents denominated in foreign currency".

A3. Claims on euro area residents denominated in foreign currency

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

Table 4 **Balances with banks, security investments and loans**

	31 Dec. 2023 €'000	31 Dec. 2022 €'000	Change €'000
Marketable securities classified as held to maturity	282.532	110.846	171.686
Total	282.532	110.846	171.686

In 2022 comparative balances, an adjustment was made to the balance with credit institutions, for correct classification purposes, with an amount of €0,5 million from the asset item "A2.2 Balances with banks and security investments, external loans and other external assets".

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

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

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.

The impairment test performed on 31 December 2023 indicate that there was no impairment on the value of the marketable securities.

In 2022 comparative balances, an adjustment was made to the balance of securities, for correct classification purposes, for the amount of €60,8 million from the asset item "A7.2 Other securities".

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 the reporting year, the outstanding Eurosystem monetary policy operations amounted to €410,3 billion (2022: €1.324,3 billion), of which €4.500,0 million (2022: €5.215,0 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.

According to the Article 32.4 of the Statute of the ESCB and the ECB, income and losses from operations carried out within the single monetary policy of the Eurosystem are allocated among the national central banks of the Eurosystem, in accordance with the ECB's capital key.

Losses can only arise in the case of a counterparty's default and the liquidation of the collat-

Table 5 Longer-term refinancing operations

	31 Dec. 2023 €'000	31 Dec. 2022 €'000	Change €'000
Longer-term refinancing operations	4.500.000	5.214.950	(714.950)
Total	4.500.000	5.214.950	(714.950)

eral provided is not sufficient to cover the liability. In addition, the ECB has excluded certain categories of collateral from the risk-sharing mechanism, having as a result that the national central banks to bear the relevant risk in full.

A5.2 Longer-term refinancing operations (Table 5)

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 2023, long term refinancing operations with 3 month maturity were carried out under the third series of Targeted Longer Term Refinancing Operations (TLTRO III). Six of these operations were carried out as early voluntary repayments, of which five of them were scheduled and one was additional. In addition, three operations under the third series of Targeted Longer Term Refinancing Operations, were expired in 2023.

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.

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 2023, the applicable interest rate was set at the average deposit facility rate for the period from 23 November 2022 until 31 December 2023. 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.



Table 6 Securities held for monetary policy purposes

	31 Dec. 2023 Amortised Cost €'000	31 Dec. 2022 Amortised Cost €'000	Change Amortised Cost €'000
Third covered bond purchase programme (CBPP3)	-	18.000	(18.000)
Public sector purchase programme (PSPP)	5.636.687	6.315.715	(679.028)
Pandemic emergency purchase programme (PEPP)	2.027.152	2.073.614	(46.462)
Total	7.663.839	8.407.329	(743.490)

Table 7 Market value of securities

	31 Dec. 2023 Market Value €'000	31 Dec. 2022 Market Value €'000	Change Market Value €'000
Third covered bond purchase programme (CBPP3)	-	17.984	(17.984)
Public sector purchase programme (PSPP)	5.076.472	5.456.718	(380.246)
Pandemic emergency purchase programme (PEPP)	1.811.449	1.733.035	78.414
Total	6.887.921	7.207.737	(319.816)

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

is 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 6)

Table 7 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 scope of the covered bond purchase programme (CBPP3), the public sector purchase programme

(PSPP) and the pandemic emergency purchase programme (PEPP).

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, in the Eurosystem, amounted to €285,6 billion (2022: €302,0 billion) and €2.403,0 billion (2022: €2.584,7 billion) respectively, of which €0 (2022: €18,0 million) and €5,6 billion (2022: €6,3 billion) respectively were purchased by the CBC.

Until the end of February 2023, the Eurosystem continued full reinvestments of funds of matured securities under the asset purchase programme

(APP). Subsequently, the APP portfolio decreased at a measured and predictable pace. The decrease amounted to €15,0 billion per month on average until the end of June 2023 as the Eurosystem did not reinvested the funds from maturing securities. The Governing Council of the ECB decided to terminate its net asset purchases of the APP portfolio, as from July 2023, and thus the portfolio decreased due to maturity of securities.

The Eurosystem continued full reinvestment of the principal payments from the maturing securities to the Pandemic Emergency Purchase Program – PEPP). The Governing Council of the ECB intends continue reinvestment of the principal payments from the maturing securities purchased under the PEPP until the end of 2024, in order to ease the overall monetary policy stance and to counter the severe risks to 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 €1.459,7 billion (2022: €1.482,9 billion), of which €2,0 billion (2022: €2,1 billion) were purchased by the CBC.

The said financial items are valued at the acquisition cost, adjusted for amortisation of premiums or discounts and are subjected to impairment tests. Annual impairment tests are conducted based on the estimated recoverable amounts at the end of the year and approved by the Governing Council of the ECB.

