



CENTRAL BANK OF CYPRUS  
EUROSYSTEM

# ANNUAL REPORT

2024

NICOSIA - CYPRUS

Enter/  
Exit



Full  
Screen



1  
Governor's  
Introduction

2  
Management and  
Organisation  
of the Bank

3  
Strategy  
2025-2026

4  
Promoting  
sustainability

5  
Economic  
Developments

6  
Functions  
of the Bank

7  
Financial  
Statements  
2024

88  
Annex



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## CONTENTS

<b>1. GOVERNOR'S INTRODUCTION</b>	<b>9</b>
<b>2. MANAGEMENT AND ORGANISATION OF THE BANK</b>	<b>16</b>
2.1 Board of Directors	16
2.2 Senior Management Team	22
2.3 Organisational Chart	23
<b>3. STRATEGY 2025-2026</b>	<b>24</b>
<b>4. PROMOTING SUSTAINABILITY BASED ON SOCIAL, ENVIRONMENTAL AND GOVERNANCE CRITERIA</b>	<b>27</b>
A. Our People	27
B. Society	30
C. The Environment	31
<b>5. ECONOMIC DEVELOPMENTS</b>	<b>37</b>
5.1 External developments	37
5.2 Domestic developments	38
5.2.1 Inflation	38
5.2.2 Monetary developments	38
5.2.3 Domestic economy	39
5.2.4 Forecasts	43
<b>6. FUNCTIONS OF THE BANK</b>	<b>45</b>
<b>6.1 Regulatory and Supervisory Activities</b>	<b>45</b>
6.1.1 Developments and prospects of the banking sector	45
6.1.2 Supervision of Significant, Less Significant and Non-Credit Institutions	46
6.1.3 On-site inspections of credit institutions	48
6.1.4 Licensing of institutions and withdrawal of operating license	48
Licensing of institutions	48
Withdrawal of operating license	49
6.1.5 Assessment of the suitability of persons	49
6.1.6 Acquisition of Qualifying Holdings in Authorised Institutions incorporated in the Republic of Cyprus	49
6.1.7 Legal and regulatory framework	50
6.1.8 Digital operational resilience and Innovation Hub	51
6.1.9 Prevention of the use of the financial system for money laundering and terrorist financing (AML/CFT), Financial Conduct	52
Prevention of the use of the financial system for money laundering and terrorist financing	52
Supervision of Payment and Electronic-Money Institutions	53
Financial Conduct	53
Supervision of the provision of Investment Services by credit institutions	54
<b>6.2 Resolution Framework and Administration of the Deposit Guarantee, Resolution and Investor Compensation Funds</b>	<b>55</b>
Resolution Planning	55
Administration of the Deposit Guarantee, Resolution and Investor Compensation Funds	56
<b>6.3 Financial Stability</b>	<b>57</b>
6.3.1 Financial indicators for the banking sector	58

6.3.2	Main macroprudential policy decisions	58
6.3.3	Publications	58
6.3.4	Macroprudential analysis, monitoring and measures taken to mitigate systemic risks	59
6.3.5	Support of the Governor and participation in the ECB and ESRB committees and working groups	60
6.3.6	National Financial Stability Committee	60
<b>6.4</b>	<b>Financial Market Infrastructures and Payments</b>	<b>60</b>
	Real-time gross settlement system	60
	Retail Payment Systems	61
	Securities Settlement System	61
6.4.1	Payments, clearing and securities settlement systems	61
	TARGET-CY: The Cypriot component of the TARGET system	61
	T2-CY	61
	TARGET2-Securities (T2S)	62
	TARGET Instant Payment Settlement (TIPS-CY)	62
	T2-CY Statistics	63
	Cyprus Clearing House	63
6.4.2	The CBC as banker of the Republic of Cyprus in the field of payments	64
6.4.3	Other activities	64
	Central Information Register for Issuers of Dishonoured Cheques (CIR)	64
	Interchange fees for card-based payment transactions: Regulation (EU) 2015/751 (Interchange Fee Regulation - IFR) and Law (N.77 (I)/2018)	65
6.4.4	Catalyst and Oversight Authority	65
	Catalyst for promoting changes in retail payments	65
	Oversight	67
<b>6.5</b>	<b>Euro banknotes and coins</b>	<b>67</b>
6.5.1	Currency cycle	68
6.5.2	Counterfeit euro banknotes and coins found in Cyprus in 2024	68
6.5.3	Issue of numismatic items	69
	Collector coin set	69
	Collector coin	69
	Commemorative coin	69
<b>6.6</b>	<b>Activities in the Financial Markets</b>	<b>70</b>
6.6.1	Management of reserves	71
	Changes in the size of reserves	71
	Securities lending	71
	Net financial assets	71
	Other developments	71
6.6.2	Monetary policy operations	72
	Open Market Operations	72
	Minimum reserve requirements and remuneration	75
<b>6.7</b>	<b>Risk Management and Compliance</b>	<b>75</b>
6.7.1	Financial risk management	75
	Market risk	76
	Interest Rate Risk in the Banking Book ("IRRBB")	76
	Credit risk	76
	Liquidity risk	77
	Investment operations - Governing policy framework	77
	Eurosystem monetary policy risks	77



## TABLES AND CHARTS

## TABLES

1	Refrigerants / Fugitive gases	35
2	Fuel consumption (for space heating and hot water production)	35
3	Electricity (Location-Based Methodology)	36
5.1	Current account balance (main categories)	42
5.2	Accounts of general government	42
6.1	Nature of the complaint	53
6.2	Summary Table – Refinancing Operations and Liquidity of credit institutions in Cyprus	75

## CHARTS

5.1	GDP in selected countries	37
5.2	Inflation in selected countries	37
5.3	Inflation in Cyprus	38
5.4	Deposits of the domestic private sector	38
5.5	Loans to the domestic private sector	39
5.6	MFI interest rates on euro-denominated loans (new business) to euro area residents	40
5.7	MFI interest rates on euro-denominated deposits (new business) by euro area residents	40
5.8	Weighted contributions to GDP growth by economic activity	40
5.9	Unemployment and employment	41
5.10	Compensation per employee, productivity and unit labour cost	41
5.11	General government consolidated gross debt	43
6.1	T2-CY cross-border payments 2018 - 2024	63
6.2	T2-CY domestic payments 2018 - 2024	63
6.3	CCH cheque clearing	63
6.4	Value of broader public sector payments through CBC	64
6.5	Annual average monthly listings in the main register and the preliminary register	65
6.6	Volume of transactions by payment instruments and preference of use	65
6.7	Value of non-cash payment transactions by payment instruments	65
6.8	Volume of card payments by initiation channel	66

## BOXES

1.	Our Happiness@Work Initiative	29
2.	Changes to the Operational Framework for the Implementation of Monetary Policy	74

## ABBREVIATIONS AND CONVENTIONS

## ABBREVIATIONS

ACIs	Authorised Credit Institutions
AnaCredit	Analytical Credit Datasets
ANFA	Agreement on Net Financial Assets
APP	Asset Purchase Programme
CBC	Central Bank of Cyprus
CCH	Cyprus Clearing House
CIR	Central Information Register for Issuers of Dishonoured Cheques
CSDB	Centralised Securities Database
Cystat	Statistical Service of the Republic of Cyprus
DGS	Deposit Guarantee and Resolution of Credit and Other Institutions Scheme
EBA	European Banking Authority
ECB	European Central Bank
ESCB	European System of Central Banks
ESRB	European Systemic Risk Board
EU	European Union
Eurostat	Statistical Office of the European Union
GC	Governing Council
GDP	Gross Domestic Product
HFCS	Household Finance and Consumption Survey
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
MFIs	Monetary Financial Institutions
NCBs	National Central Banks
PEPP	Pandemic Emergency Purchase Programme
PSPP	Public Sector Purchase Programme
RIAD	Register of Institutions and Affiliates Database
SEPA	Single Euro Payments Area
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.

## 1. GOVERNOR'S INTRODUCTION

The Annual Report of the Central Bank of Cyprus (CBC) constitutes a key opportunity for outlining the main macroeconomic and financial developments, the prevailing challenges, and the strategic directions shaping the economic and financial landscape, as well as the priorities of the CBC.

Upon assuming my duties in April 2024, I identified the need to transform the CBC to ensure its ability to effectively respond to the constantly changing conditions, both for the benefit of the Cypriot economy and the Eurosystem more broadly. We began by defining our vision, mission, strategic objective, and the key actions needed to fulfil our mission, both in today's and tomorrow's era as well as in line with the European framework. Specifically, we developed the Strategy 2025-2026, which aims to support the ongoing evolution of the CBC by addressing identified weaknesses and strengthening its ability to carry out its core responsibilities. At the same time, the Strategy 2025-2026 seeks to modernise the CBC, turning it into a more agile, responsive, and forward-looking Central Bank, capable of effectively meeting both current and future challenges. Through nearly 80 targeted actions, we are aiming to develop the CBC as a model institution of service and excellence. Implementation is already underway, and we are closely and systematically monitoring the progress.

A key pillar of the Strategy 2025-2026 is the reorganisation of the CBC, based on a modern organisational structure that enables the CBC to respond to its mission in a comprehensive, rapid and effective manner, both as a member of the Eurosystem and a national institution of the Republic of Cyprus. On 20 December 2024, the CBC

announced its new organisational structure, which came into effect on 3 February 2025 and is key for the successful implementation of its vision and strategic objectives. More specifically, the reorganisation of the CBC introduces and strengthens several new areas of focus, such as the establishment of a Research and Policy Centre, the creation of a Climate Change Office, and a significant upgrade of the Financial Conduct function. It also includes major enhancements across the CBC's supervisory responsibilities, such as the establishment of a Directorate Supervision of Electronic Money and Payment Institutions, and the creation of a centre of excellence for the supervision of information technology risk, a dedicated Enforcement and Sanctions Section, and a strengthened role for the CBC as the Macroprudential Authority.

Among other things, the new organisational structure places strong emphasis on specialisation, while also enhancing cross-departmental collaboration and upgrading support functions, particularly in the areas of organisation and technology. In addition, the new structure aims to make better use of human capital, strengthen career development opportunities, and renew leadership based on merit and excellence. Finally, it supports the development of succession planning, role flexibility, and gender equality across the Bank.

### Economic Activity in Cyprus

With regard to domestic economic developments, the economy continues to record strong growth rates, despite the complicated external challenges stemming from an increasingly unstable and uncertain global environment. Prolonged geopo-

litical instability and rising global trade tensions are fuelling persistent and significant uncertainty across the international economic landscape. For a small and open economy like Cyprus, these challenges and external risks highlight the importance of prudent policymaking, agility, and timely adjustment in order to preserve the country's resilience, stability, and growth momentum. At the same time, the impact of climate change presents an additional long-term challenge for economic prospects, while the growing threat of cybersecurity risks poses new vulnerabilities for both businesses and public infrastructure.

Despite these challenges, the Cypriot economy has managed to adapt effectively to changing conditions. This is reflected in the recent upgrades of the Republic of Cyprus' credit rating to 'A' level by all major rating agencies, which reinforce market confidence, improve the country's economic outlook, and make Cyprus more attractive to international investors. The credit rating upgrades are a clear acknowledgment of the successful implementation of prudent fiscal policies and the continued stability of the banking sector.

Specifically, and with respect to economic activity in 2024, Gross Domestic Product (GDP) recorded an increase of 3,4%. On the demand side, growth was mainly driven by private consumption and, to a lesser extent, by net exports, reflecting the increase in net exports of services. Investment also registered an increase in 2024. On the production side, the services sector was the main engine of growth, with additional support from the construction and manufacturing sectors.

It should be noted that private consumption was supported by the resilience of the labour

market and the increase in real incomes. With respect to investments, the increase originated both from the housing sector and from large infrastructure projects, supported by foreign financing and the Recovery and Resilience Facility (RRF). Finally, the significant rise in services exports was mainly driven by the tourism, shipping, and information technology sectors, further contributing to economic expansion.

The resilience of the labour market, with declining unemployment and continued employment growth, supported private consumption without triggering inflationary pressures. During the period 2025–27, and based on the CBC's March 2025 projections, GDP is expected to grow by around 3% annually. Economic activity is expected to be driven by domestic demand and, to a lesser extent, by net exports, in line with the anticipated recovery in external demand. However, worse-than-expected geopolitical developments could slow down the pace of recovery.

The strength of the economy is also reflected in the labour market, with the unemployment rate declining to 4,9% in 2024, from 5,8% in 2023. Unemployment is expected to decline further to 4,6% by 2027, reaching levels consistent with full employment.

In terms of public finances, the steady improvement of fiscal indicators plays a crucial role in the positive trajectory of the economy. The reduction of public debt from 113,6% of GDP in 2020 to 65,4% in 2024 is a significant achievement that reflects the positive trajectory of the economy and the sound management of public finances in recent years. The January 2025 figures show a further decrease in public debt to 61,9% of GDP.

According to estimates by the Ministry of Finance, the downward trend of debt is expected to continue, with the ratio falling below 50% of GDP by 2028. This development not only strengthens fiscal sustainability but also Cyprus's ability to cope with possible future shocks, confirming the country's strong commitment to long-term economic stability.

In the area of prices, inflation based on the Harmonised Index of Consumer Prices (HICP) showed a notable decline. The rate fell to 2,3% in 2024, from 3,9% in 2023. Even though price increases in services remain relatively high, the easing of overall inflation pressures is due to the correction of negative external supply-side factors, the drop in prices, mainly energy, and the dampening effect of the tight single monetary policy of the European Central Bank (ECB). During the period 2025–2027, inflation is expected to stabilise around the medium-term target of 2%.

Overall, the domestic economy continues to grow at a strong pace, thanks to the expansion of productive sectors and the implementation of investments that support the sustainability and stability of the macroeconomic environment. At the same time, reforms and strategies aimed at strengthening the resilience of the economy should remain a key priority of national policy.

In this context, significant progress has also been made in promoting financial literacy in Cyprus, which plays a key role in strengthening economic education and creating conditions for long-term financial well-being for households. The establishment of the Cyprus Financial Literacy and Education Committee (CyFLEC), chaired by the CBC, marks a milestone for Cyprus, boosting efforts

to implement the National Financial Literacy Strategy. Since 17 June 2024, with the signing of the Memorandum of Cooperation by the members of the CyFLEC Board (CBC, Ministry of Finance, Ministry of Education, Cyprus Securities and Exchange Commission, Superintendent of Insurance, and the Registrar of Occupational Retirement Benefit Funds), the CyFLEC has become fully operational, and four Thematic Working Groups are already working to promote actions under the National Strategy.

### Banking Sector

The banking sector in Cyprus, despite the numerous and intense challenges it has faced in recent years, has maintained its robustness and resilience, as evidenced by the relevant supervisory indicators. In 2024, the Common Equity Tier 1 (CET1) capital ratio further strengthened, reaching 24,5% compared to the European average of 16,1%. At the same time, liquidity reserves remained at very high levels, with the relevant ratio standing at 333%, a percentage that is well above the supervisory limit of 100% and the corresponding European ratio of 163,4%.

Non-performing loans (NPLs), as a percentage of the total loan stock, further decreased reaching 6,2% in 2024, compared with 7,9% in 2023. Nonetheless, three key factors must be noted that still retain this issue as one of the supervisory priorities of the Central Bank of Cyprus (CBC). Firstly, the NPL ratio, at system level, continues to be among the highest in Europe, retaining the necessity for it to be further reduced. Secondly, the risk of new defaults remains real. And thirdly, the progress achieved so far at

system level is uneven among the supervised institutions. Therefore, while progress in reducing NPLs at system level is acknowledged, there remains a need for close monitoring and further deleveraging of banks' balance sheets, with particular emphasis on the less significant institutions that need to intensify their efforts in this regard.

In this context, banks must continue to closely monitor their portfolios and apply prudent practices, emphasizing repayment capacity when granting new loans, as well as providing sustainable restructurings to existing clients.

Another area of internal analysis focus in 2024 was the unprecedented profitability of banks, which reached €1.212 billion in 2024, as well as interest rates. The achievement of satisfactory profitability by banks is considered a financial stability pillar. Profitability must be subject to prudent and proper use, while also applying a prudent policy regarding dividend distributions, so that this effectively contributes to the further strengthening of the banks in the long term.

The reduction in benchmark interest rates in 2024 seems to have led to adjustments in deposit and lending rates of banks, showing an increased degree of convergence with those of the eurozone. However, it should be noted that this adjustment is slowed down by the surplus liquidity in Cyprus banks. Deposits in the banking system continued their upward trend, reaching €55,9 billion by the end of 2024, a development that reflects the existing confidence in the financial system and the stability of the macroeconomic environment.

In light of the above, it is essential for banking institutions to incorporate the social aspect into their decision-making processes, as it both

enhances their social profile and contributes significantly to enhancing the competitiveness of the broader economic and business environment. In this regard, banks must continue supporting the real economy by providing credit to sustainable businesses and households.

It is also emphasized that in 2024, and with the aim of enhancing and safeguarding the credibility and risk management framework of the banking system, the CBC amended relevant guidelines, strengthening the requirements for banks regarding the identification, evaluation, and management of reputational risk. This amendment includes the requirement to adopt adequate and appropriate strategies, policies, and procedures within their internal governance framework.

At the same time, with a view to enhancing transparency and facilitating the public, from September 2024, the CBC publishes detailed monthly data on average interest rates for various lending and deposit products per bank.

### Main Challenges in the Banking Sector

Despite the significant shielding of banks against future unpredictable shocks, 2024 was still a year with unexpected geopolitical developments that brought significant risks to the Cyprus economy. In particular, due to the conflict in the Middle East and the ongoing Russia-Ukraine war, the economic and, consequently, the banking environment remains in continuous uncertainty with unpredictable developments. Therefore, both the ECB and the CBC consider geopolitical risk as a supervisory priority. It is noted, however, that in 2024, the domestic banking system did not have signifi-

cant concentrations in countries directly affected by these developments.

The geopolitical developments also highlight the increasing risk of climate change in the banking sector. It is noted that this is an unprecedented, uncertain, and multidimensional risk to banks, which necessitates immediate and collective action from all involved parties. Banks are called to follow the relevant European legislation and actions already undertaken by their European partners to maintain their competitiveness and ensure their sustainability due to unpredictable weather conditions. Consequently, this risk must continue to be an integral part of their strategic planning and decision-making processes.

At the same time, the increased uncertainty arising from emerging trade conflicts exacerbates the complex risk environment in which banks are required to operate. The multifaceted nature of these challenges necessitates comprehensive risk management strategies and adaptability to new conditions.

The technological development and the digitization of banking operations present additional critical challenges for the sector, as they affect both competitiveness and risk management. The rapid adoption of new technologies and the increasing digitization of financial services enhance banks' exposure to cyber threats, making continuous investment in security infrastructure and specialized personnel essential. Additionally, banks' adaptation to modern technologies enhances their competitiveness, enabling them to improve the services offered to businesses and consumers and to respond to the growing pressures from non-traditional financial participants. The moderniza-

tion of banking systems and the adoption of advanced cybersecurity solutions are interrelated elements crucial for ensuring stability and confidence in the financial system.

Overall, it is evident that there is no room for complacency, as the banks are facing multiple, unpredictable, and multidimensional risks. Consequently, banks should remain in constant alertness and readiness to address them effectively.

The CBC estimates that the cyclical systemic risks in the domestic financial system, as recorded and continuously monitored, are elevated. In this context, and acting proactively, the CBC deemed it necessary in January 2025 to increase the counter-cyclical capital buffer ratio from 1,0% to 1,5%. This decision will take effect on 14 January 2026. With this action, the CBC further strengthens financial stability and enhances the system's resilience to future risks.

### **Climate Change – Initiatives of the Central Bank of Cyprus**

The CBC has recognized the importance of addressing risks associated with climate change and integrating them into its policy and strategy. For this reason, it has promoted the sustainability and climate finance principles into the financial system of Cyprus to enhance financial stability and support the transition to a green economy. It has also taken actions to strengthen transparency regarding climate risks, promoting the application of green financial sector principles and supporting the efforts of financial institutions to integrate climate risks into their strategies. At the same time, it collaborates with international organizations

and supervisory authorities to create a unified framework that facilitates the transition to more sustainable and resilient economies.