As at 31 December 2023, the total balance of securities held for monetary policy purposes in the

Eurosystem amounted to €4.694,3 billion (2022: €4.937,2 billion), and according to the Eurosystem capital key, the total investments corresponding to the CBC amount to €7,7 billion (2022: €8,4 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.

As a result of the impairment tests conducted on PEPP–CORP securities, the Governing Council of the ECB considered appropriate to make a provision against credit risks of monetary policy operations in 2023. According to the decision based on article 32.4 of the Articles of Association, any losses from holdings in the PEPP–CORP portfolio are fully distributed by the Eurosystem NCBs according to their Eurosystem capital key. As a result, a provision of €92,0 thousand being the equivalent to the CBC's share, according to its Eurosystem key (0,2134%) (see note "L13. Provisions").

During 2022, no impairment was recorded by the Eurosystem in monetary policy portfolio securities.

A7.2 Other securities (Table 8, p. 89)

The portfolio of other securities of euro area resi-

Table 8 **Other securities**

	31 Dec. 2023 €'000	31 Dec. 2022 €'000	Change €'000
Marketable securities classified as held to maturity	569.386	229.969	339.417
Total	569.386	229.969	339.417

dents denominated in euro comprises securities and generally financial assets issued by euro area governments and residents, and are allocated to separate portfolios held by the CBC for investment policy purposes.

Marketable securities other than held to maturity

These securities are valued at 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.

During 2023, the CBC purchased marketable securities classified as held to maturity for the amount of €339,4 million.

The impairment test performed on 31 December 2023 indicate that there was no impairment on the value of the marketable securities.

The market value of the marketable securities classified as held to maturity, which is reported for comparability purposes only, amounted to €574,5 million (2022: €222,3 million).

In 2022 comparative balances, an adjustment was made to the balance of securities, for correct classification purposes, for the amount of €60,8 million to the asset item "A4.1 Balances with banks, security investments and loans".

A9. Intra-Eurosystem claims

A9.1 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 as at 31 December 2023 amounts to €10.825,0 million and the CBC's share in the ECB's subscribed capital is 0,1750%. As from 1 January 2024, the CBC's share in the ECB's capital increased to 0,1802%, the Eurosystem key increased to 0,2238% and the banknote key increased to 0,2025% (see note "P12. Key for subscription to the ECB's capital (ESCB capital key)").

As a result of the Hrvatska Narodna Banka's entry into the Eurosystem, as from 1 January 2023, the ECB's paid-up capital increased to €8.948,3

Table 9 **Other claims within the Eurosystem (net)**

	31 Dec. 2023 €'000	31 Dec. 2022 €'000	Change €'000
Claim related to TARGET	14.846.058	14.767.039	79.019
Liability related to the reallocation of monetary income	(60.247)	(55.041)	(5.206)
Claim related to SURE	353	353	-
Total	14.786.164	14.712.351	73.813

million in 2023 (2022: €8.880,0 million) and the CBC's share decreases at 0,2134% (2022: 0,2152%). The share of the CBC in the capital, reserves and provisions of the ECB, as from 1 January 2024 amounts to €42,6 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 interest 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

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.

The claim with respect to the foreign reserve assets transferred from the CBC to the ECB, as from 1 January 2024, increased to €89,4 million, due to the relevant adjustment in the capital key of the CBC.

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 (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 until 31 December 2023, gradually increased to 4,5% (2022: 2,5%) (see Profit and Loss Account, note "P1.1 Interest income").

A9.5 Other claims within the Eurosystem (net) (Table 9)

Table 10 **Tangible and intangible fixed assets**

	31 Dec. 2023 €'000	31 Dec. 2022 €'000	Change €'000
Cost			
Land and buildings	23.102	23.102	-
Furniture, building and other equipment	15.898	15.767	131
Computer software and hardware	10.434	9.781	653
Motor vehicles	131	131	-
Total cost	49.565	48.781	784
Accumulated depreciation			
Land and buildings	20.182	20.089	93
Furniture, building and other equipment	13.142	12.803	339
Computer software and hardware	9.845	9.096	749
Motor vehicles	115	102	13
Total accumulated depreciation	43.284	42.090	1.194
Net book value	6.281	6.691	(410)

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 TARGET (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, if exist, 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 miti-

gate Unemployment Risks in an Emergency) of €0,4 million (2022: €0,4 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.

A11. Other assets

A11.2 Tangible and intangible fixed assets (Table 10).

A11.5 Accruals and prepaid expenses

This item mainly includes the accrued interest

Table 11 **Banknotes in circulation**

	31 Dec. 2023 €'000	31 Dec. 2022 €'000	Change €'000
Net value of euro banknotes in circulation by the CBC	171.101	730.192	(559.091)
Liability arising from the share of banknotes issued on behalf of the ECB ⁽ⁱ⁾	(267.614)	(270.612)	2.998
Claim arising from the allocation of euro banknotes within the Eurosystem	3.176.114	2.653.045	523.069
Net claim related to the allocation of euro banknotes within the Eurosystem (A9.4)	2.908.500	2.382.433	526.067
Total value of euro banknotes in circulation by the CBC on the basis of the banknote allocation key	3.079.601	3.112.625	(33.024)

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

on TLTRO III of €115,4 million (2022: €46,9 million interest expense), accrued interest on monetary policy securities amounting to €70,8 million (2022: €74,0 million), accrued interest income on the claim related to TARGET amounting to €55,9 million (2022: €26,6 million) and the claim related to the allocation of banknotes amounting to €33,2 million (2022: €10,8 million), accrued income of supervisory and resolution fees amounting to €11,5 million (2022: €10,7 million) and accrued income from coin issuance amounting to €2,3 million (2022: €2,7 million).

A11.6 Sundry

This item mainly consists of the loans to CBC's employees of €20,0 million (2022: €18,8 million).

LIABILITIES

L1. Banknotes in circulation (Table 11)

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 0,1965%. As from 1 January 2024 the banknote allocation key increases to 0,2025% (see note "P12. Key for subscription to the ECB's capital (ESCB capital key)").

During 2023, the total value of banknotes in circulation within the Eurosystem decreased by 0,27%. According to the allocation key, the CBC's total value of euro banknotes in circulation amounted to €3,1 billion as in 2022.

This change is due to the decrease in euro banknotes put into circulation by all NCBs of the euro area, which amounted to €1.567,7 billion as at 31 December 2023 compared with €1.572,0 billion as at 31 December 2022.

Table 12 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro

	31 Dec. 2023 €'000	31 Dec. 2022 €'000	Change €'000
2.1 - Current accounts (covering the minimum reserve system)			
Current Accounts	110.702	197.143	(86.441)
Minimum Reserves	500.358	503.002	(2.644)
2.2 - Deposit facility	23.162.163	23.170.377	(8.214)
Total	23.773.223	23.870.522	(97.299)

L2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro (Table 12)

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 2023, amounted to €500,4 million (2022: €503,0 million). These balances were remunerated at the Eurosystem's deposit facility rate as from 21 December 2022 until 19 September 2023. Following the decision of the Governing Council of the ECB on 27 July 2023, the reserve holdings exceeding the required minimum reserves bear zero interest since 20 September 2023.

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 liability item "L2.1 Current accounts (covering the minimum reserve system)" to the liability 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 euro

L5.1 General government

This item mainly includes the deposits of the Government and other organisations of the wider public sector, amounting to €3.166,5 million (2022: €3.163,4 million).

L5.2 Other liabilities

This item mainly includes the balances of the

deposits of the institutions under liquidation amounting to €147,0 million (2022: €320,2 million).

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

This item mainly consists of CBC's liability in relation to the collateralised gold transactions which amounted to €132,4 million as at 31 December 2023 (2022: €71,7 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 2023 amounting to €515,4 million (2022: €530,7 million) of special drawing rights of SDR424,0 million (31 December 2022: 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 €1,7 million (2022: €2,0 million).

L12. Other liabilities

L12.1 Off-balance sheet instruments revaluation differences

This item includes adjustments to the value of foreign exchange transactions in off-balance sheet accounts. The balance of the previous year amounting to €295,0 thousand related to adjustments to the value of foreign exchange transactions in SDR.

L12.2 Accruals and income collected in advance

The balances mainly include the accrued interest on SDR amounting to €5,2 million (2022: €2,4 million) and accrued expenses amounted to €3,5 million (2022: €6,2 million).

L12.3 Sundry

This item mainly represents the CBC's net liability for the pension plan of its employees amounting to €150,3 million (31 December 2022: €126,3 million). The balance on 31 December 2022 also includes the amount of €1,5 million, being the CBC's liability for the pensioners healthcare scheme, which according to the actuarial valuation with reference date 31 December 2022, amounted to €1,6 million as at 31 December 2023. The Board of Directors of the CBC, after reviewing the said liability and taking into consideration the full implementation of GeSY, decided to release the liability in the financial statements of the year 2023 and transfer the respective amount to the item of Profit and Loss Account "P6. Other Income".

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.

In relation to the pension benefits of the permanent employees of the CBC with employment 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 liability to the State for the new pension scheme covering the contribution of the employees for past service, is recorded as a provision in the Financial Statements of 2022, and will be settled with 36 monthly installments as from 1 January 2024 until final instalment date 31 December 2026. The decrease of the liability in 2023 relates to the retirement of a member during the year. For purposes of calculation of the CBC's contribution for past service, the refund of each member entitled for the social security contributions for past service, was also calculated pursuant to article 6 of the Social Insurance Law (L.59(I)/2010).

The CBC's liability for the pension scheme of employees who held permanent and pensionable position before 1 October 2011, is reviewed annually by independent qualified actuaries.

The actuarial valuation carried out as at 31 December 2023 revealed net actuarial loss of €23,0 million compared with the net actuarial gain of €69,8 million, as at 31 December 2022. The main reason for this loss is the decrease of the discount rate from 3,86% to 3,38%. The main reason for the actuarial gain in 2022 was 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 actuarial assumptions used for the actuarial valuations are stated in **Table 13**, p. 96.