More specifically, the CBC actively participates in thematic reviews, stress tests, and in-depth analyses led by the ECB to assess institutions' readiness to address climate risk and integrate it into their strategy, governance, risk management, and disclosures. This supervision ensures that credit institutions accelerate their preparations for effectively managing risks that are related to environmental, social and governance issues (ESG), while simultaneously meeting the necessary sustainability and resilience standards. Furthermore, smaller institutions directly supervised by the CBC were asked to develop implementation plans with specific milestones to promote the management of climate-related risks, in line with the ECB's 13 supervisory expectations, which outline how banks should incorporate climate and environmental risks into their business models and strategies, governance, and risk appetite.

Beyond the expectations for supervised institutions, and due to the criticality of climate change for the financial sector, the CBC announced on 3 February 2025, the establishment of a Sustainability Committee at the Board level, the terms of which include the contribution and support of the Board in the process of establishing and reviewing the Sustainability Strategy, as well as the contribution of the CBC itself towards the goal of net-zero carbon emissions.

The Sustainability Committee is supported by the Sustainability Team, which has already been established and has been operating since July 2024 and which coordinates all climate-related activities,

with the aim of further integrating climate parameters into the work being carried out by the CBC, as dictated by the Sustainability Strategy.

At the same time, as part of the reorganization of the CBC, the Office of Climate Change has been established, which falls under the Directorate of Economics and Research. This office will be responsible for monitoring issues related to the assessment of the impact of climate change on the Cyprus economy and the transition to a sustainable economy. Additionally, it will support the work of the Sustainability Team and the Sustainability Committee.

The CBC aims for a comprehensive approach in its Sustainability Strategy and in addressing Climate Change, which aligns with that of the ECB. To this end, it adopts the guidelines of the NGFS (Network for Greening the Financial System).

### **Payment Institutions (PIs) and Electronic Money Institutions (EMIs)**

The financial system is constantly evolving, as evidenced by the development and establishment of new sectors such as payment institutions (PIs) and electronic money institutions (EMIs). The increasing use of electronic payments across Europe has contributed to the growth of the PI and EMI sector in Cyprus, where, by the end of 2024, 26 EMIs and 11 PIs had been licensed.

In December, the CBC, within its supervisory responsibilities, announced the establishment of a comprehensive licensing and supervisory strategy for the EMI and PI sector.

To develop this strategy, the CBC appointed an international firm, whose experts, in collaboration

with CBC officials, conducted an analysis of the sector and its inherent risks.

The goal of the new strategy is to ensure the prudent and sustainable development of the sector and, among other things, includes:

1. Enhancing and enriching the licensing process for institutions applying to participate in the sector.
2. Strengthening the supervision of institutions by applying a risk-based supervisory approach per institution and enriching supervisory tools.
3. Adopting best operational practices for the sector.

To achieve these goals and as part of the aforementioned reorganisation of the CBC, the Directorate for the Supervision of Electronic Money and Payment Institutions was set up which has assumed the responsibility of proactive supervision of the sector.

## Epilogue

Strategic directions such as the diversification of productive sectors, the prudent management of public finances, and the stability of the financial system are key pillars for ensuring sustainable growth and preparing the country to face evolving challenges, such as climate change and rising cyber threats.

The current strategic initiatives go beyond addressing short-term challenges, as they establish a strong foundation that safeguards Cyprus's long-term stability, growth, and prosperity, while also acting as a buffer against uncertainty.

As global economic uncertainty intensifies significantly, new and multidimensional risks are emerging. The resurgence of trade tensions, most notably through the imposition of new trade tariffs, is expected to impact the Cypriot economy, increasing the likelihood of deviations from the baseline macroeconomic scenario. In this context, the Central Bank of Cyprus is assessing the potential effects of the new conditions and is developing alternative macroeconomic forecast scenarios.

In this complex and rapidly evolving environment, it is necessary to strengthen safety margins across all sectors of the economy. Cyprus, as a small and open economy, must continue to implement prudent and disciplined policies, further enhancing its capacity to absorb external shocks. With steady and forward-looking navigation, our economy can seize new opportunities and further strengthen its position within the European and global economic landscape.

**Christodoulos Patsalides**  
Governor

## 2. MANAGEMENT AND ORGANISATION OF THE BANK

### 2.1 BOARD OF DIRECTORS



#### Constantinos Herodotou

Governor and Chairman from 11 April 2019 until 10 April 2024.

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

He joined UBS Investment Bank in 2001 in London, where he worked for almost all of his investment banking career and rose through the ranks to head concurrently two sectors for the investment bank. He was Head of Shipping for Europe, Middle East and Africa and simultaneously headed Infrastructure & Concessions / Project Finance for Central & Eastern Europe. He re-launched both sectors and developed them into multi-million annual revenue businesses.

He has advised governments as well as global private sector conglomerates and companies on major financial transactions and strategy, totalling an approximate value of over €50 billion. His experience includes structuring and heading complex negotiations, mergers and acquisitions, project concessions, listing companies on stock exchanges (NASDAQ and NYSE), structuring and raising equity and debt (bank financing as well as bonds)

capital, corporate and financial restructurings and project finance.

In June 2014 he relocated to Cyprus to take up the role of Commissioner of Privatisations and in March 2017 he was appointed as an executive member of the CBC Board.

From 11 April 2019 until 10 April 2024, he was the Governor of the Central Bank of Cyprus and a member of the Governing Council of the European Central Bank.

#### Christodoulos Patsalides

Governor and Chairman from 11 April 2024. Christodoulos Patsalides is a holder of a PhD title in economics from the London School of Economics, University of London.

Upon his return to Cyprus, he was hired by the Central Bank of Cyprus where he worked for the Department of External Debt & Foreign Exchange Reserves Management (1989 – 1996). Subsequently, Dr. Patsalides continued his career at Bank of Cyprus where he worked for almost 25 years (1996 – 2020). He managed the Group Treasury Department and thereafter he took responsibility of the management of the Financial Markets Division. In 2013, he was appointed as Finance Director and as an Executive Member of the Board of Directors. He was then promoted to Deputy CEO & Chief Operating Officer, and finally to First Deputy CEO. During 2018 – 2019 he served as Chairman of the



**Evgenia  
Christodoulou**



**George  
Karatzias**

Board of the Association of Cyprus Banks (ACB) and of Artemis Credit Bureau, a subsidiary of ACB.

In October 2020 he exited Bank of Cyprus. He subsequently provided advisory services in Cyprus and abroad, in the businesses of banking, insurance, asset management, and financial technology.

During 2017 – 2023 he served as a Member of the Board of Directors of the Cyprus Anti-Cancer Society. He has been a Member of the Cyprus Economic Society since 1989. In March 2023 he was appointed by the President of the Republic of Cyprus as his Special Adviser on Economic Affairs.

Since 11 April 2024, he is the Governor of the Central Bank of Cyprus and a member of the Governing Council of the European Central Bank.

#### **Evgenia Christodoulou - Executive member**

Evgenia Christodoulou holds a BSc in Economics from the London School of Economics and Political Science and is an Associate Chartered Accountant (ACA) of the Institute of Chartered Accountants in England and Wales. She is also a CySEC (Cyprus Securities and Exchange Commission) Certified Person.

For the years between 1994 and 2013, Evgenia Christodoulou worked for the Bank of Cyprus Public Co Ltd. Major positions included Head of the Group's Bad Debt Provisions & Provisioning Policy, Assistant Manager of the Bank's Private Banking Unit, Manager of the Bank's Recoveries Division and Regional Manager for the branch and SMEs network of the Larnaka/ Famagusta Districts.

Between 2014 and 2019, she held the role of Deputy CEO and Business Development Manager of Ancoria Bank Ltd. She has served as an Executive member of the Board of Directors of Ancoria Bank Ltd [2014-2019] and a non-Executive Member and Chair of the Audit Committee of the Board of Ancoria Insurance Public Ltd [2014-2020].

She then assumed the role of Managing Director and Executive Member of the Board of the credit acquiring company B2Kapital Cyprus Ltd, (July 2020 - April 2024), the position of non-Executive Member and Vice Chair of the Board of the National eHealth Authority (November 2019 - December 2023) and non-Executive Member and Chair of the ESG Committee of the Board of Louis Plc, a publicly listed entity on the Cyprus Stock Exchange (March 2022 - May 2024).

In May 2024 she was appointed as an Executive Member of the Board of Directors of the Central Bank of Cyprus.

#### **George Karatzias - Executive member**

George Karatzias holds a Masters degree in Marketing and Financial Services from the University of Exeter and is a Fellow member of ACCA.

He was appointed as an Executive Member of the Board of Directors of the Central Bank of Cyprus in May 2024. From September 2021 up to the date of his appointment he was serving as the Vice Chairman of the Cyprus Securities and Exchange Commission. He previously led the fund services of Alter Domus in Cyprus until 31 December 2020, having joined in 2011. Previously he worked for



**Ioannis Charilaou**



**Andreas Charitou**

international audit firms, commencing his career in 2006.

He was elected as a board member of the Cyprus Investment Funds Association (CIFA) in 2019 and also served as the Vice-Chairman of the Fund Administrators Committee of the Association up until September 2021. He also served as member of the Funds Committee of ICPAC (Institute of Certified Public Accountants of Cyprus) for two terms.

#### **Ioannis Charilaou - Non-executive member**

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.

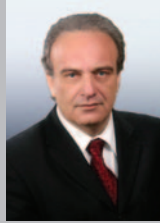
From 1988 until 1997, he worked in the Internal Audit Department of the Cyprus Telecommunications Authority. From 1997 until September 2003, he worked at the Central Ecclesiastical Fund and at the Audit Department of the Church of Cyprus. Since September 2003, he has been the Chief Executive Officer 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 non-executive member of the CBC Board on 18 October 2021.

#### **Andreas Charitou - Non-executive member**

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.

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 desig-



**Stavros  
Evagorou**

nation 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 - Non-executive member**

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



**Konstantinos  
Panayides**

Committee on Crime and on the Fight Against Drugs and Addictive Substances (2006-2011), Head of the Delegation of the House of Representatives to the Parliamentary Assembly of the Organisation for Security and Co-operation in Europe (OSCE) (2003-2009), member of the House of Representatives Standing Committee on Financial and Budgetary Affairs (2001-2016) and Deputy Parliamentary Spokesman (2011-2016). Furthermore, he has been a member of the Board of Directors of Eurocypria Airlines Ltd (1993-1998), member of the Board of Directors of Cyprus Airways Public Ltd (1998-2001) and Chairman of Demetra Investment Public Ltd (2005-2009). He has published many articles in economic magazines and newspapers, as well as the book on “The Future of Cooperative Banks in the European Union”. He was appointed as a non-executive member of the CBC Board in March 2017 and he was reappointed as a non-executive member of the CBC Board in March 2022.

#### **Konstantinos Panayides - Non-executive member**

Konstantinos Panayides is a Chartered Financial Analyst (CFA) and 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 European 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



**Kyriacos  
Stavrou**

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.

#### **Kyriacos Stavrou – Non-executive member**

Kyriacos Stavrou holds a Bachelor's Degree in Economics from the University of Athens and an MSc in Economics from the London School of Economics. Immediately after completing his studies, he joined the Central Bank of Cyprus as Officer Grade B' and retired as Acting Senior Director, climbing all levels of the hierarchy.

He started his career at the Central Bank in the Reserves Management Department. He then worked in various other departments, such as the International Department and the Public Debt Management Department. As Director of the Public Debt Management Department, he ensured

the successful transfer of public debt management from the Central Bank to the Ministry of Finance, as provided for by the relevant Law. During his career he attended numerous training and educational seminars organized by other central banks, international commercial and investment banks, as well as international organizations. Since the accession of the Republic of Cyprus to the European Union, he participated, as a representative of the Central Bank of Cyprus, in Eurosystem Committees and Working Groups, gaining vast experience and knowledge. For about five years, he also served as Director of the Governor's Office. During this period he participated with the Governor in all meetings of the Board of Directors of the Central Bank of Cyprus and the Resolution Authority. He also participated throughout this period together with the Governor in the meetings of the Governing Council of the European Central Bank, broadening his knowledge and experience in all matters concerning the Eurosystem.

In May 2024, he was appointed as a non-executive member of the CBC Board.

#### **Members of the CBC Board who left during 2024:**

The term of office of the executive members of the CBC Board Stavros Agrotis and Maria Heracleous ended on 14 May 2024. The non-executive member of the CBC Board Angelos Gregoriades resigned on 16 April 2024.

2.2 SENIOR MANAGEMENT TEAM



**Constantinos Herodotou**  
Governor  
(until 10 April 2024)



**Christodoulos Patsalides**  
Governor  
(from 11 April 2024)



**G. Kyriacou**  
Senior Director



**C. Phanopoulos**  
Senior Director  
(until 29 February 2024)



**S. Georgakis**  
Acting Senior Director



**M. Michaelides**  
Acting Senior Director



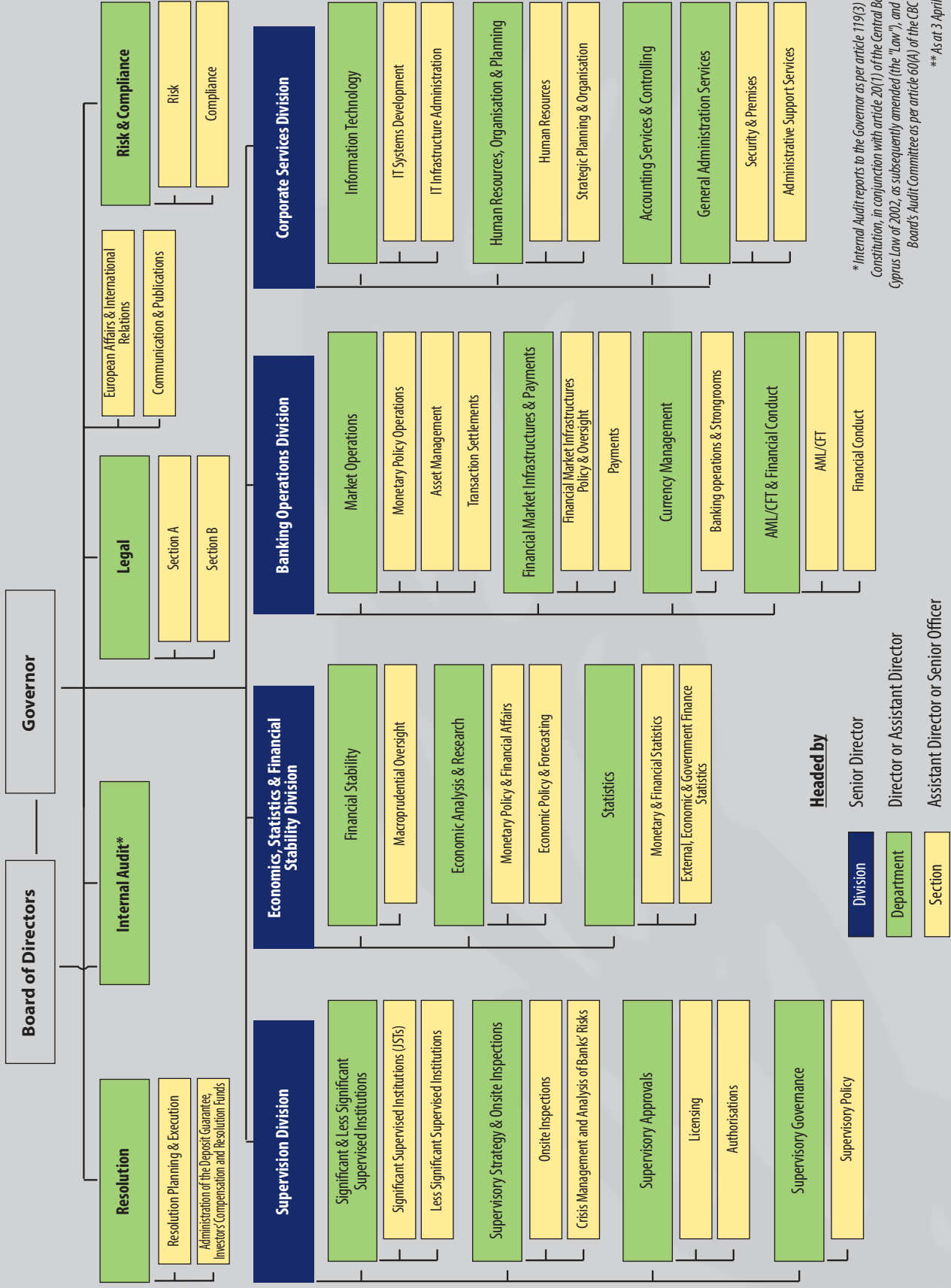
**M. Stylianou**  
Acting Senior Director



**M. Lambrianides**  
Acting Senior Director  
(until 30 September 2024)

- Enter/Exit
- Full Screen
- Home
- Table of Contents
- Previous Page
- Next Page
- 1 Governor's Introduction
- 2 Management and Organisation of the Bank
- 3 Strategy 2025-2026
- 4 Promoting sustainability
- 5 Economic Developments
- 6 Functions of the Bank
- 7 Financial Statements 2024
- 8 Annex

2.3 Organisational chart



**Headed by**

- Division: Senior Director
- Department: Director or Assistant Director
- Section: Assistant Director or Senior Officer

\* Internal Audit reports to the Governor as per article 119(3) of the Constitution, in conjunction with article 20(1) of the Central Bank of Cyprus Law of 2002, as subsequently amended (the "Law"), and to the Board's Audit Committee as per article 60(A) of the CBC Laws.

\*\* As at 3 April 2023

Enter/Exit  
Full Screen  
Governor's Introduction  
Management and Organisation of the Bank  
Strategy 2025-2026  
Promoting sustainability  
Economic Developments  
Functions of the Bank  
Financial Statements 2024  
Annex

### 3. STRATEGY 2025-2026

The Central Bank of Cyprus ("CBC") plays an essential role in the Cypriot economy, an integral part of the Eurosystem. As such, the CBC contributes to the formulation and implementation of the monetary policy of the European Central Bank (ECB), to the prudential supervision within the framework of the Single Supervisory Mechanism, and more broadly to ensuring financial stability.

The rapidly changing economic, social, technological and geopolitical environment, and climate change, have pushed the ECB to formulate new policies and take initiatives, so as to respond adequately and effectively to the new challenges. Evidently, the CBC should act accordingly.

The CBC must transform rapidly, so that it can in turn respond to current and future challenges for the benefit of the Cypriot economy and the European family.

To this end, the Strategy 2025-2026 follows a comprehensive and forward-looking approach. It defines the vision, mission, our strategic objective and the main actions necessary to achieve our mission, both in today's and tomorrow's era as

well as in the European context. It also aspires to make the best possible use of our human resources and act as a tool for enhancing cooperation and transparency.

The Strategy for 2025-2026 aims at continuous development with the intent to address CBC's weaknesses, ensure the CBC's adequate response to its responsibilities and finally aims at its modernization by transforming it into a modern and agile Central Bank, with a more proactive and long-term approach so that it can respond quickly, actively and adequately to current and future challenges.

The Strategic Plan for the following years will focus on completing the development of the CBC that we envision, on our strategic priorities, on what we are committed in doing and on how we will evaluate and measure our performance.

Our ambition, as included in the Strategy 2025-2026, reflects the commitment of everyone to contribute to the welfare of citizens within the framework of the responsibilities assigned to the CBC.

#### Our vision, mission and goal

**Vision:** To be a leading organization of service to the citizen.

**Mission:** To seek to ensure price stability and support the general economic policy of the State, provided that our European obligations are met.

**Objective:** To transform the CBC into a modern and agile Central Bank with a more proactive and long-term approach so that it can respond quickly, actively and adequately to current and future challenges.

## Our strategic direction

Our strategic direction is delimited around 3 pillars:

### “Fix”, “Run”, “Change”

Each pillar includes thematic areas which in turn consist of specific actions with separate action plans.

#### Fix the Bank

Includes thematic areas which require improvement in order for today's Central Bank to operate more efficiently and effectively.