The movement in net retirement benefits liability is analysed in **Table 14** (p. 97).

L13. Provisions (Table 15, p. 97)

Provision against risks arising from the main activities of the CBC

The CBC maintains a general risk provision against the risks stemming from its main activities that is assessed via well-established framework and the application of appropriate measurement assumptions, principles and rules, all consistent with the principle of prudence. The maintenance of an appropriate level of financial buffers (resilience) safeguards the Bank's financial and operational independence, as also prescribed in the Treaty on the Functioning of the European Union and Statute of the European System of Central Banks and the ECB. Moreover, it enhances CBC's ability to withstand potential losses without the erosion of

Table 13 Actuarial assumptions used for the actuarial valuations

	2023	2022
Actuarial assumptions for CBC pension scheme		
Discount rate	3,38%	3,86%
Inflation rate	2,50%	2,50%
General salary increases	0,00%	0,50%
Total salary increases	1,67%	1,75%
Increases in social insurance pensions	2,50%	2,50%
Rate of increase in pensions	1,67%	1,50%
Rate of increase in the basic insurable earnings	2,50%	2,50%
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%
Rate of increase in pensions	-	1,50%
Mortality table	60% of PA90 (Males) and 65% of PA90 (Females)	60% of PA90 (Males) and 65% of PA90 (Females)

its capital base and/or affecting its ability to carry out its operations in the most effective manner.

For the purpose of determining the appropriate level of the risk provision or, when demanded, the required level of total capital and reserves buffers of the CBC, the CBC assess the following risks:

- 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 asset purchasing programmes.
- Operational risk stemming from the CBC's operations and activities.
- Interest rate risk in the banking book, namely the current or prospective risk to the CBC's

capital and earnings arising from adverse movements in interest rates.

The measurement of market risk and credit risk is performed using the Expected Shortfall metric at a 99% confidence level, over a one-year horizon. The interest rate risk on CBC's banking book is assessed through sensitivity analysis and/or interest rate shock stress scenarios. With regard to operational risk, the Standardised 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 €70,0 million to €571,7 million by transferring the full profit of the year in the provisioning account.

Table 14 Movement in net retirement benefits liability

	2023 €'000	2022 €'000	Change €'000
Liability related to the CBC's pension scheme			
Net liability as at 1 January	126.282	196.878	(70.596)
Employees			
Provision for the year	994	2.089	(1.095)
Arrangement/Deductions (transfer to public sector)	-	(820)	820
Net actuarial loss/(gain) of the actuarial liability	22.605	(68.491)	91.096
Executives			
Provision for the year	20	49	(29)
Net actuarial loss/(gain) of the actuarial liability	418	(1.336)	1.754
Capitalisation of interest	4.813	2.096	2.717
Contribution of employees and executives	701	647	54
Benefits paid	(5.560)	(4.830)	(730)
	150.273	126.282	23.991
Liability to the State for new professional pension scheme			
Net liability as at 1 January	900	-	900
Provision for the year and past service cost	(26)	900	(926)
	874	900	(26)
Liability related to the pensioners' healthcare scheme			
Net liability as at 1 January	1.457	1.735	(278)
Provision for the year	38	53	(15)
Net actuarial loss/(gain) of the actuarial liability	-	(351)	351
Capitalisation of interest	57	20	37
Release of liability related to the pensioners' healthcare scheme	(1.552)	-	(1.552)
	-	1.457	(1.457)
Total liability as at 31 December	151.147	128.639	22.508

Table 15 Provisions

	31 Dec. 2023 €'000	31 Dec. 2022 €'000	Change €'000
Provision against risks arising from CBC's main activities	571.571	501.576	69.995
Provision for losses arising from monetary policy operations	92	-	92
Total	571.663	501.576	70.087

Table 16 Revaluation accounts

	31 Dec. 2023 €'000	31 Dec. 2022 €'000	Change €'000
Pre-stage III revaluations			
- Gold	240.030	240.030	-
- Foreign currency	977	977	-
	241.007	241.007	-
Other revaluations			
- Gold	581.376	508.662	72.714
- Foreign currency	18.819	25.304	(6.485)
- Prices of debt instruments	2.917	-	2.917
	603.112	533.966	69.146
	844.119	774.973	69.146
Remeasurement of the pension scheme liability	(34)	22.988	(23.022)
Remeasurement of healthcare scheme for pensioners liability	133	133	-
Release of the remeasurement of healthcare scheme for pensioners liability	(133)	-	(133)
Total	844.085	798.094	45.991

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.

Provision for losses arising from monetary policy operations

During 2023, as a result of an impairment test performed on PEPP-CORP portfolio from a Eurosystem NCB, the Governing Council of the ECB deemed it appropriate to create a security reserve of €42,9 million against credit risks in the monetary policy operations.

According to Article 32.4 of the ESCB Statute, this reserve will be funded by all NCBs of the

Eurosystem in proportion to the their Eurosystem capital key.

As a result, a provision of €92,0 thousand created for 2023 in the CBC accounts, which equals to its share in the total provision, according to the Eurosystem capital key (0,2134%).

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 €69,1 million (2022: increase €52,1 million) and are shown in detail in the **Table 16**. The total of the revaluation accounts including the effect of the remeasure-

Table 17 **Capital and reserves**

	31 Dec. 2023 €'000	31 Dec. 2022 €'000	Change €'000
Capital	150.000	150.000	-
General Reserve Fund	168.820	168.820	-
Total	318.820	318.820	-

ment of the retirement benefits liability amounted to €844,1 million (2022: €798,1 million), showing an increase of €46,0 million.

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

On 31 December 2023, 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 2023 are the following: Sterling €0,8691 (31 December 2022: €0,8869) and US dollar €1,1050 (31 December 2022: €1,0666).

L15. Capital and reserves (Table 17)

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 2023, a number of court cases 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 and 2014 for the implementation of the resolution measures as well as in connection with the bonds issued by the supervised institutions, before 2013.

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, except for two legal cases issued at the end of year 2023 against the CBC jointly with Cyprus Popular bank and the Republic of Cyprus. These decisions issued in favour of the plaintiffs, against the CBC and the Republic of Cyprus, for the total amount of €6,2

million plus interest until repayment. The CBC has filed an appeal in relation to the above two court decisions. According to the provisions of the International of Accounting Standard 37 – Provisions, Contingent Liabilities and Contingent Claims – and the principle of prudence, a relevant provision has been recorded in the Financial Statements of the year under the Liability item "L12.3 Sundry".

Off-balance sheet items

As at 31 December 2023, the Bank had outstan-

ding balances from foreign exchange forwards and swaps contracts amounting to net payables of €2,6 million against other currencies, mainly SDRs (2022: €2,6 million). As at 31 December 2023, the net unsettled spot transactions were €0,1 million (2022: €0,1 million). As a result of the valuation at the year-end, a gain of €8,1 thousand (2022: €13,8 thousand) arose from the outstanding foreign exchange contracts which is recorded under the balance sheet item "A11.4 Off-balance sheet instruments revaluation differences".

PROFIT AND LOSS ACCOUNT

P1. Net interest income

This item comprises of interest income less interest expense. Net interest income increased by €33,9 million and amounted to €171,0 million compared with €137,1 million in the previous year.

P1.1 Interest income (Table 18, p. 102)

Increased by €701,7 million and amounted to €945,8 million compared with €244,1 million in the previous year.

- **Securities for monetary policy purposes**

This item mainly consists of interest arising from the purchase of debt securities by the CBC in the context of 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 €9,8 million in 2023 is mainly due to PSPP and PEPP programmes, in combination with the decrease in the income from other monetary policy security purchase programmes.

- **Interest received – TLTRO III**

This item refers to the interest from the TLTRO III, calculated using the deposit facility rate, which was changed to positive as from 14 September 2022. Interest for the year 2022 was an expense for CBC (see Note "P1.2 Interest expense in euro").

- **Claims from TARGET**

This item consists of interest amounting to €559,2 million calculated using the MRO rate on the daily balances of the TARGET account.

As from March 2016, the interest rate was zero and from 27 July 2022 until 31 December 2023 gradually increased to 4,5% (see Note "A9.5 Other claims within the Eurosystem (net)").

- **Securities for investment policy purposes**

The interest generated from these securities increased by €9,3 million to €12,1 million in 2023, compared with €2,8 million in 2022. An increase of €4,8 million was also reported in the interest income from foreign securities amounting to €6,8 million compared to €2,0 million in 2022 due to investments in USD.

- **Net claim on euro banknote allocation**

This item consists of interest increased by €88,2 million to €101,6 million (2022: €13,5 million) due to the increase in the main refinancing operations rate which increased gradually to 4,5% as at 31 December 2023 (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, no interest income was recorded from negative interest rates in 2023 (2022: €67,0 million).

- **Other interest income**

Includes interest income in foreign currency mainly from investment in US Treasury bills amounting to €13,3 million (2022: €6,5 million). Also, included in this item is the CBC's remuneration of €3,7 million (2022: €1,3 million) on the Reserve Tranche Position with the IMF

Table 18 Interest income

	2023 €'000	2022 €'000	Change €'000
Interest income in euro			
<i>On monetary policy operations</i>			
Securities	71.934	62.149	9.785
Interest received–TLTRO III	156.409	-	156.409
	228.343	62.149	166.194
<i>Other interest income</i>			
Claims from TARGET	559.162	81.703	477.459
Securities for investment policy purposes	12.141	2.823	9.318
Claims arising from transfer of foreign exchange reserves to the ECB	2.849	433	2.416
Net claim on euro banknote allocation	101.639	13.487	88.152
Staff loans	75	72	3
Negative interest	-	66.988	(66.988)
Other interest	3	179	(176)
	675.869	165.685	510.184
Total interest income in euro	904.212	227.834	676.378
Interest income in foreign currency			
Securities	6.826	1.982	4.844
Other interest income	34.779	14.261	20.518
Total interest income in foreign currency	41.605	16.243	25.362
Total interest income	945.817	244.077	701.740

which is part of the asset item "A2.1 Receivables from the IMF" and the interest on SDR holdings amounting to €16,8 million (2022: €6,1 million). The Reserve Tranche Position is a claim against the IMF and arises from the excess 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 19, p. 103)