#### Run the Bank

Includes thematic areas with projects to be implemented, which will ensure that the CBC adequately and effectively fulfils its role and responsibilities and achieves its mission.

#### Change the Bank

Includes thematic areas with actions aimed at creating the Central Bank that we envision with an orientation towards its mission and serving the common welfare.

## Thematic areas per pillar and what we aim to achieve: 2025-2026

### Fix the Bank

- Reorganisation of the CBC based on a modern organizational chart which provides the ability to respond comprehensively, quickly and effectively to our mission.
- Strengthening Risk Management and Regula-

tory Compliance.

- Strengthening Internal Audit.
- Updating and strengthening the business continuity plan and the recovery plan.
- Updating policies, methodologies and procedures for an effective internal control system.
- Mapping the Human Resources field with the aim of identifying weaknesses and deviations from modern and best practices and defining an appropriate strategy for effectively addressing them.
- Mapping the field in the Information Technology sector with the aim of identifying weaknesses and defining a strategy which supports our strategic goal.
- Compilation of a Communication Strategy.
- Renovation, reinforcement and energy upgrade of the building facilities.
- Preparation and planning for recognition and exhibition of the Numismatic Collection.

### Run the Bank

- Development of a supervisory strategy for each area of responsibility with the aim of moving forward in a targeted, methodical, consistent and long-term approach and ensuring that we respond adequately, promptly and effectively to our responsibilities.
- Staffing.
- Climate change, green transition and environmental education.
- Creation of a Procurement Unit.
- Effective response to our obligations within the framework of the Cyprus Presidency of the Council of the European Union.

**Change the Bank**

- Modernization of the governance model.
- Implementation of a strategy in the Human Resources sector with the aim of encouraging and promoting excellence.
- Implementation of a strategy in the Information Technology sector in order to make the CBC more efficient, flexible and innovative.
- Creation of a Research and Policy Production Centre.
- Increasing the contribution and influence of the CBC in its areas of competence.
- Social, environmental responsibility and contribution to the citizen.



## 4. PROMOTING SUSTAINABILITY BASED ON SOCIAL, ENVIRONMENTAL AND GOVERNANCE CRITERIA

### A. Our People

In our commitment to fostering a sustainable and nurturing workplace, we recognize that our staff are the cornerstone of the fulfilment of our mission of ensuring price stability and our vision of being a leading organization providing services to the citizens.

We focus on maintaining transparent recruitment processes, appealing terms of employment, learning and development opportunities, equity and fair treatment, a safe workplace and the well-being of our people.

#### Recruitment processes and terms of employment

We are guided by openness and honesty in our recruitment processes. Through clear and consistent communication, we aim to build trust with candidates and ensure a positive experience.

Job descriptions are detailed and straightforward, outlining the responsibilities, qualifications, and expectations for each role. We provide candidates with a comprehensive overview of the recruitment process, including timelines and key milestones, so they know what to expect at every stage. Results of the scores of written examinations are published using the applicants' unique candidate numbers.

Our terms of employment and employment proposition enable us to attract and retain talented and dedicated people by offering competitive pay and additional benefits, and most importantly, by providing the opportunity for challenging work and solid development prospects

while at the same time serving the public good. The low percentage of employee turnover at the Central Bank of Cyprus (2,6% in 2024, mostly on account of retirements) indicates high talent retention, employee satisfaction and that the CBC is an employer of choice in the market.

#### Gender balance

The Bank currently employs 244 women and 176 men. Since 2022, 77 female and 46 male employees entered the Bank as permanent staff. However, the participation of women in managerial positions is lacking. At end-2024, only 30,7% of managerial positions (assistant director and above) were held by women. This is expected to improve in 2025, following the reorganisation of the Bank that was announced in December 2024 and will be implemented in the first quarter of 2025. The reorganization primarily aims at facilitating the fulfilment of the Bank's mission; at the same time, it promotes equality and provides wider opportunities for staff development.

#### Learning and development opportunities

We support a culture of continuous learning so that our people are equipped with the skills and knowledge necessary to thrive in a rapidly evolving and challenging environment and are enhanced in their work towards providing the highest level of service to the economy and the society.

We provide access to various learning platforms and resources, including online courses, webinars, and conferences. Our training and development

initiatives are inclusive and accessible to all staff members who are encouraged to pursue further education. A large number of staff have the opportunity to participate in committees and working groups at Eurosystem/European System of Central Banks (ESCB) or European Union (EU) level, thereby contributing to the achievement of European goals while also enhancing their professional competencies.

Staff members are encouraged to participate in both general and specialized courses. General courses aim to enhance soft skills (communication, emotional intelligence, diversity and inclusion, etc.) while specialized courses focus on strengthening technical skills and knowledge. The average number of training days in 2024 per employee was 2,7.

Our work also emphasizes sustainability and responsible business practices. Our people are aligned with the Bank's commitment to have a positive impact on society and the environment in contributing to our sustainability goals through the work of our Sustainability Team.

### Equity and fair treatment

We strive for an inclusive and equitable workplace where all employees are treated with fairness and respect. Our Human Resources policies and procedures ensure that all employees have access to the same opportunities for growth and advancement. We do not tolerate discrimination based on race, gender, age, sexual orientation, religion, or any other form of illegal discrimination. These policies are regularly reviewed and updated as part of the Terms of

Employment Directive, which includes our Code of Conduct, to reflect best practices and regulatory changes.

We provide fair and competitive compensation and benefits to all employees. Our compensation practices are designed to be transparent and equitable, ensuring that pay is based on role, experience, and performance.

We also focus on enhancing staff awareness of such matters. We conduct seminars and workshops on diversity, equity, fairness and inclusion matters for all staff as well as the management team, and we inform all employees about diversity and inclusion days, campaigns and other related events.

The signature of the "ESCB & SSM Equality, diversity and inclusion charter" by the Governor of the CBC in 2022 signals our commitment to a set of common principles, goals and actions aiming to create a working culture focused on equality, diversity, respect, dignity and inclusion within and across our institutions.

### Health and safety

Ensuring the health and safety of our staff, visitors and partners is a fundamental aspect of our commitment to sustainability, based on environmental, social and governance criteria. We strive to ensure a safe and healthy work environment through comprehensive policies and proactive measures.

Our health and safety policies are designed to comply with local regulations and industry standards, and they combine prevention along with the active participation of our staff and partners,

### Box 1. Our Happiness@Work Initiative

We do not stop at our legal obligations on health and safety. Our Happiness@Work Initiative, which is a comprehensive programme designed to promote well-being, health and a positive work environment, was nominated for an excellence award in 2024 by the ESCB Human Resources Committee. This initiative encompasses a range of activities to support physical, mental, and emotional well-being, showcasing the Bank's commitment to employee well-being and focus in creating a culture of vitality, health and happiness. By fostering a culture of well-being, we aim to boost employee satisfaction, productivity, and overall quality of life. Employees are the heart of any organization, and their well-being is crucial. By investing in their health and happiness, we not only improve the Bank's performance, but we also create a caring and compassionate work environment.

This program is divided into 8 pillars, described below. Specific actions are planned to achieve each pillar's objective.

- **Pillar 1:** Physical Wellness - Actions: Promotion of stair use, anti-smoking campaign, indoor air quality sensors
- **Pillar 2:** Mental and Emotional Wellness - Actions: Yoga and Mindfulness sessions, educational videos for mental health matters like stress management
- **Pillar 3:** Education and Awareness - Actions: Range of educational videos and guides for health and safety matters such as fire safety and kitchen safety training, as well as staff awareness programmes on equity, diversity and inclusion
- **Pillar 4:** Nutritional Wellness - Actions: Distribution of fresh fruits to staff and body index measurements
- **Pillar 5:** Work-Life Balance Arrangements: Flexibility in working hours, increased sick leave for employees with serious health problems
- **Pillar 6:** Environmental Sustainability Initiative - Actions: Pediaios river clean-up event – participation in the Ecology Virtual Event 2023, recycling and waste reduction and green commuting challenge.
- **Pillar 7:** Social Wellness - Actions: Participation in hiking, football, running, and dancing clubs, events committee, buddy scheme for newcomers, team building events, family barbeque event, Christmas party, celebrating successes and milestones.
- **Pillar 8:** Community work - Actions: Blood donation campaign, Christmas' charity fair, charity committee (supports community charity initiatives).

while also providing a means for the organisation's continuous improvement. These policies are regularly reviewed and cover a wide range of areas, including workplace safety, emergency preparedness, and occupational health.

We invest in infrastructure and initiatives that improve the quality of the working environment and reduce our environmental footprint. In this context, permanent air quality sensors have been installed in the Bank to continuously monitor the indoor environment. Additionally, during monthly inspections, measurements are conducted for several other environmental factors such as light, humidity, temperature, and drinking water quality. These data are regularly assessed to prevent any health problems. Methodologies for risk assessment and mitigation have therefore been established, as well as systems for recording and evaluating incidents and performance indicators to support decision-making processes.

### Wellbeing

We support flexible ways of working, and we have introduced a hybrid working model, which seeks to promote work-life balance, while maintaining safety standards both within the managed offices space and the home-working environment. The new teleworking policy, which allows up to 25% of the Bank's staff to work remotely one day of the week, is also expected to have a positive environmental impact. By reducing staff commuting time, carbon dioxide emissions from the use of private vehicles are reduced, contributing to reduced air pollution, energy conservation, and an overall reduction in the Bank's environmental footprint.

### Ethics

As part of our commitment to maintaining the highest standards of ethical conduct and transparency, we have implemented a number of comprehensive policies. The Bank's Anti-Fraud and Anti-Corruption Policy and the Internal Whistle-blowing Framework provide clear guidance to staff on the prevention and handling of corrupt or illicit activities as well as a secure and confidential channel to report any acts of fraud or corruption or other violations observed within the Bank. Mechanisms to prevent conflicts of interest as well as provisions to avoid misuse of confidential information are also in place.

### B. Society

#### Outreach

As we perform our stability-oriented main tasks, we also strive to extend our outreach to the community by engaging with various groups on a range of issues.

As part of the strive towards transparency, the Bank introduced in 2024 the monthly publication of detailed interest rate data on deposits and loans for each credit institution, providing households and businesses with direct access to more comprehensive information<sup>1</sup>.

#### Events organised and hosted

The CBC provides financial support, organises or hosts various events, such as the annual Conference of the Cyprus Association of Human

1. <https://www.centralbank.cy/el/publications/interest-rates-for-deposits-and-loans-for-each-credit-institution>

Resources Management and the Conference of the Centre for Economic Policy Research (CEPR).

### Financial literacy and education

Acknowledging the significant role of financial literacy in enhancing the wellbeing of individuals in Cyprus and the broader economy, we have launched several initiatives in this area over recent years.

We had a leading role in the development of the National Strategy for Financial Literacy and Education in Cyprus, which was largely based on the 2018 CBC sampling financial survey results. The adoption of the National Strategy by the Council of Ministers on 28 June 2022 marked a significant step towards the empowerment of citizens with the necessary knowledge and skills to improve their financial wellbeing.

Moreover, as from December 2023, the Bank chairs the Cyprus Financial Literacy and Education Committee (CyFLEC), which is responsible for the implementation of the National Strategy and has organised various seminars and events, such as the first International Conference on Financial Literacy in Cyprus in March 2023, contributing to the enhancement of citizens' awareness on the importance of financial literacy. Additionally, we actively participate in various initiatives to strengthen financial literacy among primary and secondary school students in Cyprus. We also play an active role in working groups of the European Commission, focusing on the development of strategies and policies that promote financial literacy.

### Corporate Social Responsibility

Several activities were carried out in 2024 within our long-term goal of strengthening the Bank's contribution to society, the environment, arts and culture.

We support organised social groups that perform charitable work.

The CBC Sports Club participated in several sporting events of a charitable nature and, as part of the staff voluntary work, a Christmas Bazaar was held, the proceeds of which were donated in support of charitable institutions.

Moreover, the 2023-2024 academic year award was granted to the highest performing students of the Department of Economics and the Department of Accounting and Finance of the University of Cyprus. With a view to enhance financial literacy, the CBC also participated in summer internship programmes for local university students and gave presentations to students in secondary and tertiary education on issues relating to the tasks of the CBC.

### C. The Environment

Environmental themes are an integral part of our 2025-2026 strategy, including actions on climate change, the green transition and environmental awareness. A Sustainability Team was established in 2024 with the main objective of supporting the Bank in addressing climate change in line with its mandate to maintain price stability, safeguard financial stability, supervise banks and support the general economic policy of the State. By bringing

together representatives of all relevant business areas, the Sustainability Team facilitates the sharing of information and best practices, the enhancement of synergies, and the pursuit of joint projects.

**Climate change** is one of the most pressing challenges for humanity. Natural disasters are occurring more often, with extreme events more than doubling globally since 1980<sup>2</sup>, and global temperature is rising perilously<sup>3</sup>. The urgency of addressing climate change and promoting sustainability has become increasingly clear. As a central bank pursuing the primary objective of price stability, and as national macroprudential authority and bank supervisor, we recognize our responsibility to address climate change. In line with our mandate, we are committed to integrating climate and sustainability considerations into our core functions and operations.

#### **a) Incorporating climate considerations in the monetary policy framework having price stability as the primary objective**

Climate change and the necessary transition toward a low-carbon (net-zero) economy impact key macroeconomic variables, including inflation, employment and growth, and hence may have profound implications for monetary policy. Moreover, the transition entails financial risks from carbon-intensive assets that are held by the Eurosystem for monetary policy purposes. As an integral part of the Eurosystem, the CBC has actively participated in the formulation and implementation of the ECB's climate action plan addressing these issues, which was adopted by

the Governing Council in July 2021, in the context of the ECB monetary policy strategy review.

#### **b) Monitoring the financial institutions preparedness to address climate-related and environmental risks**

As climate change intensifies, it generates growing risks for banks and other financial institutions. Risks comprise both physical risks, from extreme weather events and rising temperatures, and risks from the transition to a sustainable economy with net-zero greenhouse gas emissions. Furthermore, financial institutions in the European Union are expected to support the transition to a sustainable economy. These challenges leave supervisors no room for complacency.

In the context of the SSM, the ECB and the national supervisory authorities (including the CBC) conducted a thematic review on climate and environmental risks in 2022. The review covered 107 significant credit institutions (SIs, under the direct supervision of the ECB), including the two Cypriot SIs, and 79 less significant institutions (LSIs)<sup>4</sup>. The review identified significant weaknesses in the treatment of these risks by virtually all the credit institutions reviewed vis-à-vis the ECB supervisory expectations set out in the Guide on climate-related and environmental risks, which was published in November 2020<sup>5</sup>.

Subsequently, all SIs received feedback letters on their shortcomings, and the ECB set institution-specific deadlines for alignment with its expectations. Institutions were required to comply fully with the ECB supervisory expectations by the end of 2024; otherwise, they would

2. <https://easac.eu/media-room/page-7>

3. <https://www.un.org/en/climatechange/science/climate-issues/degrees-matter>

4. <https://www.bankingsupervision.europa.eu/press/pr/date/2022/html/ssm.pr221102~2f7070c567.en.html>

5. <https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr201127~5642b6e68d.en.html>

be subject to penalties for failing to remedy any serious shortcomings.

Mirroring the SSM approach to the management of climate-related and environmental risks by credit institutions, the CBC examines the level of preparedness of LSIs, under its direct supervision. Based on the 13 supervisory expectations that were set out in the ECB Guide on climate-related and environmental risks, the CBC conducted a thematic review on the LSIs, ultimately aiming for the integration of climate-related and environmental risks into their business model, strategy and internal governance, whilst respecting the principle of proportionality.

In this regard, the LSIs submitted an implementation plan aimed at incorporating the ECB's expectations into their work, as well as a progress report incorporating the findings of the Bank's assessment of this plan. The LSI supervisory teams are monitoring the achievement of the various milestones set by the banks themselves.

### c) Responsible and sustainable investing

In 2022 the CBC incorporated sustainable and responsible investment principles and approaches in its Investment Policy & Risk Management (IP&RM) Framework, with the objective of promoting the sustainability profile of the CBC's non-monetary policy portfolios (i.e. its investment portfolios) while, at the same time, improving the understanding and management of financial sustainability risks<sup>6</sup> in the CBC's portfolios and, indirectly, contributing to the wider efforts towards climate change mitigation and a smooth transition

of EU economies, in line with the common stance agreed by the Eurosystem central banks<sup>7</sup>.

The overarching principle guiding the management of the Bank's investment portfolios is safety, namely the long-term value preservation and liquidity, particularly as regards assets in foreign currency. Sustainable and responsible investment criteria were incorporated in the Investment Policy & Risk Management Framework in 2022, with the objective of improving the sustainability profile of the CBC's investments, largely via a progressive reduction of their carbon footprint.

Subject to the overarching principle of safety, the CBC aims to progressively decarbonise its non-monetary policy portfolios to a "net zero" target by 2050, in line with the goals of the Paris Agreement on climate change and the EU climate neutrality objectives. Setting a long-term climate target, in combination with interim targets, is an essential step towards creating an efficient and socially responsible and sustainable investment framework. These targets reflect our commitment to reduce the exposure of our portfolios to climate-related risks and to reduce their carbon footprint.

In view of the long-term target, the CBC will regularly review the intermediate decarbonisation targets, in line with each portfolio's policy objectives and constraints.

More specifically, the CBC pursues the following:

- Increasing its investments in green bonds.
- Applying assessment approaches on the basis of factors related to the environment; in particular, limiting exposure to issuers with poor performance in relation to climate and the environment, and rewarding, through

6. Defined as the potential negative impact on investments (in a medium-term horizon, as a rule) stemming from environmental, social or governance factors.

7. ECB press release dated 4 February 2021: "Eurosystem agrees on common stance for climate change-related sustainable investments in non-monetary policy portfolios", [https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.pr210204\\_1~a720bc4f03.en.html](https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.pr210204_1~a720bc4f03.en.html).

increased limits, issuers that are considered “best-in-class” in terms of climate-related/environmental performance.

In June 2024 the CBC published its second annual disclosures of the climate footprint of its non-monetary policy portfolios, which included, for the first time, foreign currency denominated portfolios (for year 2023)<sup>8</sup>, in line with the common framework agreed by the Eurosystem.

#### d) Reducing the environmental impact of the cash cycle

As the authority responsible for the issuance of cash in Cyprus, the Bank has taken measures to reduce the negative environmental impact of cash over its life cycle, in line with the Eurosystem policy to monitor the environmental impact of euro banknotes and make them more sustainable. The cash cycle starts with the estimation of the quantities of all banknote and coin denominations for a 5-year period. The next steps involve the ordering of these quantities and their delivery to the CBC. The CBC is also responsible for monitoring the authentication and good quality of all currency in circulation, and for the destruction of the banknotes and coins that are unfit for circulation.

As regards the manufacturing of new banknotes and coins, printing works and mints ought to follow certain standards and practices set at Eurosystem level to ensure the lowest possible impact on the environment. With respect to the disposal of unfit for circulation banknotes, the Eurosystem has imposed a ban on landfill; the Bank has, therefore, terminated landfilling and switched to 100% recycling. In 2024, 13,4 tons of banknote shreadings were recycled, compared

with 11,1 tons in 2023 and 13,2 tons in 2022. This switch significantly reduces pollution. In addition, the Bank has replaced its banknote processing machines with more energy efficient ones and is in the process of replacing its banknote packing machine.

Going forward, the Bank will explore other measures to integrate responsible environmental practices into the daily operations of all other cash stakeholders (banks, cash transport companies), with a view to increase efficiency and reduce waste and emissions. Possible measures may include the reduction of the number of banknote transportation services between banks and the CBC, the replacement of existing vehicles and other machines (e.g. ATMs) with more energy efficient ones and the use of solar energy for the operation of ATMs and other cash processing machines.

#### e) Reducing the Bank’s own carbon footprint

Beyond its institutional tasks, the Bank also focuses on the sustainable performance of its own activities and operations, with specific actions in a short-term and medium-term horizon (2 to 5 years). We prioritize the reduction of greenhouse gas (GHG) emissions across all our operations. Our approach is guided by internationally recognized standards, ensuring transparency and accountability in our efforts to combat climate change.