- **Interest expense in euro**
Interest expense in euro mainly refers to

accrued interest on bank deposits using deposit facility rate which turned into positive as from 14 September 2022. Interest for the year 2022 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, as from 23 November 2022 and for the remaining period of each TLTRO III, the deposit facility rate was applied, according to the relevant decision of the Governing Council of the ECB.

Table 19 Interest expense

	2023 €'000	2022 €'000	Change €'000
Interest expense in euro	753.162	100.432	652.730
Interest expense in foreign currency	21.613	6.564	15.049
Total interest expense	774.775	106.996	667.779

- **Interest expense in foreign currency**

Interest expense in foreign currency mainly refers to interest of €21,6 million (2022: €6,6 million) paid by the CBC for its liabilities on special drawing rights as a result of Cyprus's counterparty in the IMF (liability item "L9 Counterpart of special drawing rights allocated by the IMF"). The increase of €15,0 million is due to the increase of the SDR interest rate to 4,103% (31 December 2022: 2,916%) on the IMF Special Drawing Rights account.

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

P2.1 Realised gains arising from financial operations

This amount includes realised gains/losses arising from financial operations in foreign currency resulting in a net realised loss of €0,6 million (2022: €14,3 million gain). The gain or loss results from the difference between the average cost and the exchange rate of the foreign currency against the euro for each outflow. Gain results in cases where the average cost rate is lower than the exchange rate at the date of the transaction, while loss results in the opposite case.

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 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 supervisory fees from the domestic credit institutions, which amounted to €9,1 million for 2023 (2022: €9,3 million) and the cost recovery for coin issuance of €2,3 million for 2023 (2022: €2,7 million).

P4. Income from equity shares and participating interests

ECB profit distribution

The Governing Council of the ECB decided on 24 January 2024 that no interim profit distribution will take place for the year 2023, as for 2022.

In addition, no final profit distribution will take place due to the loss recorded by the ECB for the year, which was partially covered by the full release of the ECB's General Risk Provision account.

Table 20 Net result of pooling of monetary income

	2023 € million	2022 € million	Change € million
Monetary income allocated to the CBC according to its capital key in the Eurosystem	87,0	15,4	71,6
Minus: Monetary income pooled by the Central Bank of Cyprus	(147,2)	(70,3)	(76,9)
Result of pooling of monetary income	(60,2)	(54,9)	(5,3)
Corrections to monetary income reallocation of previous years	-	(0,1)	0,1
Provision against risks arising from the Eurosystem's monetary policy operations	(0,1)	-	(0,1)
Total	(60,3)	(55,0)	(5,3)

The remaining amount of the loss was transferred to ECB's balance sheet to be offset with future profits. The loss for the previous year 2022 was fully covered by the release of the ECB's General Risk Provision account.

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.

- Banknotes in circulation
- Liabilities to credit institutions related to monetary policy operations denominated in euro
- Net intra-Eurosystem liabilities resulting from TARGET 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.

- 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 TARGET 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 (Table 20).

Table 21 Analysis of the net result of the CBC's monetary income

	Monetary income pooled	Total monetary income pooled by the Eurosystem NCBs	Monetary income reallocation based on the Eurosystem key	Result of pooling of monetary income	Result of pooling of monetary income
	2023			2022	
	€ million (a)	€ million (b)	€ million (b)	€ million (b-a)	€ million
Lending to euro area credit institutions related to monetary policy operations denominated in euro	156,4	26.849,9	57,3	(99,1)	(8,2)
Securities held for monetary policy purposes (risk sharing)	11,4	8.483,3	18,1	6,7	1,1
Securities held for monetary policy purposes (no-risk sharing)	224,1	127.854,2	272,9	48,8	8,2
Claims equivalent to the transfer of foreign reserves to the ECB	12,8	1.334,5	2,8	-	0,1
Net claims(+) / net liabilities(-) related to the allocation of euro banknotes within the Eurosystem	101,6	(4.816,9)	(10,2)	(111,8)	(15,1)
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	(748,2)	(130.387,3)	(278,3)	469,9	17,3
Net claims(+) / net liabilities(-) arising from balances of TARGET accounts	559,2	14.160,1	30,2	(529,0)	(77,2)
GAP (difference between earmarkable assets and the liability base)	(160,1)	(2.722,5)	(5,8)	154,3	18,9
Claims related to liquidity provision to FCBs	-	4,3	-	-	-
Total	147,2	40.759,6	87,0	(60,2)	(54,9)

The difference of €60,2 million (2022: €54,9 million) between monetary income of €147,2 million (2022: €70,3 million), which the CBC earned in 2023, and its reallocated monetary income of €87,0 million (2022: €15,4 million), based on its Eurosystem key share on the total monetary income pooled, was paid on 31 January 2024.

In addition, the CBC paid €15,3 thousand due to revisions of the monetary income for the year 2022 and €2,5 thousand for the year 2021 (Table 21).

In addition this item includes the CBC's share

on the provision against credit risks in monetary policy operations of the Eurosystem, amounting to €92,0 thousand (see note "L13. Provisions").

P6. Other income

This item includes the total amount of the release of the CBC's liability for the pensioners healthcare scheme of €1,7 million, value that was based on the actuarial valuations undertaken after the implementation of GeSY. Specifically, this amount consists of the release of the liability for the pensioners healthcare scheme of €1.552,0 thousand, item "L12.3

Table 22 Staff costs

	2023 €'000	2022 €'000	Change €'000
Employees' benefits			
Remuneration (basic salary, wage indexation, allowances, overtime payments)	23.712	20.003	3.709
Pension benefits – provision for current service cost	994	2.089	(1.095)
Arrangement/Deductions (transfer to public sector)	-	(820)	820
Social insurance and other contributions	4.632	3.742	890
New pension scheme cost—including past service cost	312	500	(188)
Social insurance contributions—current service cost and retrospective cost of new pension scheme	-	400	(400)
Total	29.650	25.914	3.736
Governor's and Board's benefits			
Remuneration (basic salary, wage indexation, allowances)	496	441	55
Pension benefits – provision for current service cost	20	49	(29)
Social insurance and other contributions	56	55	1
Remuneration of non-executive directors	143	150	(7)
Total	715	695	20
Interest expense on pension scheme	4.813	2.096	2.717
Healthcare scheme for pensioners			
Current service cost	38	53	(15)
Interest expense	57	20	37
Total	95	73	22
Cost of leaves not taken	123	294	(171)
Total Staff costs	35.396	29.072	6.324

Sundry” and the release of the scheme remeasurement of €133,0 thousand, item “L14. Revaluation accounts”. This item also includes income from numismatic collection of coins issue amounting to €262,1 thousand (2022: €250,0 thousand).

P7. Staff costs (Table 22)

Executives and employees’ remuneration (Table 23, p. 107) 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.

P8. Administrative expenses (Table 24, p. 107)

During the reference year, administrative expenses remained at the same level as in 2022, approximately at €9,9 million.

Table 23 Remuneration of Governor and Board of Directors

	2023 €'000	2022 €'000
Governor		
Constantinos Herodotou (Governor from 11 April 2019)	196	173
Executive Directors		
Stavros Agrotis (Executive Director from 15 May 2019)	150	134
Maria Heracleous (Executive Director from 15 May 2019)	150	134
Total	496	441
Non-Executive Directors		
Angelos Gregoriades (from 1 July 2019)	30	30
Stavros Evagorou (from 1 March 2017)	30	30
Makis Keravnos (from 24 October 2018 to 28 February 2023)	5	30
Konstantinos Panayides (from 29 November 2023)	3	-
Yiannis Savvides (from 24 October 2018 to 23 October 2023)	24	30
Ioannis Charilaou (from 18 October 2016)	30	30
Andreas Charitou (from 21 April 2023)	21	-
Total	143	150

Table 24 Administrative expenses

	2023 €'000	2022 €'000	Change €'000
Consultancy services	170	375	(205)
Legal expenses	3.053	2.899	154
Maintenance, repairs, cleaning	1.639	2.090	(451)
Travel and subsistence expenses	591	373	218
Communications	609	659	(50)
Electricity, heating and water costs	927	955	(28)
Buildings, equipment and vehicle insurance	113	104	9
IT Services	1.422	1.257	165
Membership fees of committees other than the ECB	429	405	24
Miscellaneous	904	707	197
Total	9.857	9.824	33

P9. Depreciation of tangible fixed assets

Depreciation of tangible fixed assets for the year 2023 amounted to €1,2 million (2022: €1,2 million).

P10. Banknote acquisition cost

Expenses related to acquisition and handling of banknotes and coins for 2023 is €1,3 million (2022: €3,3 million).

P11. Other expenses

This item Includes an amount of €6,2 million, recorded in the accounts, being a provision for pending legal cases issued in 2023 against CBC (see note "Pending court cases"). The item also includes various operating expenses of the CBC for the year 2023 amounting to €2,4 million (2022: €1,8 million).

P12. Key for subscription to the ECB's capital (ESCB capital key)

The capital key is essentially a measure of the relative size of each ESCB member state, and is calculated to be 50% of the share of the member state in the population of the EU and 50% of the share of the member state in the GDP of the EU (article 29 paragraph 1 of the statute of the ESCB). The NCBs shares in the ECB's subscribed capital are presented on **Table 25** (p. 109).