#### Bank’s premises

The Bank has initiated a project towards the transformation of its premises. This transformation is

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

also driven by a commitment to reduce our carbon footprint, enhance employee well-being, and set a benchmark for eco-friendly practices.

To foster a culture of sustainability, the Bank has installed solar panels covering the outdoor parking spaces and has introduced several initiatives aimed at reducing waste and promoting eco-friendly habits. Recycling bins are placed around the office space, and employees are encouraged to minimize paper usage by adopting digital alternatives. Paper, packaging (PMD) and used batteries are currently recycled via external contractors, while no solid waste that can be considered hazardous (such as biological waste) is produced. Currently, there are no data available on the volume of solid waste.

### Inventory of GHG emissions

The Bank conducts a comprehensive inventory of its greenhouse gas (GHG) emissions, following the guidelines of the Greenhouse Gas Protocol. GHG emissions are classified under three categories, as defined in the global standards of the Greenhouse Gas Protocol:

- **Scope 1:** Direct emissions from sources that are owned or controlled by the CBC, such as vehicles and on-site fuel combustion.
- **Scope 2:** Indirect emissions from the generation of purchased electricity, steam, heat, or cooling consumed by the CBC.
- **Scope 3:** All other indirect emissions that occur in the value chain of the CBC, including those from suppliers, business travel, and waste management.

Following the example of other euro area central banks, the Bank began calculating its corporate GHG emissions relating to its premises in 2024.

For the Scope 1 emissions, activities pertaining to the use of refrigerants in the air conditioning equipment and the fuel consumption by the water heating boilers (for space heating and hot sanitary water production) have been identified and their emissions have been calculated. The results are shown in **Tables 1** and **2**, where GHG emissions are expressed as tonnes of CO<sub>2</sub> equivalent (tCO<sub>2</sub>e) and as tonnes of CO<sub>2</sub> (tCO<sub>2</sub>) respectively.

**Table 1 Refrigerants / Fugitive gases**

Year	Refrigerant gas used	Tons of refrigerant used	GWP factor <sup>(1)</sup>	GHG emissions (tCO <sub>2</sub> e)
2024	R134a	0,29	1,30	0,377
2023	R134a	0,06	1,30	0,078
2022	R134a	0,15	1,30	0,195

Source: CBC.  
(1) Taken from the Greenhouse Gas Protocol, "Global Warming Potential Values".

**Table 2 Fuel consumption (for space heating and hot water production)**

Year	Annual Consumption (tons)	CO <sub>2</sub> emission factor <sup>(1)</sup> (tCO <sub>2</sub> /t fuel)	CO <sub>2</sub> emissions (tCO <sub>2</sub> )
2024	65	3,1863	207,11
2023	78	3,1863	248,53
2022	91	3,1863	289,95

Source: CBC.  
(1) Taken from Greenhouse Gas Protocol, "CO<sub>2</sub> Emission Factors by Fuel".

The Scope 2 emissions identified concern the generation of electricity purchased from the Electricity Authority of Cyprus. The results are shown in **Table 3** (p. 36).

**Table 3 Electricity (Location-Based Methodology<sup>(1)</sup>)**

Year	Annual Consumption (kWh)	CO <sub>2</sub> emission factor (kgCO <sub>2</sub> /kWh)	CO <sub>2</sub> emissions (tCO <sub>2</sub> )
2024	2.499.739	0,62678	1.566,79
2023	2.575.422	0,62678	1.614,22
2022	2.561.077	0,62678	1.605,23

Source: Electricity Authority of Cyprus.  
 (1) The location-based methodology expresses the average emissions of electricity production in a specific area, regardless of whether the electricity consumption is compensated by renewable energy certificates.

The space normalised electricity consumption was 142,8 kWh/sqm in 2024, compared with 147,1 kWh/sqm in 2023.

Scope 3 emissions have not yet been calculated owing to lack of data.

## 5. ECONOMIC DEVELOPMENTS

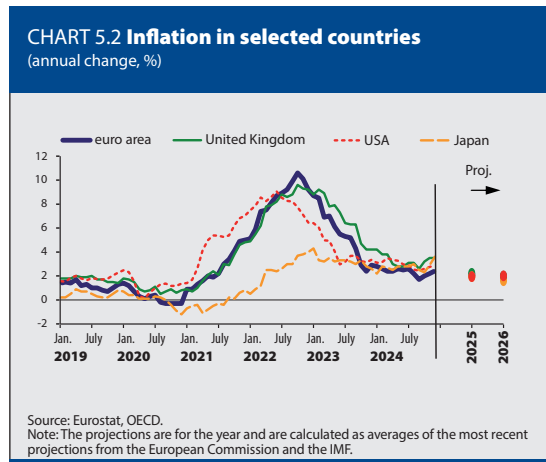
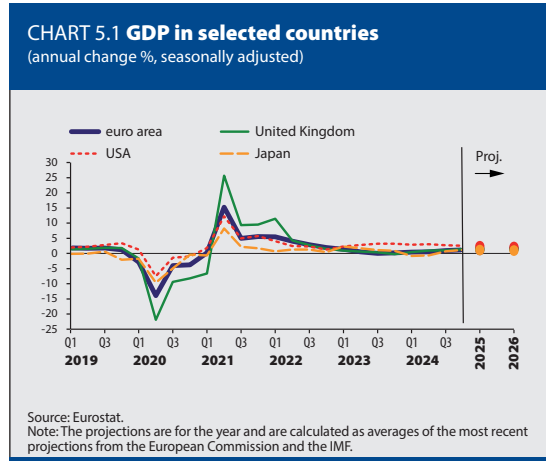
### 5.1 External Developments

As expected, following the successive interest rate hikes across all developed economies during the 2022-2023 period, inflation began to decelerate in 2024, pushing central banks in those countries to start cutting interest rates. Interest rate cuts occurred at different speeds and various intensities around the world, as central banks took into account the particular economic conditions and idiosyncrasies of each country.

One of the important factors taken into account by the various central banks was the GDP path. While in 2023, the economic impact of restrictive monetary policy and increased prices was smaller than expected, in 2024 countries were affected more unevenly.

According to forecasts by international organisations, GDP growth in the euro area is expected to reach 1,2% in 2025, compared to 0,9% in 2024 (Chart 5.1). An increase in the economic growth rate is expected in the United Kingdom and Japan, while in the United States a decrease is expected to 2,4% in 2025 from 2,8% in 2024.

As mentioned above, inflationary pressures have decreased significantly as a result of the increase in interest rates over the 2022-2023 period, while the decrease in global energy prices also contributed to the deceleration of price growth. Inflation in the euro area reached 2,4% in 2024, compared to 5,4% in 2023, and is expected to decrease further to 2,1% in 2025 (Chart 5.2). Similar declines were observed in other countries in 2024, with inflation in Japan and the United



States expected to decline to 2% in 2025. In contrast, inflation is expected to remain elevated in the United Kingdom, with international organisations projecting inflation at 2,3% in 2025.

As the above suggests, inflation is expected to reach the 2% target in 2025. However, uncertainty in the international geopolitical and trade environment is expected to remain elevated. Therefore, the ECB Governing Council continues to closely monitor global and domestic developments, to maintain monetary flexibility to achieve price stability at the 2% medium-term objective.

## 5.2 Domestic Developments

### 5.2.1 Inflation

Domestic headline inflation dropped to 2,3% in 2024, compared with 3,9% in 2023 (Chart 5.3). The significant deceleration in headline inflation was primarily driven by the lagged effects of the ECB's previous restrictive single monetary policy across euro area member states, which continued to exert a dampening impact, along with the developments in non-energy industrial goods prices. Government mitigating measures, which largely targeted inflationary pressures on food prices, also played a role in the moderation of inflation. Regarding core inflation (inflation excluding energy and food prices) also eased to 2,6% in 2024, compared with 3,8% in 2023, mainly due to drop in non-energy industrial goods prices.

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

In 2024, the domestic financial sector has maintained its robustness and resilience, continuing to provide financing to businesses and households.

Domestic private sector deposits recorded an annual increase of 5,8% in December 2024, compared with 1,8% in December 2023. The acceleration was driven by both domestic NFCs and household deposits. From the side of NFCs, the upward trend in deposits is partly linked to the favourable performance of the Cypriot economy and the strengthening of business revenues. On the household side, the increase in deposits reflects the positive impact of easing inflation and

CHART 5.3 Inflation in Cyprus  
(annual change, %)

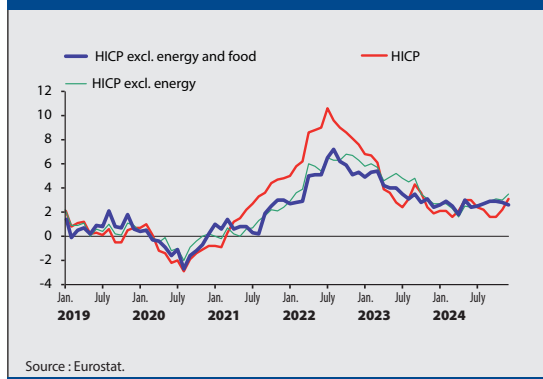
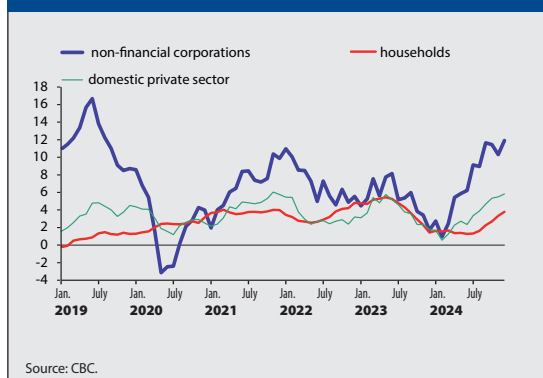


CHART 5.4 Deposits of the domestic private sector  
(annual change, %)

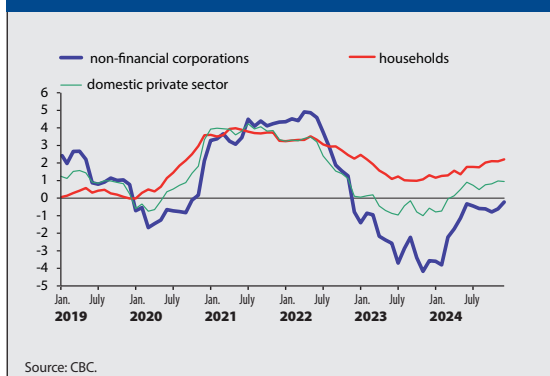


the continued resilience of the labour market, both of which have supported disposable income, along with robust albeit moderating private consumption growth (Chart 5.4). Non-resident deposits recorded an annual increase of 4,8% in December 2024, largely driven by SPEs deposits, compared with -5,8% in December 2023, reversing the downward trend of previous years.

The banking sector's strong liquidity position supported new lending to the non-financial private sector, which increased to €3,9 billion in

1. The analysis on deposits and credit growth in this sub-section of the Annual Report focuses on domestic residents excluding SPEs. SPEs are included in the non-residents category unless otherwise stated.
2. For details on the calculation of transactions and annual growth rates, please refer to the CBC's Monetary and Financial Statistics, which is available on the CBC website (<https://www.centralbank.cy/en/publications/monetary-and-financial-statistics>).

**CHART 5.5 Loans to the domestic private sector**  
(annual change, %)



2024, from €3,3 billion in 2023, despite the still relatively high borrowing costs and strict lending criteria. As a result, the annual growth rate of net loans to the domestic private sector returned to positive territory in April 2024, after twelve months in negative territory, reaching 1,0% in December 2024, compared with -0,6% in December 2023 (Chart 5.5).

Amid ECB's less restrictive monetary policy as of mid-2024, bank interest rates in Cyprus followed a downward trend in several categories of deposits and loans. Average lending rates for households and non-financial corporations decreased to 4,75% and 5,11% respectively in December 2024, compared with 5,15% and 5,62% in December 2023 (Chart 5.6, p. 40). Domestic average interest rates on new household and non-financial corporations deposits stood at 1,79% and 1,73%, respectively, in December 2024, compared with 2,29% and 2,19% in December 2023 (Chart 5.7, p. 40).

At the same time, Non-Performing Loans (NPLs) continued to record a decrease in 2024, with their share as a percentage of total loans improving to 6,2% in December 2024, compared

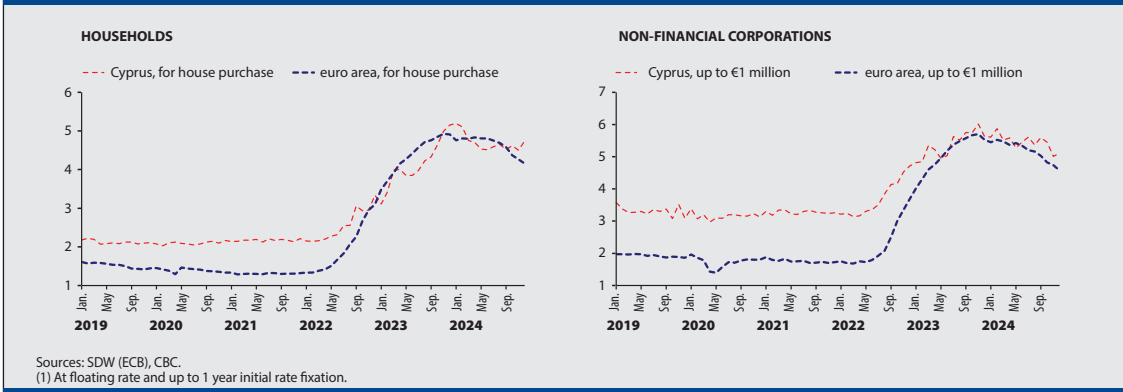
with 7,9% in December 2023, further converging towards the European average of 1,9%. It should be noted that the significant improvement in the quality of banks' loan portfolios in recent years has mainly resulted from the transfer/sale of NPLs to credit acquiring companies (CACs), although they remain part of private debt. The resolution of the debt held by CACs is expected to play a key role in the further de-escalation of the private debt.

While the progress achieved in recent years in the restructuring of the financial sector is noteworthy, challenges remain. Effective and timely risk management in an environment where new uncertainties arise is a key factor for further strengthening the resilience of the banking sector. Ensuring a sound financial sector is fundamental to achieving long-term economic growth and prosperity.

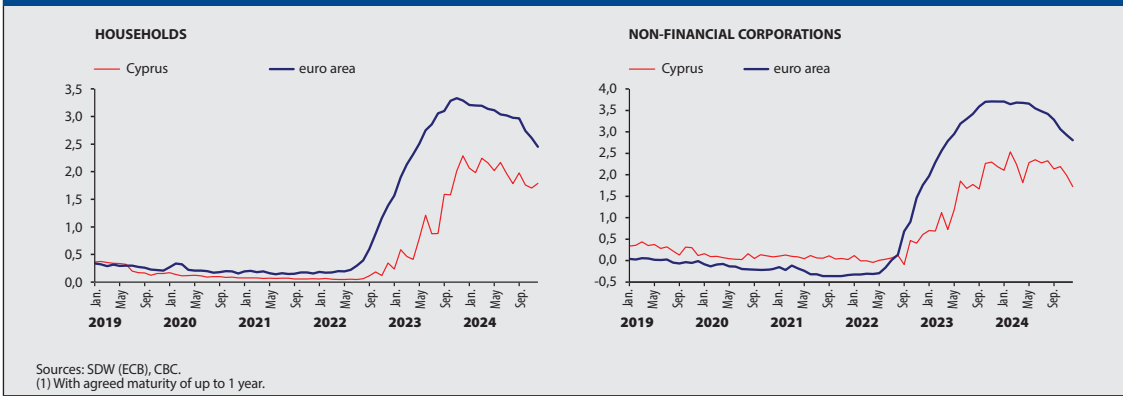
### 5.2.3 Domestic economy

Following GDP growth of 2,6% in 2023, an acceleration was recorded in 2024, with growth reaching 3,7%, slightly lower than projected in the December 2024 forecasts. This is due to the strike in concrete production in November 2024, that affected negatively the construction sector in 2024Q4. The continued favourable developments in the labour market, the increase in the real disposable income of households, as well as the expansion of the turnover of companies of foreign interests (headquartering), especially in the technology sector, contributed to the rise in GDP. The positive developments in economic growth, demonstrate the resilience and flexibility of the Cyprus economy to negative external factors

**CHART 5.6 MFI interest rates on euro-denominated loans (new business) to euro area residents<sup>(1)</sup>**  
(% per annum, period averages)



**CHART 5.7 MFI interest rates on euro-denominated deposits (new business) by euro area residents<sup>(1)</sup>**  
(% per annum, period averages)



related to the continuation of the Russian - Ukrainian war and the conflicts between Israelis and Palestinians.

From a sectoral perspective, the sectors of trade, transportation, hotels and restaurants (1 percentage point), as well as information and communication (0,6 percentage points) were the largest contributors to GDP growth over 2024. A smaller contribution arose from health and education (especially private) with 0,5 percentage points, professional and financial services activities (total contribution 0,5 percentage points) as well as construction (0,3 percentage points) (Chart 5.8).

**CHART 5.8 Weighted contributions to GDP growth by economic activity**  
(percentage points)

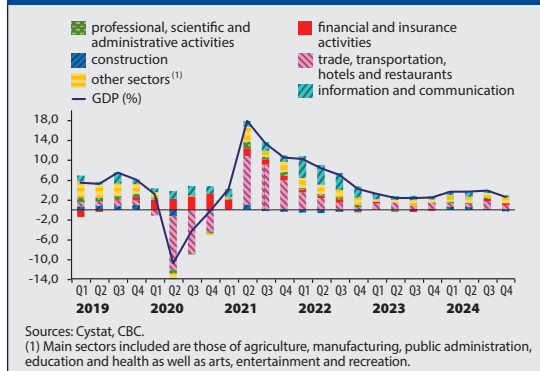


CHART 5.9 Unemployment and employment



From the expenditure side, net exports of goods and services, private consumption and, to a lesser extent, private investment, were the main drivers of economic growth over 2024. The positive contribution of net exports resulted both from the improved performance in net exports of services as well as in net exports of goods.

The real estate sector in Cyprus continued recording positive growth during 2024. Specifically, in 2024 property sales recorded a small increase (1,5%) compared with 2023, as the sales volume reached 15.797 (2024) compared with 15.567 (2023). The number of sales contracts in 2024 stood at high levels compared with the historical average (10,310 sales per year during the period 2006-2024). Residential property prices registered an annual increase of 6,7% in 2024 compared with an annual increase of 7,7% in 2023, which was mainly driven by increases in apartment prices. This trend was mainly driven by increased demand from locals, while the demand from foreign buyers recorded a decrease. At the same time, commercial property prices increased

CHART 5.10 Compensation per employee, productivity and unit labour cost (annual change, %)



by 4,7% in 2024 compared with an increase of 8,3% in 2023.

In line with GDP growth, employment increased by 2,0% in 2024. According to the Labour Force Survey (LFS), the unemployment rate stood at 4,9% in 2024, down from 5,8% in 2023 (Chart 5.9).

During 2024, compensation per employee growth recorded a deceleration to 4,5%, compared to a 5,0% rise in 2023. Specifically, compensation per employee rose by 3,9% in the public sector and 4,6% in the private sector. These increases were primarily driven by wage growth and to a lesser extent, by the rise in the Social Security contribution rates.

The rise in compensation per employee, along with the increase in productivity, led to a slower rise in unit labour costs by 3,1% in 2024, compared to 3,8% in 2023 (Chart 5.10). It is worth noting that the relevant index remains at lower levels compared to the euro area.

The current account deficit<sup>3,4</sup> in the first nine months of 2024, reached €1.435,1 million (-5,8%

3 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.

4. The analysis is based on data adjusted for the impact of SPEs.

Table 5.1 Current account balance (main categories)

	2023 Q1-Q3 (€ million)	2024 Q1-Q3 (€ million)	Change (€ million)
<b>Current account balance</b>	<b>-2.170,2</b>	<b>-1.435,1</b>	<b>735,1</b>
<b>Goods and services balance</b>	<b>252,4</b>	<b>1.309,5</b>	<b>1.057,1</b>
<b>Trade balance</b>	<b>-4.834,1</b>	<b>-4.513,8</b>	<b>320,3</b>
Exports of goods	2.264,7	2.553,8	289,1
Imports of goods	7.098,8	7.067,6	-31,2
<b>Services balance</b>	<b>5.086,5</b>	<b>5.823,3</b>	<b>736,7</b>
<b>Exports of services</b>	<b>16.303,8</b>	<b>18.917,2</b>	<b>2.613,4</b>
<i>of which:</i>			
Transport	2.718,8	2.801,5	82,7
Travel	2.680,1	2.810,2	130,1
Financial & Other business services	4.156,7	5.016,9	860,2
Telecommunications, computer and information services & Intellectual property rights	6.195,8	7.413,7	1.217,9
<b>Imports of services</b>	<b>11.217,3</b>	<b>13.093,9</b>	<b>1.876,6</b>
<i>of which:</i>			
Transport	2.408,5	2.500,0	91,5
Travel	1.262,0	1.409,6	147,5
Financial & Other business services	3.322,6	3.815,0	492,5
Telecommunications, computer and information services & Intellectual property rights	3.797,7	4.704,5	906,8
<b>Primary income (net)</b>	<b>-2.135,8</b>	<b>-2.493,8</b>	<b>-358,0</b>
<b>Secondary income (net)</b>	<b>-286,8</b>	<b>-250,8</b>	<b>36,0</b>
<b>Current account balance (% of GDP)</b>	<b>-9,3</b>	<b>-5,8</b>	

Sources: Cystat, CBC

Note: Data are adjusted for the impact of SPEs (i.e. SPEs are treated as non residents)

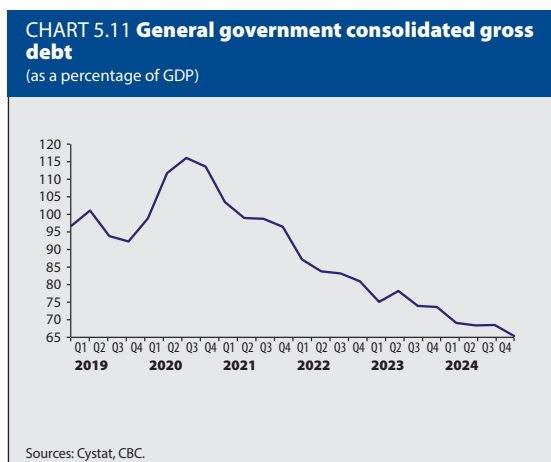
of GDP) compared with €2.170,2 million. (-9,3% of GDP) in the corresponding period of 2023 (Table 5.1). The improvement in the deficit was mainly driven by the increase in the surplus of the services balance and the decrease in the deficit of the goods balance. The simultaneous increase in the primary income account deficit partially offset the improvement in the goods and services balance. Compared with the first nine months of 2023, the main services sectors that registered a net increase in the first nine months of 2024, were the financial and other

Table 5.2 Accounts of general government

	2023 (€ million)	2024 (€ million)	Change (%)
<b>EXPENDITURE</b>			
Intermediate consumption	1.302,1	1.507,3	15,8
Compensation of employees	3.592,4	3.861,3	7,5
Social transfers	4.941,6	5.307,5	7,4
Interest	408,3	433,9	6,3
Subsidies	159,1	153,4	-3,6
Other current expenditure	1.170,2	887,7	-24,1
Gross fixed capital formation	984,2	983,0	-0,1
Other capital expenditure	572,7	193,5	-66,2
<b>Total expenditure</b>	<b>13.130,4</b>	<b>13.327,6</b>	<b>1,5</b>
<b>Total expenditure as a % of GDP</b>	<b>41,9</b>	<b>39,6</b>	<b>-5,5</b>
<b>REVENUE</b>			
Taxes on production and imports	4.442,0	4.686,8	5,5
Current taxes on income, wealth, etc	3.264,9	3.810,1	16,7
Social contributions	4.380,6	4.500,0	2,7
Other current resources	325,3	381,2	17,2
Sales	854,0	1.093,4	28,0
Capital transfers received	357,6	220,4	-38,4
Property income	137,1	143,6	4,7
<b>Total revenue</b>	<b>13.761,7</b>	<b>14.835,5</b>	<b>7,8</b>
<b>Total revenue as a % of GDP</b>	<b>43,9</b>	<b>44,1</b>	
<b>Primary balance</b>	<b>1.039,6</b>	<b>1.941,8</b>	
<b>Primary Balance as a % of GDP</b>	<b>3,3</b>	<b>5,8</b>	
<b>Surplus (+) / Deficit (-)</b>	<b>631,3</b>	<b>1.507,9</b>	
<b>Surplus (+) / Deficit (-) % of GDP</b>	<b>2,0</b>	<b>4,5</b>	

Source: Cystat (preliminary data), CBC.

business services sectors, as well as the telecommunications, computer and information (ICT) sector and the related intellectual property services, due to the expansion of the operations of companies of foreign interests in Cyprus (headquartering). Regarding tourism, the better than expected performance in the first nine months of 2024 should be noted. Compared with the corresponding nine months of the previous year, the positive impact of tourism revenues was largely offset by increases in outbound tourism, driven by Cypriots travelling abroad. The net International Investment Position (NIIP) (non-



adjusted) at the end of 2024Q3 reached -€27,8 billion (-83,2% of GDP). Adjusted for the impact of SPEs, it improved by 53,4 percentage points, reaching -€9,9 billion (-29,8% of GDP).

The government budget surplus stood at 4,5% of GDP in 2024, compared with a surplus of 2,0% of GDP in 2023 (Table 5.2). The lower budget surplus in 2023 compared with 2024 is partly due to the statistical treatment of retroactive contributions to the new provident fund for employees in the broader public sector. The improvement in 2024 compared to 2023 was driven by increased revenue across all major categories, particularly those linked to labour market developments. However, this was partially offset by higher expenditures, mainly on compensation of employees and social transfers (Table 5.2, p. 42).

The public debt-to-GDP ratio stood at 65,4% at the end of 2024, recording a decrease of more than 8 percentage points compared to the end of 2023 (Chart 5.11). This was due to the relatively high primary surplus (5,8% of GDP in 2024) and the continued economic expansion.

## 5.2.4 Forecasts<sup>5</sup>

According to the March 2025 forecasts, GDP is expected to grow by 3,2% in 2025, compared to 3,4% growth in 2024, with a further increase of around 3,1% per annum in the 2026-27 period. The GDP path is mainly supported by the expected further increase in domestic demand and, to a lesser extent, external demand. Domestic demand is expected to be supported by the increase in private consumption due to an increase in real disposable household income and the continued resilience in the labour market. A significant contribution is expected, mainly, from the large non-residential private investments under way. The contribution of net exports is expected to continue to be positive, reflecting the increase in services exports, mainly in the technology sector, and the increased related intellectual property services exports. At the same time, it is assisted by the increase in turnover in financial and professional services, the continued support by the shipping sector, as well as the positive developments in tourism, taking into account the ongoing uncertainty in the international geopolitical scene.

According to the March 2025 projections, HICP inflation (Harmonised Index of Consumer Prices) is expected to decelerate to 2,1% in 2025, compared with 2,3% in 2024, and remain at 2,1% throughout the 2026-2027 period. The moderation in HICP inflation, both in the short- and medium-term, is mainly due to the anticipated fading of residual inflationary pressures stemming from exogenous supply-side factors of previous years. Furthermore, disinflation is also driven by the impact of the euro area's single monetary policy, which continues to

5. Forecasts and assumptions take into account economic developments and available data up to 10 March 2025.

dampen demand in the current year with a lagged effect, albeit with diminishing intensity. Additionally, the inflationary impact of wage increases is expected to moderate due to the projected slowdown in wage growth. At the same time, corporate profits are projected to partially offset the inflationary effect of wage increases. Finally, the continued normalisation of non-energy industrial goods inflation over the 2025-2027 period, compared to 2022-2023, is expected to contribute to the stabilisation of inflation around the medium-term target of 2%.

In relation to the possibility of deviations from the baseline scenario of the forecasts for the period 2025-27, risks tend to be tilted slightly downward for GDP and slightly upward for inflation. The main downside risks to GDP are associated with the negative economic impact of

ongoing geopolitical tensions and uncertainty about the path of external demand. At the domestic level, they are associated with a slower than expected easing of financing conditions. Conversely, upside risks are associated with the impact of the tax reform on private consumption from 2026, as well as higher than expected wages, noting at the same time the conservative profile of the wage growth path in the baseline scenario. Regarding inflation, upside risks arise from the aforementioned impact of the tax reform on domestic demand, from potential disruptions in supply chains leading to higher shipping costs due to uncertainty surrounding global trade policy and due to the gradual implementation of green taxation measures. On the downside, risks are associated with the possibility of lower energy prices due to a fall in global trade.

## 6. FUNCTIONS OF THE BANK

### 6.1 Regulatory and Supervisory Activities

#### 6.1.1 Developments and prospects of the banking sector

The banking sector in Cyprus, despite the multiple and intense challenges it has faced in recent years, continues to demonstrate its ability to cope with unexpected events and other challenges, maintaining its robustness and resilience, as evidenced by relevant supervisory indicators. In 2024, the Common Equity Tier 1 (CET1) capital ratio further strengthened, reaching 24,5% compared to the European average of 16,1%. Meanwhile, liquidity reserves remained at very high levels, with the related ratio standing at 333%, significantly exceeding the supervisory threshold of 100% and the corresponding European ratio of 163,4%.

Non-Performing Loans (NPLs), as a percentage of total loans, further decreased, reaching 6,2% in 2024, compared with 7,9% in 2023. However, it is important to highlight three key factors that still retain this issue as one of the supervisory priorities of the Central Bank of Cyprus (CBC). Firstly, the NPL ratio, at system level, continues to be among the highest in Europe, retaining the necessity for it to be further reduced. Secondly, the risk of new defaults remains real, given the inflation affecting households and businesses. And thirdly, the progress achieved so far at system level is uneven among the supervised institutions. Therefore, while progress in reducing NPLs at the system level is acknowledged, there remains a need for close monitoring and more intensified supervisory

measures for further deleveraging of banks' balance sheets, with particular emphasis on the less significant institutions that need to intensify their efforts in this regard.

In view of the above, since the beginning of 2024, the CBC's supervisory plan has incorporated the need for a thematic review on asset quality. Specifically, based on the available supervisory data submitted by banks, a horizontal in-depth analysis of the data underpinning asset quality was conducted, aiming at the timely identification of any factors that could adversely affect their positions in the short term. Notably, at system level, prudent lending practices were recognized, which appear to have contributed in guarding banks against new defaults. In this context, given that the risk has not dissipated, banks must continue to closely monitor their portfolios and apply prudent practices, emphasizing on repayment capacity when granting new loans, as well as providing sustainable restructurings to existing clients.

Another area of internal analysis focus in 2024 was the unprecedented profitability of banks, which reached €1.212 million in 2024, as well as deposit interest rates. Given the drop in reference interest rates in 2024 and the potential for further reductions, the CBC conducted a horizontal sensitivity analysis to ensure that banks can withstand a possible decrease in their interest income under a scenario of high default rates without compromising their viability. In conjunction with this analysis, the maintenance of banks' capital adequacy continues to be deemed necessary, while also maintaining a prudent policy regarding dividend distributions.

In connection with the aforementioned

analysis, but with the aim of overseeing the fluctuations in lending and deposit interest rates offered by banks in Cyprus, the CBC, responding to public calls on the matter, has included a horizontal analysis of these rates into its monitoring framework. It is worth noting the sustained high level of deposits in the banking system, which rose to €55,9 billion in 2024. In the same context, the CBC regularly conducts additional analyses of bank deposits concerning their maturity profile. Furthermore, with the aim of enhancing transparency and facilitating public understanding, starting in September 2024, the CBC publishes detailed monthly average interest rate data for various lending and deposit products per bank.

Despite the significant shielding of banks against future unpredictable shocks, 2024 was still a year with unexpected geopolitical developments that brought significant risks to the Cyprus economy and its banking system. In particular, due to the conflict in the Middle East and the ongoing Russia-Ukraine war, the economic and, consequently, the banking system remains subject to ongoing uncertainty. Therefore, both the ECB and the CBC consider geopolitical risk as a supervisory priority. It is noted, however, that in 2024, the domestic banking system did not have significant concentrations in countries directly affected by these developments.

The geopolitical developments also highlight the increasing risk of climate change in the banking sector. It is noted that this is an unprecedented, uncertain, and multidimensional risk to banks, which necessitates immediate and collective action from all involved

parties. Banks are called to follow the relevant European legislation and actions already undertaken by their European partners to maintain their competitiveness and ensure their sustainability due to unpredictable weather conditions. Consequently, this risk must continue to be an integral part of their strategic planning and decision-making processes.

Overall, there is no room for complacency, as the banks are facing multiple, unpredictable, and multidimensional risks and thus, they should, subject to timely and effective daily supervision and additional horizontal analyses by the CBC, should remain in constant alertness and readiness to address them effectively.

### 6.1.2 Supervision of Significant, Less Significant and Non-Credit Institutions

The CBC exercises prudential supervision over authorised credit institutions that fall in the scope of the Single Supervisory Mechanism (SSM), through its participation in the SSM's joint supervisory teams (JSTs). During its supervisory activities in 2024, as far as Significant Credit Institutions are concerned, the CBC as part of JSTs followed the supervisory priorities set by the SSM for the three-year period 2024-2026. These priorities consist of (a) strengthening the resilience of Significant Credit Institutions to immediate macro-financial and geopolitical shocks, (b) accelerating the effective remediation of shortcomings in governance as well as the management of climate-related and environmental risks, and (c) further progressing the digital transformation and building robust operational resilience frameworks

of Significant Credit Institutions. These supervisory priorities of the SSM are the result of a comprehensive assessment of the main risks and vulnerabilities faced by supervised institutions and are subject to an annual review by the ECB's Supervisory Board, where a representative of the CBC participates.

The CBC exercises prudential supervision over institutions that fall outside the scope of the SSM and includes the Less Significant Credit Institutions (LSIs), the branches of credit institutions from third countries, the Credit Acquiring Companies (CACs) and the Credit Servicers (CSs), as well as the Artemis Data Exchange Mechanism. Supervision is conducted based on applicable laws and regulations, on a scheduled and ad-hoc basis, with off-site supervisory activities and on-site inspections, within the framework of a three-year planning and control plan, which is periodically evaluated and revised.

In exercising its supervisory activities in 2024, as far as LSIs are concerned, the CBC taking into consideration the supervisory priorities set by the SSM for the three-year period 2024-2026, has defined and focused on the following supervisory priorities along with the management of climate and environmental risks:

#### *a. Credit Risk*

Continuing to monitor the progress in reducing Non-Performing Exposures (NPEs) and to assess the coverage adequacy of the NPE portfolio.

#### *b. Governance*

Ensuring LSIs comply with governance supervisory framework.

#### *c. Capital*

Closely monitor the ability of the LSIs to absorb the impact of the new capital requirements and absorb possible losses due to increased provisions in relation to NPEs, including new NPEs, and/or by possible reductions in the value of real estate mainly acquired for NPEs repayment/resolution.

#### *d. Business Model*

Assessment of the LSIs business models and profitability.

#### *e. Operational Risk*

Monitoring the LSIs efforts to reduce their operational risks.

#### *f. Interest Rate Risk in the Banking Book (IRRBB)*

Assess the LSIs ability to manage interest rate risk in their banking book.

Regarding supervised branches, the implemented plan focuses on monitoring and supervision as derived from the assessment of banking risks, risks arising from the geopolitical crisis in the Middle East, and their impacts on supervised entities.

Regarding CACs and CSs, the supervisory plan is prepared following an assessment and prioritisation of sector-related risks connected to the financial stability of the system, focusing on compliance with governance regulations, the CBC's Arrears Directive code of conduct, and compliance with the legal framework governing the sector's entities. Concurrently, the CBC provided feedback to the relevant authorities regarding the preparation of the revised harmonised framework governing CACs and CSs.

Supervisory actions related to the Artemis Data Exchange Mechanism mainly concern strengthening the assessment of the creditworthiness of customers and potential customers of the CBC's supervised entities, creating credit rating, and monitoring adherence to the project's timeline, which is scheduled for completion by 30 September 2025. Accordingly, the CBC actively participates in a working group, in collaboration with government institutions, to facilitate the necessary legislative changes for the implementation of the credit ratings project.

### 6.1.3 On-site inspections of credit institutions

Within the remit of its supervisory powers and responsibilities, during 2024, the CBC conducted on-site inspections of licensed credit institutions and credit acquiring companies in accordance with its annual plan derived from the identified supervisory 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 exclusively by the CBC. During 2024, four on-site inspections were carried out at significant credit institutions, five at less significant credit institutions and one at a credit acquiring company. The on-site inspections conducted in 2024, focused on credit risk, internal governance, regulatory capital and ICT risk. In 2024, 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.

### 6.1.4 Licensing of institutions and withdrawal of operating license

#### Licensing of institutions

Regarding the licensing of credit institutions that are legal entities registered in Cyprus, the Central Bank of Cyprus (CBC) submits its proposal to the European Central Bank (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 of Cyprus:

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

It is noted that financial services companies, which include credit institutions as well as electronic money and payment institutions, are increasingly active in the Fintech sector, i.e. the provision of financial services by applying innovative technologies. As a result of the development of the Fintech sector, there is also an increased interest for licensing of payment institutions and electronic

money institutions. A significant number of these institutions are also licensed in other European countries and provide their services in the Cypriot market through the right of establishment and the freedom to provide services (passporting).

In 2024, five entities were granted an operating license.

### Withdrawal of operating license

The responsible authority for the withdrawal of licences of credit institutions is the ECB<sup>1</sup>, while for the rest of the above-mentioned entities the responsible authority is the CBC.

An entity to which an operating licence was granted by the CBC, may surrender its operating licence by written notice to the CBC. The CBC will then proceed with an assessment of the withdrawal of the licence.

The CBC may also withdraw the authorisation granted to a licensed entity for specific reasons, among which if the entity no longer meets the conditions for granting an operating license or has ceased to engage in business for a long period of time (as stipulated in the relevant legal framework).

#### 6.1.5 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 their management bodies or as key function holders.

For the significant credit institutions of Cyprus, which are under the direct supervision 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 it licenses and supervises.

In the context of the suitability assessment procedure, it is examined, among other things, whether the proposed individuals have a good reputation, integrity of character, independence of mind and sufficient time to perform their duties. It is also examined whether they possess sufficient knowledge, skills and experience in specific areas, so that at a collective level the necessary aspects are broadly covered and appropriate decisions are made, taking into account the business model, risk appetite, strategy and markets in which each entity operates.

Adequate knowledge with respect to climate-related and environmental risks and cyber security risks is among the various factors taken into consideration with respect to the collective suitability of the management body. The pursuit of diversity within management bodies of supervised entities is also important especially with respect to, *inter alia*, the skills and experiences of their members as well as to the representation of all genders within the administrative body.

#### 6.1.6 Acquisition of Qualifying Holdings in Authorised Institutions incorporated in the Republic of Cyprus

Any proposed acquirer, who/which individually,

1. With the exception of branches of third country credit institutions.

or acting in concert with another person(s), intends to acquire or to increase, directly or indirectly, a qualifying holding<sup>2</sup> in a licensed entity incorporated in the Republic, should notify the CBC in writing. More specifically, a written notification is required where the proportion of the voting rights or of the capital held would reach or exceed twenty percent (20%), thirty percent (30%) or fifty (50%) or so that the entity would become its subsidiary.

The ECB is exclusively competent to decide on the proposed acquisition of a qualifying holding in a credit institution incorporated in the Republic. The CBC participates in the assessment and communication with the interest parties. The CBC is exclusively competent to decide whether or not to oppose any acquisition of a qualifying holding in licensed entities other than credit institutions.

### 6.1.7 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 practices 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. To this end, the CBC works closely with the relevant government bodies providing technical support during the development of legislative

provisions and their transposition to national legislation. The CBC also adopts guidelines issued by the EBA, on matters relating to credit institutions and other entities licensed and supervised by the CBC.