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.

The subscribed capital of the ECB as at 31 December 2023 amounts to €10.825,0 million and the CBC's share in the ECB's subscribed capital is 0,1750%. As from 1 January 2024, the CBC's share in the ECB's capital increased to 0,1802%, the Eurosystem key increased to 0,2238% and the banknote key increased to 0,2025%, due to the five-yearly capital key changes of the ECB.

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%.

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. As from 1 January 2024 the total participation of the CBC in the net equity value of the ECB increased to €42,6 million.

Table 25 Key for subscription to the ECB's capital (ESCB capital key)

	31/12/2023 %	31/12/2022 %
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 Espana	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
Hrvatska Narodna Banka	0,6595	-
Total amount for euro area NCBs	81,9881	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
Bulgarian National Bank	0,9832	0,9832
Banca Nationala a Romaniei	2,8289	2,8289
Hrvatska Narodna Banka	-	0,6595
Total amount for non-euro area NCBs	18,0119	18,6714
Total amount for NCBs that are members of the ESCB	100,00	100,00
Central Bank of Cyprus		
Eurosystem Capital Key	0,2134	0,2152
Banknote Allocation Key	0,1965	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 'CBC'), which are presented on pages 79 to 109 and comprise the balance sheet as at 31 December 2023 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 CBC as at 31 December 2023 and of its financial performance for the year then ended in accordance with Article 57(2) of the *Central Bank of Cyprus Laws, 2002–2024*, 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 CBC 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.

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. We have nothing to report in this respect.

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 Laws, 2002–2024*, 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 Laws, 2002–2024*.

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 defi-

ciencies in internal control that we identify during our audit.

Other matter

This report, including the opinion, has been prepared for and only for the CBC'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.

Comparative figures

The financial statements of the Central Bank of Cyprus for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those financial statements on 28 March 2023.

Moisis Aristidou

Certified Public Accountant and Registered Auditor for and on behalf of

Baker Tilly Klitou and Partners Ltd

Corner C. Hatzopoulou & 30 Griva Digheni Avenue, Nicosia 1066, Cyprus.

Nicosia, 19 December 2024



CENTRAL BANK OF CYPRUS
EUROSYSTEM

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

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	Position	
Ioannis Charilaou	Non-Executive Director	Chairman
Yiannis Savvides ⁽¹⁾	Non-Executive Director	Member
Makis Keravnos ⁽²⁾	Non-Executive Director	Member
Angelos Gregoriades ⁽³⁾	Non-Executive Director	Member
Andreas Charitou ⁽⁴⁾	Non-Executive Director	Member

(1) Mr. Y. Savvides term at the Board of Directors of the Bank ended on 23/10/2023.
 (2) Mr. M. Keravnos resigned from the Board of Directors of the Bank on 28/2/2023.
 (3) Mr. A. Gregoriades was appointed to the Audit Committee on 6/3/2023.
 (4) Mr. A. Charitou was appointed as member of the Audit Committee on 31/1/2024.

6.2 Personnel Committee

Established under the *Central Bank of Cyprus Law, 2002*, as subsequently amended, with tasks as stated in section 22 of the aforementioned Law. It opines to the Governor, among other things, for appointments and addresses procedures concerning disciplinary offenses

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 ⁽¹⁾	Non-Executive Director	Member
Stavros Evagorou	Non-Executive Director	Member
Konstantinos Panayides ⁽²⁾	Non-Executive Director	Member

(1) Mr. Y. Savvides term at the Board of Directors of the Bank ended on 23/10/2023.
(2) Mr. K. Panayides was appointed as member of the Budget Committee on 31/1/2024.

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 ⁽¹⁾	Non-Executive Director	Chairman
Angelos Gregoriades	Non-Executive Director	Member/Chairman
Ioannis Charilaou	Non-Executive Director	Member
Andreas Charitou ⁽²⁾	Non-Executive Director	Member
Konstantinos Panayides ⁽³⁾	Non-Executive Director	Member

(1) Mr. M. Keravnos resigned from the Board of Directors of the Bank on 28/2/2023.
(2) Mr. A. Charitou was appointed as a member of the Risk Management Committee on 2/8/2023 and withdrew from the Risk Management Committee on 31/1/2024.
(3) Mr. K. Panayides was appointed as a member of the Risk Management Committee on 31/1/2024.

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 Investments Policy of the CBC.

Members	Position	
Andreas Charitou ⁽¹⁾	Non-Executive Director	Chairman
Angelos Gregoriades ⁽²⁾	Non-Executive Director	Chairman
Stavros Evagorou	Non-Executive Director	Member
Konstantinos Panayides ⁽³⁾	Non-Executive Director	Member

(1) Mr. Andreas Charitou was appointed as a member of the Investments Committee on 2/8/2023.
 (2) Mr A. Gregoriades withdrew from the Investments Committee on 31/1/2024.
 (3) Mr K. Panayides was appointed as a member of the Investments Committee on 31/1/2024.