In 2024, the CBC collaborated with the Ministry of Finance for the completion of the transposition of the European Directive (EU) 2021/2167<sup>3</sup> in relation to credit servicers and credit purchasers. Moreover, within 2024, the transposition process for the European Directive (EU) 2024/1619<sup>4</sup> (CRD6) was initiated, a process in which the CBC participated actively and instrumentally, in close collaboration with the Ministry of Finance.

Moreover, the CBC, in the context of its ongoing efforts for the improvement and further specification of the regulatory framework applied to its supervised entities, amended in 2024, the Directive on the Internal Governance of Credit Institutions (Governance Directive) and the Directive on the Suitability of Members of the Management Body and Key Function Holders of ACIs (Suitability Directive). The amendment to the Governance Directive enhanced the requirements of credit institutions in relation to the assessment and management of their reputation risk. The amendment to the Suitability Directive introduced additional provisions in relation to the submission of an annual declaration of continuous compliance with the provisions of the Directive by credit institutions, in order to ensure the ongoing suitability of the members of their management body and the key function holders of these institutions.

2. A direct or indirect holding in an undertaking represents 10% or more of the capital or of the voting rights or makes it possible to exercise a significant influence over the management of that undertaking.
3. Directive (EU) 2021/2167 of the European Parliament and of the Council of 24 November 2021 on credit servicers and credit purchasers and amending Directives 2008/48/EC and 2014/17/EU.
4. Directive (EU) 2024/1619 of the European Parliament and of the Council of 31 May 2024 amending Directive 2013/36/EU as regards supervisory powers, sanctions, third-country branches, and environmental, social and governance risks.

### 6.1.8 Digital operational resilience and Innovation Hub

Information, Communication and Technology risk remains highly relevant amidst banks' increasing efforts toward digitalization and the growing threats in cyberspace. Consequently, supervised institutions must intensify their efforts to bolster defenses against such risks. During 2024, the CBC continued its established policy, calling on supervised institutions to conduct annual penetration tests on critical systems.

In 2024, there was a surge in cyberattacks utilising the DDoS method. This surge can be linked to cyber threats directed at the Republic of Cyprus, publicised in the context of geopolitical developments in Ukraine and the Middle East. The need to further enhance digital operational resilience and establish appropriate policies and procedures for managing cyber risks is pressing. To this end, the CBC is closely monitoring developments, regulates and supervises institutions, where necessary, to protect against cyber threats.

Relevantly, in 2024, domestic Significant Credit Institutions underwent for the first time, a cyber stress test carried out by the Single Supervisory Mechanism. Moreover, the CBC participated alongside eight other national competent authorities in the Eurozone and the ECB, in a cyber dry-run exercise, testing its readiness as the domestic supervisory authority for credit institutions in the event of a critical cyber incident.

The CBC continued monitoring and actively engaging as a member of the European Banking

Authority in the course of action towards the implementation of the EU Digital Operational Resilience Act (DORA), which has a final implementation date in January 2025. In 2024, an initial assessment of the readiness of supervised credit institutions to meet DORA requirements was conducted. Based on the institutions' preparedness and findings from CBC's supervisory inspections, the CBC issued supervisory guidance on digital operational resilience strategy to assist supervised credit institutions in complying with DORA.

The CBC's Innovation Hub joined the European Blockchain Sandbox Initiative (EBSI) in 2024. This initiative explores innovative use cases in the financial sector based on Distributed Ledger Technology (DLT) and facilitates dialogue between regulatory authorities and innovative companies in the European Union. Through this channel, the CBC aims on one hand to monitor developments in financial innovation (FinTech), and on the other hand to identify institutional and regulatory obstacles and address risks which may arise during the promotion of rapidly evolving innovative technologies. At the same time, the CBC provides participants with non-binding guidance regarding regulatory and supervisory requirements, including prerequisites for licensing innovative FinTech products or services.

The Innovation Hub represents a decisive step within the broader framework of the CBC's supervisory objectives and priorities concerning innovation, digital operational resilience, digital transformation, and cybersecurity.

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

#### Prevention of the use of the financial system for money laundering and terrorist financing

According to the *Prevention and Suppression of Money Laundering Activities Law, ("the Law")*, the CBC is the competent authority for credit institutions, payment institutions, electronic money institutions and all supervised institutions licensed by the CBC. In this respect, the CBC conducts off-site monitoring and on-site examinations and organises and contributes 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 imposed by the Resolutions of the Security Council of the United Nations.

The updating of the relevant regulatory framework, in line with best international practices, 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), is of utmost importance for the CBC and a major area of its activities.

As regards the 4th Follow-up Report of the Moneyval Committee of the Council of Europe for Cyprus, in relation to the measures taken against money laundering/terrorist financing, following the amendment of the Law in 2023, Cyprus requested

Moneyval in 2024 to reassess the compliance of Cyprus with Recommendation 13 of the FATF, related to correspondent banking relationships.

During 2024, CBC representatives continued their active involvement 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 the strategic objectives in preventing and combating money laundering and for strengthening the existing legal framework.

Furthermore, the CBC is monitoring the developments and participates in European fora, which discuss the progress for the establishment and operation of the new European Anti-Money Laundering Authority (Anti-Money Laundering Authority and Counterfeiting the Financing of Terrorism – AMLA). In this respect, a CBC official has been appointed as the permanent representative of the public supervisory authorities of Cyprus in the General Board of AMLA under its supervisory composition.

During 2024, the CBC carried out on-site and off-site examinations in a number of supervised institutions on various topics. Furthermore, in collaboration with MOKAS, the CBC organised a training seminar for the Compliance Officers of local credit institutions, regarding the procedures for reporting suspicious activity to MOKAS.

During 2024, the CBC continued to actively participate in the two Committees that were established by decisions of the Council of Ministers, for compliance with the economic sanctions framework, namely, the Advisory Committee on

Economic Sanctions (SEOK) and the Unit for the Implementation of Sanctions (MEK).

**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 to initiatives, aiming at enhancing the effectiveness of the supervision it exercises. During 2024, the CBC carried out short supervisory on-site examinations at a number of payment institutions and electronic money institutions, with the aim of assessing the degree of their compliance with certain provisions of the legal framework and the terms and conditions of their licence. Furthermore, in October 2024, the CBC in cooperation with external consultants, conducted an assessment of the payment institutions/electronic money institutions sector in Cyprus. The aim of this assessment was to better understand the risk profile of the supervised institutions and to identify key areas requiring further supervisory attention.

CBC representatives participated as experts in the negotiations in the relevant working group of the Council of the EU, for amending the EU legal framework in the areas of the payment services and issuance of electronic money.

**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

**Table 6.1 Nature of the complaint**

	2023		2024	
Credit Facilities	96	54%	75	49%
<i>Of which for restructuring proceedings</i>	65		25	
Payment procedures	31	17%	20	13%
Payment accounts with basic features	22	12%	13	8%
General complaints/queries	20	11%	31	20%
Due diligence procedures / sanctions	11	6%	15	10%
<b>Total</b>	<b>180</b>	<b>100%</b>	<b>154</b>	<b>100%</b>

Source: CBC.

specific provisions of national and European legislation, which aim to ensure ethical conduct by supervised institutions in the market, 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 the mechanism that is available on the CBC website, that facilitates the submission to the CBC of reports of alleged infringements by supervised institutions. Reports concerning supervised institutions may be submitted anonymously or by name, by clients and employees of these institutions. It should be noted that the CBC is empowered to investigate reports in relation to legislation for which it has been designated as the competent authority and, where applicable, to take supervisory measures and/or impose 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 Arrears Management Directive, access to payment accounts, the provision of payment services and the provision of investment services by credit institutions.

During 2024, 154 reports were submitted to the FCS, compared with 180 during 2023. 75 of the reports (or 49% of the total number of reports) related to credit facilities issues, of which 25 related to restructuring procedures. During 2023, 96 reports (or 54% of the total number) related to credit facilities issues, of which 65 related to restructuring procedures. Based on the review of the reports concerning the restructuring procedures of credit facilities carried out by the FCS, it appeared that the number of complainants that filed an appeal to the appeals committees of the credit institutions and/or of the credit acquiring companies remained low. Similarly, the number of complainants who exercised their right for the appointment of a mediator, remained very low in 2024.

20 of the reports submitted in 2024 (or 13% of the total number) related to payment procedures, while 13 of the reports (or 8% of the total number), related to the procedures for opening or terminating of payment accounts with basic features. The corresponding figures for 2023 were 31 reports (or 17% of the total number) and 22 reports (or 12% of the total number), 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 and from the out-of-court dispute resolution procedures, which concern the competences of the Alternative Dispute Resolution Bodies, including the Financial Ombudsman.

Furthermore, in March 2024, the CBC organised a seminar for the training of mediators registered in the Mediators Register, on matters of restruc-

turing of credit facilities, in which 36 individuals participated. This seminar was organised based on the CBC mandate stemming from the *Law on the Establishment and Operation of the Single Body for the Out-of-Court Resolution of Financial Disputes*, which requires the CBC to organise such seminars and provide training to the mediators.

### Supervision of the provision of Investment Services by credit institutions

The FCS is also responsible 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*.

Furthermore, during 2024, the FCS continued its supervisory reviews in relation to the provisions on investor protection during the provision to them of investment services by credit institutions. Specifically, the relevant thematic supervisory reviews focus 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 sustainability preferences of the client and whether they should be considered in relation to their investments as well as the information provided to 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 continued to monitor the legal and regulatory developments in the European Union,

with respect to sustainable finance and has included in its supervisory programme the compliance of credit institutions with national laws and the Regulations of the EU insofar as they concern the provision of investment services by credit institutions.

The FCS continued to monitor the activities of the relevant working group of the Council of the EU in which the negotiations of the European Commission's proposals regarding the Retail Investment Strategy are taking place, insofar as they concern the provision of investment services by credit institutions. This Proposal aims to strengthen the confidence of retail investors and encourage their greater participation in the capital markets.

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

### Resolution Planning

During 2024 the main activities of the CBC, in its capacity as the National Resolution Authority, included the preparation of resolution plans, on a prudential basis, for less significant institutions, the branches of third country institutions in Cyprus and Cyprus investment firms.

The CBC also participated in the preparation of resolution plans, on a prudential basis, under the Single Resolution Board (SRB) remit based in Brussels, for Cyprus' significant credit institutions and the subsidiaries of European banking groups in Cyprus.

During 2024, the significant credit institutions

continued to make progress towards the completion of the manuals and policy documents in order to improve their resolvability, on the basis of the SRB recommendations to all significant institutions of the Eurozone. They also performed a dry-run exercise at the end of 2024 in order to test their ability to set up and populate a virtual data room (VDR) for valuation and sale processes.

Similarly, less significant credit institutions made progress during 2024 towards meeting the CBC resolvability expectations that were set on a proportional basis on the SRB expectations. In April 2024 they also carried out a dry-run exercise in order to test their ability to set up and populate a VDR for valuation and sale processes. The relevant independent assessment reports submitted indicated satisfactory results. The less significant institutions prepared an action plan regarding the shortcomings identified.

Lastly, by end of 2024, all institutions incorporated in the Republic complied with the requirement on own funds and eligible liabilities (MREL).

During 2024, significant progress was made in the preparation of the national resolution handbook through a project which documents the operational steps for the preparation and application of resolution measures. The project was initiated at the end of 2023 in the context of reinforcing the readiness for crises management within the Banking Union and is implemented via technical support from the European Commission (Commission) through a firm selected for this purpose from the Commission. The project has an 18 month duration.

As regards the resolution regulatory framework, during 2024, members of the CBC partici-

pated in the preparation of draft legislative proposals for the transposition of EU provisions on resolution matters and the harmonisation 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's proposal for the Crisis Management and Deposit Insurance framework (CMDI proposal) for which political agreement at the level of the European Council was achieved in June 2024. It is noted that the European Parliament position on the issue had been published in April 2024.

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, 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 piecemeal liquidation.

Trilogues between the Council, the Commission and the Parliament started at the end of 2024 under the Hungarian Presidency.

Finally, during 2024 the CBC informed institutions on new guidance or recommendations on specific issues pertaining both to the SRB and the EBA.

## 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. The DGS is a separate public legal entity and consists of two Funds, the Deposit Guarantee Fund for Credit Institutions (DGF) and the National Resolution Fund of Credit and Other Institutions (NRF).

The operations of the DGS are managed by a Committee which consists of employees from the Ministry of Finance and the CBC, all appointed by the Governor of the CBC. The CBC provides administrative and technical support for the execution of the DGS's tasks.

All authorised credit institutions (ACIs), including Cyprus branches of credit institutions from third countries, are members of the DGS. The purpose of the DGS is twofold: on one hand, the compensation of covered depositors in the event that a credit institution is unable to repay its deposits; on the other hand, the funding of the implementation of resolution measures. The DGF provides compensation of up to €100.000 for all the deposits held in a specific credit institution by a natural or legal person, subject to specific exemptions. On 13 May 2024 the available funds of the DGF reached the target level of 0,8% of the covered deposits of the ACIs. On 31 December 2024, the available financial means of the DGF amounted to approximately €223 million.

The National Resolution Fund (NRF) may be

used for financing the implementation of resolution measures. The members of the NRF consist of branches of third country credit institutions and investment firms that are not subsidiaries of ACIs under the SSM. The NRF has achieved the target level of 1% in 2023 of the total covered deposits of its members, and thus no contributions were requested during 2023 and 2024.

ACIs established in Cyprus and their subsidiaries together with all the banks of the 21 member countries of the EBU, are members of the SRF. The said fund is managed by the SRB in Brussels.

During 2024 the DGS conducted stress test exercises based on the guidelines of the EBA. The purpose of the said exercises is the strengthening of the effectiveness and efficiency of the DGS. Another important development is the approval of the DGS's request by the EU, for the provision of funding to the DGS under the 2024 Technical Support Instrument Program. It is envisaged that the DGS will benefit from this program, and in particular regarding the development of its systems/procedures.

Finally, it is noted that during 2024 competent CBC officials participated in discussions held at the European level regarding the European Commission's proposal which had been submitted in April 2023 for the crisis management and deposit guarantee framework, as well as in meetings of various committees of the European Forum of Deposit Insurers.

#### *Investor Compensation Fund for Clients of Banks*

The Investor Compensation Fund for Clients of Banks (ICF) has been in operation since 2004. Its main activity is to secure the claims of the covered clients against banks, members of the ICF. This

occurs through the payment of compensation in cases where the bank concerned is unable, due to its financial circumstances, to return to its covered clients funds owed to them, or where a bank is placed under liquidation by court order. The maximum amount of compensation to each covered client investor amounts to €20.000.

Membership in the ICF is mandatory 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 the Republic of Cyprus through branches. The pursuit of the ICF's purposes and the handling of its operations are managed by a Management Committee, which consists of representatives of the CBC, the Ministry of Finance and the Bank Associations, all appointed by the Governor of the CBC. The CBC provides administrative support to the Management Committee.

No contributions were received in 2024 as the ICF's target level for each member was exceeded due to the members' contributions made in previous years. In addition, there were no member withdrawals during the year, thus the seven members of the ICF remained the same.

During the year in review, the ICF invested part of its liquid funds in treasury bills issued by the Republic of Cyprus. Moreover, the Regular General Meeting of the members of the ICF took place during the year, with the participation of ICF member representatives, where the financial results of the Fund for the year 2023 were presented.

### **6.3 Financial Stability**

The CBC is the designated macroprudential autho-

riety 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.

### 6.3.1 Financial indicators for the banking sector

In 2024, the CBC continued to regularly compile and publish on its website, aggregate financial indicators for the banking sector, which are used for macroprudential analysis. Furthermore, the data used for the compilation of financial soundness indicators (FSIs) for the Cyprus banking sector, are submitted quarterly to the IMF.

### 6.3.2 Main macroprudential policy decisions<sup>5</sup>

As regards the CBC's main macroprudential policy decisions in 2024, the following are noted:

- In February 2024, the CBC revised its Policy for

identifying credit institutions that fall under the definition of O-SIIs and the methodology for setting each credit institution's O-SII buffer requirement. For the purposes of the above revision, the CBC relied on a number of statistical methodologies, including those of other central banks in relation to the setting of the O-SII buffer requirement.

- On 4 March 2024, based on the above revised Policy for the identification of credit institutions falling under the definition of O-SIIs, the CBC completed its annual review for 2024, with data dated 30 June 2023, and identified five credit institutions as O-SIIs.
- On 2 June 2024, the increase in the counter-cyclical buffer rate from 0,5% to 1,0% of the total risk exposure amount in the Republic of each authorised credit institution incorporated in the Republic has entered into force, in accordance with a previous relevant decision of the CBC<sup>6</sup>.
- During 2024 the CBC continued to comply with the Recommendations of the European Systemic Risk Board (ESRB) on voluntary reciprocity for macroprudential policy measures.

### 6.3.3 Publications

In October 2024, the CBC published its *Financial Stability Report (FSR)* for 2023, providing information on the macroprudential oversight of the financial system, which aims to contribute to the safeguarding of financial stability. In the FSR, the CBC presents its assessment with respect to the main medium term risks to financial stability, which are the following:

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

6. Dated 2 June 2023.

- (a) Challenges to the balance sheets of the domestic private non-financial sector stemming from the high level of prices and the elevated lending interest rates, despite the recent reductions in the key ECB interest rates, coupled with the already over-indebted private non-financial sector;
- (b) The potential deterioration in the quality of the assets of the financial sector, mainly credit institutions, which may affect their profitability;
- (c) The significant overall exposure of financial institutions to the real estate sector, which renders them vulnerable to any negative developments in the real estate market, despite the resilience of the market;
- (d) Emerging external risks, such as risks from climate change, cyber risks and risks of escalating geopolitical tensions.

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 contributing to the safeguarding of financial stability.

#### 6.3.4 Macroprudential analysis, monitoring and measures taken to mitigate systemic risks

Despite the positive performance of the financial

sector and the economy of Cyprus in general in 2024, the ongoing international economic and geopolitical turbulence creates conditions of unprecedented uncertainty and adversely affects the global economy and global markets. 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 2024 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, using, among other things, an internal risk monitoring tool for the insurance sector in the form of a risk dashboard.

In 2024, 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, in cooperation with the competent supervisory authorities of the financial sector of Cyprus, proceeded to collect data on the exposure of financial institutions to the commercial real estate sector and assessed the vulnerabilities in that sector, for the purposes of implementation of Recommendation ESRB/2022/9 regarding vulnerabilities in the commercial real estate sector.

### 6.3.5 Support of the Governor and participation in the ECB and ESRB committees and working groups

During 2024, 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.

### 6.3.6. 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.

### 6.4 Financial Market Infrastructures and Payments

Financial Market Infrastructures (FMIs) are entities that facilitate the clearing, settlement, and recording of monetary and other financial transactions. For instance, payment systems enable the purchase of goods and services, central securities depositories provide securities accounts, custody services for financial instruments, as well as asset management services, while securities settlement systems allow for the transfer and settlement of securities through bookkeeping entries.

The role of the Central Bank of Cyprus (CBC) in the field of financial market infrastructures and payments stems from the *Central Bank of Cyprus Law of 2002*, as subsequently amended, and is defined based on the Treaty on the Functioning of the EU and the Statute of the ESCB and the 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 2024, 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)

#### 6.4.1 Payments, clearing and securities settlement systems

TARGET Services (Trans-European Automated Real-Time Gross Settlement Express Transfer services) are financial market infrastructure services developed and operated by the Eurosystem, which ensure the free flow of money, intangible securities and collateral across Europe.

TARGET now supports the following services:

- **T2:** It includes the real-time settlement service of large-value payment orders (Real-Time Gross Settlement – RTGS) in central bank money, hence the broad reference as RTGS. This service is also used for settling transactions sent by ancillary systems, which clear and/or offset payment orders. Furthermore, it includes a unit for 'Central Liquidity Management' (CLM), which optimises the distribution of liquidity for participants across all three supported services of TARGET.
- **TARGET2-Securities (T2S):** Securities settlement service.
- **TARGET Instant Payment Settlement (TIPS):** Instant payment settlement service.

#### TARGET-CY: The Cypriot component of the TARGET system

TARGET is a unified common payment platform managed by the Eurosystem, which is legally composed of national components. The CBC participates in and manages TARGET-CY, the Cypriot component of the TARGET system, in accordance with ECB Guideline ECB/2022/8, as amended (ECB/2023/22), and the TARGET-CY System Directive of 2023 (Κ.Δ.Π. 58/2023), as amended (Κ.Δ.Π. 356/2023 and Κ.Δ.Π. 396/2024).

#### T2-CY

The Eurosystem successfully launched the new payment system T2 on 20 March 2023, replacing TARGET2. The following are settled in T2-CY:

- Payments of the CBC related to the implementation of monetary policy,
- Payments of participating credit institutions, whether related to customer orders or inter-bank orders, from the credit institution itself,
- Transactions sent by the four Cypriot ancillary systems.

The participants in T2-CY are credit institutions previously connected to TARGET2-CY and the four Cypriot ancillary systems (Cyprus Stock Exchange, Cyprus SDD, Cyprus Clearing House, and the JCC Cards Payment System).

In order to fulfil the CBC's obligations, under the TARGET-CY System Directive of 2023 (Κ.Δ.Π. 58/2023), as amended (Κ.Δ.Π. 356/2023 and Κ.Δ.Π. 396/2024), paragraph (7) of the main directive, subparagraph (2), from September 2024, the CBC proceeded with the opening of a Main Cash

Account (MCA) for all credit institutions that did not participate in T2-CY and kept their minimum reserves on the books of the CBC. At the same time, the CBC provided co-management services to credit institutions that chose not to establish their own technical connection to access their MCA and designated the CBC as a co-manager for the management of their cash flows to and from their respective MCAs.

### TARGET2-Securities (T2S)

In 2024, the CBC continued not to provide settlement services for securities transactions, as the Cyprus Stock Exchange (CSE) is not connected to T2S.

### TARGET Instant Payment Settlement (TIPS-CY)

The ECB has developed an innovative pan-European instant payment service that enables settlement in central bank money in less than 10 seconds. Instant payments are credit transfers that allow users to transfer funds at any time, on any day (24/7/365). They are much faster than traditional credit transfers, which are processed by payment services providers during business hours and may reach the beneficiary's account on the next business day.

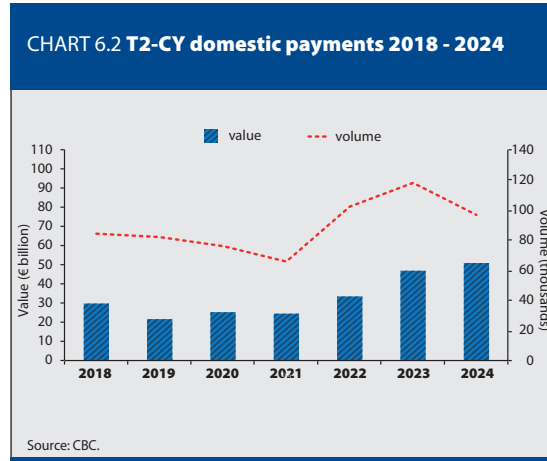
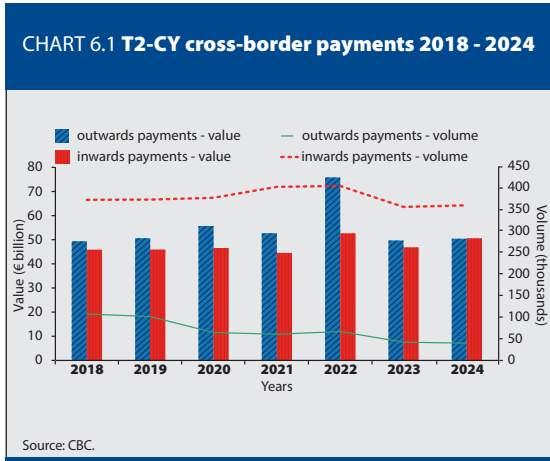
The TIPS service was launched on 30 November 2018. As the response of payment service providers (PSPs) to the adoption of instant payments was not as expected, the European Parliament and the Council of the European Union adopted Regulation (EU) 2024/886 (Instant Payments Regulation - IPR) on 19 March 2024. According to the regulation, payment service providers that execute regular

credit transfers in euro (SEPA SCT) are required to offer services for sending and receiving instant payments in euro. Charges for instant payments should not exceed those for regular credit transfers. In particular, the regulation provides that:

- By 9 January 2025: Banks must be able to receive instant payments.
- By 9 October 2025: Banks must be able to send instant payments.
- By 9 April 2027: Payment institutions and electronic money institutions must be able to both send and receive instant payments.

In 2024, the CBC took measures to be able to accept instant payments both on its own behalf and on behalf of its clients from 9 January 2025. At the same time, as the local National Central Bank of the Eurosystem and the Administrator of TARGET-CY, the CBC coordinated efforts and provided support to domestic credit institutions for the implementation of instant payments. As a result, two domestic credit institutions offered sending and receiving services for instant payments in 2024, while two other credit institutions offered receiving services for instant payments.

Instant payments are modernising transactions. Consumers and businesses can easily transfer and receive money in seconds via the Internet, mobile phones, and wearable devices. Payment beneficiaries can maximise cash and liquidity management, reduce transaction settlement time, and manage outstanding payments, while collecting due amounts in real time. Finally, payment service providers can use instant payments as a springboard to develop innovative services and strengthen their competitive position in the retail payments sector.



**T2-CY Statistics**

In 2024, the total volume of outward and inward cross-border transactions settled via T2-CY decreased by 6% and increased by 1%, respectively, compared to 2023. In 2024, the value of outward and inward cross-border transactions settled via T2-CY increased by 1% and 8% respectively, compared to 2023.

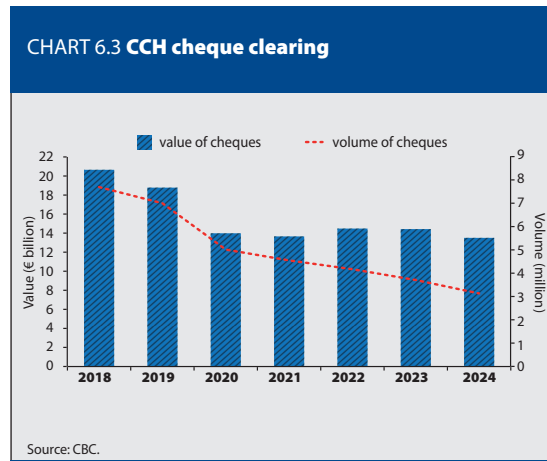
For domestic transactions, the total volume of transactions settled via T2-CY decreased by 18% in 2024, while the total value increased by 9% compared to 2023.

The volume and value of cross-border and domestic payments settled in T2-CY are illustrated in **Charts 6.1** and **6.2**, respectively.

**Cyprus Clearing House**

The Cyprus Clearing House (CCH) has been operating since 1964 with the aim of harmonising cheque clearing and settlement procedures.

In 2024, the new Electronic Cheque Clearing System (ECCS) successfully completed one year of



smooth operation, marking significant steps towards the modernisation and the enhancement of the CCH's operational security.

At the same time, the CCH is promoting amendments to the relevant legislation to align with the requirements of the digital age and the ongoing digital transformation of the banking sector. In particular, the proposed amendments include the possibility of presenting the digital image of a cheque to a bank for payment, thereby enhancing the speed and efficiency of the processes.

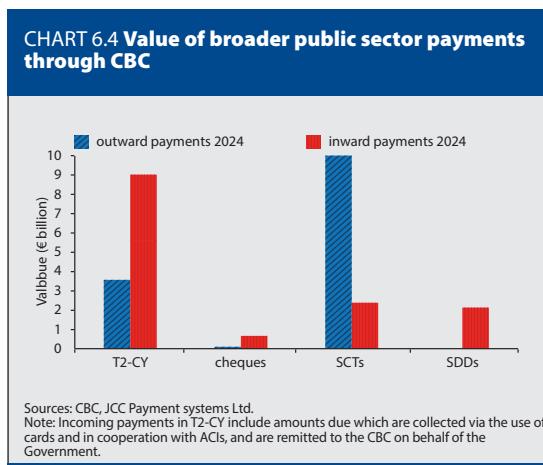
**Chart 6.3** illustrates the volume and value of

cheques cleared through the ECCS platform, for the period 2018-2024. It shows a steady decline in the total volume of cheques, reflecting the market trend that favours the use of electronic means of payments over cheques, while the total value of cheques shows a slight decline.

### 6.4.2 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 public entities. Within the scope of these competencies, the CBC, in close cooperation with the authorised credit institutions, continues to promote the adoption of electronic payments as a means of paying and collecting government claims.

**Chart 6.4**, which illustrates the use of payment instruments for incoming and outgoing government payments via the CBC, clearly shows that the government payments are mainly effected through electronic means, via T2-CY and SEPA Credit Transfers (SCTs), while part of the incoming payments are still processed via cheques. Nevertheless, the government's income from the use of cheques continued its downward trend as compared to previous years. Most of this income, has been replaced by the use of electronic means, mainly through the electronic channels of authorised credit institutions for the collection of tax and customs duties, or through direct debits (SEPA Direct Debits - SDDs).

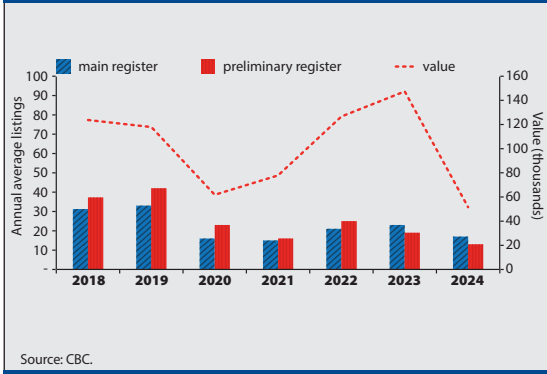


### 6.4.3 Other activities

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

The Central Information Register (CIR) for issuers of dishonoured cheques was established on 1 February 2003 to address and prevent the problem of dishonoured cheques. On 1 March, 2024, the Central Bank of Cyprus Directive on the operation of the Central Information Register for Issuers of Dishonoured Cheques, the Consequences of their recording to the Register and Related Matters (Κ.Δ.Π. 67/2024) (hereinafter referred to as the "Directive") came into force replacing the Joint Directive of the Central Bank of Cyprus and the Commissioner of the Co-operative Societies Supervision and Development Authority regarding the Opening and Operation of Current Accounts, the creation of a Central Information Register for Issuers of Dishonoured Cheques and Other Related Matters which entered into force on 1 February 2003.

**CHART 6.5 Annual average monthly listings in the main register and the preliminary register**



In 2024, the average monthly number of new entries of natural or legal persons in the main CIR register decreased by 26% and in the preliminary register by 32%, compared to 2023 (Chart 6.5). At the same time, the average monthly total value of cheques entered in the preliminary register decreased significantly by 65%, compared to 2023.

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

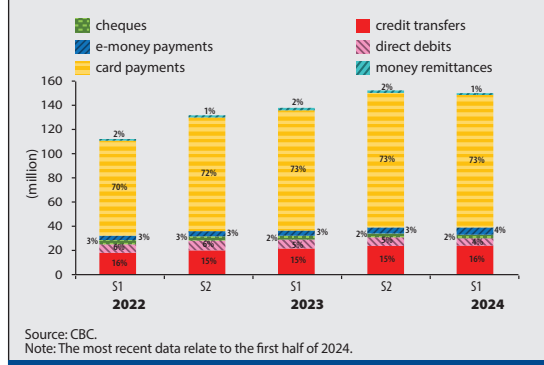
In its capacity as one of the designated authorities, the CBC collected and analysed data to monitor the adherence of payment service providers and, where relevant, card payment schemes with the caps specified and regulated by IFR in relation to interchange fees for card-based payment transactions.

**6.4.4 Catalyst and Oversight Authority**

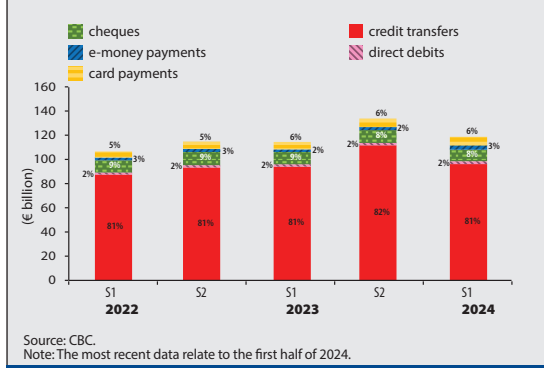
**Catalyst for promoting changes in retail payments**

Under the chairmanship of the CBC, discussions at

**CHART 6.6 Volume of transactions by payment instruments and preference of use (%)**

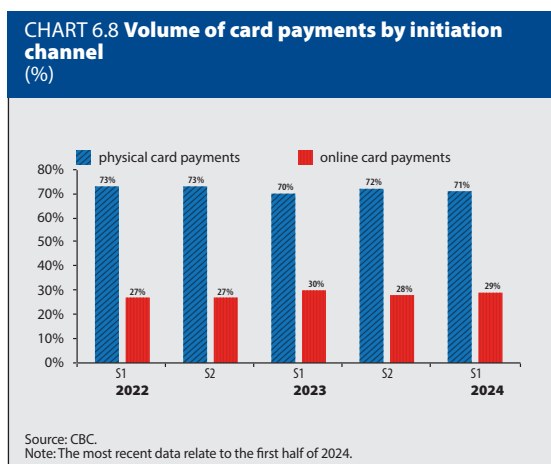


**CHART 6.7 Value of non-cash payment transactions by payment instruments (%)**



the National Payments Committee were grounded – amongst others - in payment statistics analysis, in order to accelerate efforts for promoting the uptake of instant payments by end-users.

The analysis of data up to the first half of 2024 reconfirmed two main aspects, namely the persistent value-driven use of cheques (Chart 6.7), as well as the ongoing shift towards digital payments. While cards continued to be the most used payment instrument (Chart 6.6), contactless card payments captured more than half of all card payments at physical points of sale. In effect, this



depicted consumers' preference for a quick and convenient checkout process, as well as the readiness of local businesses to accept cards and to opt for terminals that embed Near-Field Communication Technology. In a like manner, e-commerce exhibited gradual expansion, manifested by online purchases via cards increasing by 1,5 times over a three-year period to 28% of the total of card payments (**Chart 6.8**).

Considering the aforementioned, it became clear in the National Payments Committee that instant payments would first be promoted for person-to-person transactions, and thereafter for business-to-business transactions. From a policy perspective, the CBC contributed in various domains by:

- a) clarifying to the local market various obligations stipulated in the instant payments regulation,
- b) participating in the written consultation launched by the Ministry of Finance for transposing the said regulation in the domestic legal framework, and
- c) sharing with the members of the National

Payments Committee the experience of French businesses and the resulting benefits from having adopted instant payments.

A final aspect pertaining to statistical analysis related to the lower fraud volumes recorded in Cyprus than the EU averages for cash withdrawals, credit transfers, direct debits as well as card payments. As regards the latter, this was due to the strong customer authentication requirements that were introduced under the revised payment services directive (PSD2).

Additional catalyst work in 2024 related to further calibrating the National Action Plan for closer alignment with the pillars outlined in the Eurosystem's revised retail payments strategy, as well as suggesting a separate Action Plan to implement environmental best practices in the entire value chain.

Concerning the matter of IBAN discrimination by which European companies and public administrations refuse to make/receive payments to/from non-domestic accounts, the CBC acted on two fronts simultaneously. Firstly, by encouraging the members of the National Payments Committee to foster awareness about this illegal practice such that citizens file complaints to the competent authorities - these being the Ministry of Finance and the CBC - and secondly, by disseminating to the ECB and the EC information about alleged infringements and any measures for eradicating IBAN discrimination.

Pertaining to the digital euro project, the CBC continued to contribute to Eurosystem discussions about its design, as well as to the negotiations on the Single Currency Package at the Council of the EU. Moreover, the CBC amplified its communication efforts targeting the general public, the business

community, and financial institutions. Aside the publication of articles, the CBC gave a press conference in July, where one of the keynote speakers was Mr Piero Cipollone, member of the Executive Board of the European Central Bank. A focus session with business associations and their members was held in November and a thorough status update of the project was presented to the members of the National Payments Committee in December. The CBC's participation in panel discussions and presentations at local and international conferences aimed at reaching an even broader audience.

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.

In this respect, the most noteworthy development in 2024 related to the provision by the Cyprus Stock Exchange (CSE) of the service of cash distributions (interest, dividends) through the Central Depository Central Registry (CDCR) to market participants for their clients, thus adopting internationally applicable practices and consequently increasing the compliance of the Cypriot market to the harmonisation standards on corporate actions and billing procedures.

## 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 conducted its ongoing oversight assessment of the compliance of CDCR of the CSE 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.

Lastly, the CBC continued to monitor the actions taken by the CSE for the establishment of eligible link arrangements to ensure the timely transfer of CY sovereign issuances to T2S ahead of the go-live of a common system for the management of eligible assets used as collateral in Eurosystem credit operations (ECMS - Eurosystem Collateral Management System).

## 6.5 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. The Memorandum has been amended in June 2024 and covers the period 2023 – 2025. 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 2024 amounted to €1.588 billion (2023: €1.567 billion), recording an increase of 1,3%. Under "Note L1 Banknotes in circulation", of the annual financial statements of the CBC, more detailed information is provided on this matter.

### 6.5.1 Currency cycle

During the year under review, approximately 28,1 million pieces (2023: 23,2 million pieces) of banknotes were processed (i.e. counted and checked for authenticity and fitness before recirculation) by the CBC of which 58,8% (or 16,5 million pieces) were deemed unfit for recirculation. In addition, around 130,3 million pieces of banknotes were processed by the CIT company

involved in cash handling. 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, 34 such inspections were carried out throughout 2024 compared with 24 the previous year and covered all districts.

As far as coins are concerned, during 2024 1,4 million coins (2023: 0,6 million) were processed, out of which 0,21% or 2.523 coins were deemed unfit for recirculation. During the year under review, the CBC carried out 32 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.

### 6.5.2 Counterfeit euro banknotes and coins found in Cyprus in 2024

During 2024, 572 counterfeit pieces of euro banknotes of various denominations were detected in circulation, compared with 642 pieces in 2023. The €50 banknote was the most frequently counterfeited, representing 36,7% of the total number of pieces. The majority of the counterfeited banknotes (87,4%), which were withdrawn from circulation, were detected by the CIT company and the Credit Institutions. The total number of counterfeit euro banknotes detected both in and out of circulation in Cyprus amounts to 1574 pieces. The number of counterfeit euro banknotes detected in Cyprus is very small (0,15%)

and is one of the lowest in the euro area countries. Finally, regarding coins, 645 counterfeit coins were detected in 2024 (2023: 107 coins), most of them being of €2 value.

### 6.5.3 Issue of numismatic items

#### *Collector coin set*

In April 2024, the CBC issued 5,000 pieces of the Cyprus collector euro coin set, minted in 2024, in brilliant uncirculated condition. This is the third and final set of Cyprus euro coin sets which are dedicated to the folk tradition of Cyprus. The set presents some of the traditional professions of Cyprus. There was great interest in the issue both from Cyprus and abroad.

#### *Collector coin*

In December 2024, the CBC issued on the occasion of the 20th anniversary of the accession of Cyprus to the European Union, a silver collector coin, with a nominal value of €5, in proof condition. This coin depicts Cyprus as a power of creation and development within the European environment symbolised by the European Union flag. Doves symbolising peace are also depicted. The coin has been designed by George Stamatopoulos and was minted by the Printing Works Department of Bank of Greece in a limited quantity of 2,000 pieces.

#### *Commemorative coin*

In December 2024, the CBC issued a commemorative coin, with a nominal value of €2 on the occasion of the 20th anniversary of the accession of Cyprus to the European Union. The national side



of the coin depicts Cyprus as a power of creation and development within the European environment, which is symbolised by the building of the European Commission in Brussels. The Earth's globe also appears, symbolising the geopolitical importance of Cyprus and its contribution to people's peace and prosperity. The building appears graphically stylised, emphasising the strong symbolism of the European Union. The coin has been designed by George Stamatopoulos and

was minted by the Printing Works Department of Bank of Greece.

The issue consisted of 7.000 coins in proof condition placed in cases. It is worth noting that this issue was extremely successful as the coins were sold out within a few days after selling began.

## 6.6 Activities in the Financial Markets

Subject to the provisions of article 6 of the *Central Bank of Cyprus Laws, 2002 - 2024*, 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 6.7.1.

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 internal part of the European System of Central Banks, to the definition and implementation of the monetary policy of the European Community.*

The single monetary policy is set out by the decisions and guidelines of the Governing Council ("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.

### 6.6.1 Management of reserves

#### Changes in the size of reserves

The CBC's reserves, including gold bullion holdings, whose value amounted to €1.122 million at the end of 2024, amounted to €2.749 million, compared with €1.892 million at the end of 2023. The increase in the size of the holdings in 2024 as compared with the end of 2023, 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 of 2024, compared with the level at the end of 2023.

The tightening of monetary policy by most central banks, as a measure to address high inflation, continued during the first half of 2024 as key interest rates were kept at end of 2023 levels.

During the second half of 2024, most central banks proceeded with an easing of monetary policy as a result of the significant decrease in inflation and led interest rates in the main markets on a downward trajectory. Central banks in the main economies now mainly rely on recent economic data to decide the timing and the size of potentially upcoming interest rate cuts. In any case, the CBC adapts its investment strategy

according to the constantly changing financial market environment.

#### Securities lending

The CBC continued making its bonds available for lending through strategic securities lending programmes operated by international central securities depositories. 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)<sup>7</sup> between the members of the Eurosystem. Such assets are, for example, the financial assets corresponding to NCBs capital and accounting reserves, foreign reserves or employee pension funds.

The CBC's net financial assets under the ANFA, were estimated to be on average - €3,3 billion during 2024.

#### Other developments

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

- a) The second consecutive publication of CBC's disclosures of climate-related metrics and targets for its non-monetary policy portfolios

7. 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](https://www.ecb.europa.eu/explainers/tell-me-more/html/anfa_qa.en.html)

in June 2024, which included for the first time both euro and foreign currency denominated portfolios.

- b) Activation of an investment portfolio denominated in euro consisting exclusively of green bonds.
- c) Activation of two additional investment portfolios, one denominated in euro and one denominated in British pound.

### 6.6.2 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 2024, 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, receiving remuneration at the deposit facility rate (DFR). The GC of the ECB continued to guide the stance of monetary policy through the DFR in 2024 and, in this regard, the deposit facility contributed to the stabilisation of short-term money market interest rates at levels consistent with the implementation of the single monetary policy.  
At the beginning of 2024, the DFR was 4% and was reduced to 3,0% by the end of the year,

following four rate cuts by the GC of the ECB.

The balances of CY counterparties at the deposit facility at the end of 2024 amounted to €18,9 billion, compared with €23,2 billion at the end of 2023. The €4,2 billion decrease was mainly due to the repayment of Targeted Longer-Term Refinancing Operations (see below).

- *Marginal lending facility:*

Counterparties can use the marginal lending facility (MLF) to obtain overnight liquidity, against the provision of adequate eligible collateral. For such borrowing, credit institutions pay the marginal lending facility rate (MLF rate).

Following four rate cuts by the GC of the ECB, the MLF rate stood at 3,40% at the end of 2024, compared with 4,75% at the beginning of the year.

At the end of 2024, there was no borrowing via the MLF by counterparties in Cyprus.

### 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 euro liquidity-providing operations with a one-week maturity. The rate at which

they are provided is the main refinancing operations rate (MRO rate), which is typically set between the DFR and MLF rate. In 2024, MROs were carried out as fixed rate tenders with full allotment.

The MRO rate was 4,50% at the start of 2024 and, following four rate cuts and a reduction in the margin relative to the DFR decided by the GC of the ECB, it was set at 3,15% at the end of the year.

At the end of 2024, there was no participation in main refinancing operations by counterparties in Cyprus.

- *Longer Term Refinancing Operations (LTROs):*  
LTROs are three-month liquidity-providing operations in euro. In 2024, the LTROs were carried out as fixed rate tenders with full allotment at the average MRO rate.  
At the end of 2024, there was no participation in LTROs by counterparties in Cyprus.

In recent years, the regular open market operations conducted by the Eurosystem have been complemented by the following non-regular open market operations:

- *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.  
During 2024, there were three early repayment

windows and four maturity dates for the outstanding TLTRO III operations, with the final operation maturing on 18 December 2024.

In 2024, counterparties in Cyprus repaid all outstanding operations under the third series of TLTROs (TLTRO III), which amounted to €4,5 billion at the start of the year.

- *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 Union<sup>8</sup>. The ECB and national central banks bought a range of assets under these programmes, including government bonds, securities issued by European supranational institutions, corporate bonds, asset-backed securities and covered bonds.

The APP portfolio continued to decline during 2024 at a gradual and predictable pace, as reinvestments of maturing securities were discontinued in July 2023. For the PEPP, principal

8. Information about the Eurosystem's purchases under the APP and the PEPP are published and regularly updated on 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 2. Changes to the Operational Framework for the Implementation of Monetary Policy

On 13 March 2024, the GC of the ECB decided on changes to the operational framework for implementing monetary policy. These changes will affect how central bank liquidity will be provided, as the excess liquidity in the banking system, while remaining significant, will be gradually declining in the coming years. The purpose of the operational framework is to steer short-term money market interest rates in line with the GC's monetary policy decisions. The key elements of the new framework are outlined below:

- The GC will continue to steer monetary policy through the deposit facility rate (DFR).
- The Eurosystem will provide liquidity using a broad mix of instruments, including main refinancing operations (MROs) and three-month longer-term refinancing operations (LTROs), as well as, at a later stage, structural longer-term credit operations and a structural portfolio of securities.
- Refinancing operations will continue to be conducted through fixed-rate tender procedures with full allotment, which will play a central role in meeting the liquidity needs of banks.
- The new structural longer-term refinancing operations and the structural portfolio of securities will be introduced at a later stage, when the size of the Eurosystem's balance sheet begins to grow again on a steady basis.
- A broad collateral framework will be maintained for refinancing operations.
- The reserve ratio for determining banks' minimum reserve requirements remains unchanged at 1%. The remuneration of minimum reserves remains unchanged at 0%.
- The GC decided to reduce the spread between the DFR and the MRO rate to 15 basis points from 50 basis points. This smaller spread will provide incentives for bidding in the weekly operations, so that short-term money market rates are likely to evolve in the vicinity of the DFR, and it will limit the potential scope for volatility in short-term money market rates. At the same time, it will leave room for money market activity and provide incentives for banks to seek market-based funding solutions. This change came into effect on 18 September 2024.

Based on the experience gained, the GC will review the key parameters of the operational framework in 2026 and will be ready to adjust the design and parameters of the framework.

**Table 6.2 Summary Table – Refinancing Operations and Liquidity of credit institutions in Cyprus**  
(€ billion)

	31.12.2023	31.12.2024
<b>Deposits of credit institutions at the CBC</b>		
Deposit Facility	23,2	18,9
Current account	0,611	0,594
<b>Refinancing Operations from the CBC</b>		
Marginal Lending Facility (MLF)	-	-
Main Refinancing Operations (MROs)	-	-
Longer-Term Refinancing Operations (LTROs)	-	-
Targeted Longer-Term Refinancing Operations (TLTROs)	4,5	-
Sources: ECB and CBC.		

payments from maturing securities in the first half of 2024 continued to be fully reinvested. In the second half of the year, the PEPP portfolio recorded a steady and predictable decline, averaging €7,5 billion per month, with reinvestments ceasing at the end of 2024.

The CBC continued to participate in the implementation of the asset purchase programmes. The total book value of the CBC's monetary policy portfolios, as at 31 December 2024, was reduced to €6,68 billion, compared with the balance of €7,92 billion recorded at 31 December 2023. 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 funds that credit institutions are required to hold in their current

accounts with the NCB of the country in which they are established and operate. The required minimum reserves are typically set for a period of six to seven weeks, known as the "reserve maintenance period." The amount that institutions must hold is calculated based on their balance sheets before the start of each maintenance period.

Credit institutions must ensure that the average level of reserves held during the maintenance period meets their minimum reserve requirements. They do not need to maintain the full amount in their accounts with the NCB at all times, allowing them to respond to short-term changes in money markets by adding or withdrawing funds from their reserves. This helps to stabilise money market interest rates.

Minimum reserves continued to be remunerated at 0% in 2024, following a decision by the GC of the ECB in 2023.

The total minimum reserve requirements for credit institutions in Cyprus increased to €526.7 million at 31 December 2024, from €500.4 million at the end of 2023.

## 6.7 Risk Management and Compliance

### 6.7.1 Financial risk management

As regards the organisational set-up, the management of the CBC's financial risks is carried out independently from the business function conducting operations in the financial markets, namely, by the Risk Management Section, as part of the CBC's "second line" against risks.

The financial risk management processes focus on the following types of risks:

## Market risk

Market risk refers to the risk of loss in the market value of an investment asset from 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 the CBC's investment positions, are managed as follows:

- **Interest rate risk:** Interest rate risk pertaining to marked-to-market securities is mainly confined through the imposition of a maximum duration constraint for each portfolio and of 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 of the Bank's investment assets in euro-denominated bonds that are classified as held-to-maturity positions.
- **Foreign exchange risk:** The CBC's exposure to foreign exchange risk is maintained at relatively low levels, on account that its currency reserves are primarily denominated in euro, whilst positions denominated in US dollars<sup>9</sup> and sterling pounds constitute only a small fraction. In addition, any amounts exceeding the predefined open position are hedged with the use of any of the approved hedging instruments. For settlement of transactions and payments purposes, the CBC also maintains small open positions in several other major currencies.
- **Spread risk:** The CBC's exposure to spread risk is low, as the majority of its investments is in highly-rated government and government-

related bonds, such as bonds issued by supra-national 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 ("IRRBB")

The CBC estimates and assesses the current or prospective risk to its future net earnings and capital base which might arise 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 measured under sensitivity and interest rate shock scenarios in order to assess the CBC's capacity to withstand such shocks.

## 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 a deterioration of its credit quality/rating.

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

9. Part of the open position (portfolio) in US dollars is maintained for fulfilling ad hoc requests for a transfer of that currency to the ECB for possible foreign exchange intervention by the Eurosystem.

seeks to establish ISDA or EMA agreements<sup>10</sup> that contain, *inter alia*, all the necessary terms as regards the rights and obligations of each counterparty 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 minimum open position in most major currencies, with the position denominated in US dollar being the largest one. In addition, the majority of the investments in foreign currencies 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 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, counterpar-

ties 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 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 the CBC's decision-making bodies on a regular basis.

### Eurosystem monetary policy risks

The CBC participates in the Risk Management Committee of the ESCB that is responsible for the design and implementation of frameworks pertaining to the carrying out of Eurosystem's monetary policy credit operations and asset purchase programmes, as well as to the foreign reserve management operations of the ECB. Moreover, this committee is responsible for the

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

monitoring, measurement, controlling and reporting of financial risks stemming from the aforementioned operations, aimed at ensuring an appropriate level of protection for the Eurosystem, including the development and maintenance of the appropriate risk methodologies and guidelines, with the aim of enhancing the Eurosystem's resilience against risks.

### 6.7.2 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. Business continuity risks refer to risks that can disrupt the smooth functioning of the Bank's operations and/or severely impair its overall operational resilience.

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 operational risks: The business functions, which belong in the first line, are responsible for their management through the formulation and implementation of appropriate policies, internal instructions and procedures, the identification and evaluation of the operational risks and incidents and the adoption of measures to mitigate them. 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 and instructions, the provision of methodological support to business functions, the monitoring and assessment of operational risk incidents, the critical assessment of identified operational risks in an independent manner and supporting the CBC's decision-making bodies regarding operational risk management. 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 Governor is responsible for facilitating and overseeing the implementation of the Operational Risk Management Framework and the Business Continuity Framework, with the aim to enable

the timely identification and mitigation of the related risks, including their monitoring.

During 2024, the CBC continued, on a regular basis, to monitor and evaluate the operational risks – new and existing, including the associated action/ mitigation plans, and to evaluate the operational risk incidents. Regarding business continuity, specific crisis scenarios were analysed and tested, based on which, corresponding business continuity plans were developed with the aim to strengthen the Bank's operational resilience. The Risk Management Section is responsible for coordinating the implementation of the Business Continuity Programme, and supporting the Bank's decision-making bodies in ensuring the smooth continuity of the CBC's critical functions.

### 6.7.3 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 the CBC's accumulated risk provision and overall financial buffers against risks stemming from its main operations and balance sheet.

### 6.7.4 Information security risk management

The Risk and Compliance Department, in performing tasks of the second line of defence, is also responsible to develop and maintain the Bank's information security and information systems risk management framework.

The safeguarding of the confidentiality, integrity, and availability of the information of the Bank from

threats (external or internal, deliberate or accidental) is achieved through the implementation of the CBC's information security governance framework, which includes internal guidelines for the classification and management of the Bank's information, the personal data protection policy, the information systems security policy, the cybersecurity programme and the information security risk management process. In general, the information security activities aim to identify, assess, and address cybersecurity risks, protecting the CBC's information and ensuring the smooth functioning of its operations.

In 2024, the Information Security Officers (ISOs) who are entrusted with tasks pertaining to the security of the CBC's information in all forms and media, focused on the updating of selected internal security directives and drafting of new ones, the assessment and reporting of information security risks to the decision-making bodies of the CBC. In addition, a number of staff awareness activities were effected, namely, organised training sessions and presentations and simulations of social engineering attacks to evaluate staff response to threats. At the same time, the implementation of the CBC's cybersecurity strategic programme has further progressed, whilst ISO continued to participate in projects and working groups of the ESCB/ECB on the subject of information security.

### 6.7.5 Compliance

The Compliance Section ("CS") plays a critical role in ensuring the regulatory compliance of the Bank as well as in promoting high standards of profes-

sionalism and ethical behaviour among its staff. Adherence to the highest standards of ethics and professional conduct is considered of paramount importance for enhancing the Bank's credibility and building the public's trust.

In 2024, the CS introduced a new guideline regarding the staff's private financial transactions, primarily aimed at enhancing transparency and compliance as well as preventing potential conflicts of interest. Additionally, the CS incorporated provisions from the *Law on Transparency in Public Decision-Making Processes (Law 20(I)/2022)*, which underlines the obligations and actions that must be taken by employees involved in procedures relating to public decisions, including the declaration of any situation that may affect their objectivity.

Given the Bank's zero-tolerance policy towards any form of unethical and unprofessional conduct or nonconforming or illicit behaviour that can impair its credibility and reputation, during 2024 the Bank also adopted a comprehensive Anti-Fraud and Anti-Corruption Policy. This Policy mainly aims to increase staff awareness, enhance the ethical culture within the Bank, and further strengthen the framework for good governance within the Bank through mechanisms ensuring the effective prevention, combatting and handling of any acts of fraud or corruption, including bribery. In this context, the CS monitors and assesses reports of suspected fraud or corruption cases, ensures the effectiveness of the reporting mechanism and the protection of whistleblowers, and drafts relevant reports.

In addition, the CS continued to provide guidance and clarifications to staff regarding compli-

ance and ethics matters, in order to ensure the proper implementation of procedures and minimize the risks of non-compliance. Additionally, the CS submits recommendations for immediate actions related to potential violations of its ethical and governing framework. Finally, through its participation in the Eurosystem's Ethics and Compliance Committee, the CS contributed to the collective effort to further strengthen and harmonise ethics and compliance standards within the Eurosystem and the national competent authorities of the Member States of the Single Supervisory Mechanism.

#### 6.7.6 Protection of personal data

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

- its competences, *inter alia*, regarding:
  - the supervision of credit and financial institutions;
  - the oversight of payment systems and instruments, with a view to ensuring their stability, reliability and efficiency;
- the exercise of its functions, e.g. data of dependent employees, salaried consultants, or persons otherwise engaged by the Bank or other persons having a collaboration relationship with the Bank on any terms and conditions.

The processing of such data, which is necessary for the smooth execution of the Bank's operations and the support and monitoring of any type of relationships between the Bank and the data subjects, shall take place in accordance with the provisions of the applicable legislative and regula-

tory framework on personal data protection (General Data Protection Regulation (EU) 2016/679 – and the relevant Cypriot legislation).

## 6.8 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 2024 the two regular issues of the Economic Bulletin (June and December) were published. The Economic Bulletin presents the main macroeconomic developments in the domestic and international environment as well as the CBC forecasts for the Cyprus economy. It also includes analysis of topical issues, which for 2024 related to the analysis of developments in the unit corporate profit index of the Cyprus economy.

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

Throughout 2024, 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. The staff participated in the Monetary Policy Committee of the ESCB and its sub-working groups, which prepare comprehen-

sive reports for the Governing Council of the ECB, mainly related to monetary policy.

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 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, the CBC is participating in the specialised Working Group (NIPE Expert Group) for the study and improvement of short-term (12-month horizon) inflation forecasts of the ESCB. Furthermore, the macroeconomic model of the CBC continued being updated and improved for forecasting and scenario analysis. The CBC also participates in the WGF Contact Group for Labour Market Experts (LMG), that discusses ongoing analysis and research projects on the labour market for individual countries and the euro area economy. Additionally, it participates in the WGF Contact Group on Potential Output, allowing a regular exchange on methodological and topical issues related to potential output estimates. This Group works closely with the Annual Supply Side Report (ASSR) Contact.

The CBC also participates in the Working Group on Public Finances. Within this context, it contributes to the technical working team for public debt sustainability analysis.

Additionally, the CBC is actively involved in the collective work of the ESCB on evaluating the ECB's monetary policy, which is set to conclude in 2025. Specifically, it contributes to analysing monetary policy tools, the ECB's reaction function to economic changes, and improving the integration of risks and uncertainties into policy-making and communication.

The CBC continued to actively participate in a European Commission (EC) working group for the prevention, identification and correction of macro-economic imbalances in European Union countries. It also participates in the European Commission's Expert Group on Economic Forecasts, which consists of representatives of Finance Ministries and Central Banks across the EU, with the aim of discussing recent economic developments and prospects of individual member states and the EU economy as a whole, supporting the preparation of the Commission's Autumn and Spring forecasts. Finally, it also had active involvement in a working group to determine the macro-economic shocks for the EU-wide bank stress tests.

In 2024, 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 2024, 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)<sup>11</sup>. In 2024, the technical validation of the micro-data for the fifth wave of the HFCS survey, as well as its comparison with external benchmarks, was initiated in collaboration with the ECB, and was approaching completion by end-2024. The results of the survey, containing data for all euro area countries, are expected to be published in 2026.

### *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.

### *Bank Lending Survey*

In 2024, 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 these changes. The Cypriot Banks participate in the Survey since 2008, with CBC's coordination.

### *Ad-hoc research*

As part of updating the CBC's tools, a study was

11. For more information on the HFCS survey, see <https://www.centralbank.cy/en/publications/surveys/hfcs>

conducted to estimate the elasticity of government revenues in relation to macroeconomic variables; that is, the magnitude of the response of various categories of government revenues to changes in their macroeconomic bases.

At the same time, the CBC utilises data from the Household Finance and Consumption Survey (HFCS) to draft a research article exploring the relationship between financial literacy and financial stability.

#### *Financial Literacy*

In 2024, the CBC maintained its leading role in promoting financial literacy in Cyprus. A significant milestone was achieved on 17 June 2024, with the signing of a Memorandum of Understanding by the members of the Cyprus Financial Literacy and Education Committee (CyFLEC). This event marked the full commencement of the Committee's work. Chaired by the CBC, CyFLEC coordinates the implementation of the Cyprus National Strategy (NS), focusing on four key pillars: evaluating and revising the NS, integrating financial education in the school curriculum, promoting financial literacy through lifelong learning, and enhancing knowledge regarding the use of digital financial products and services.

The results of the new nationwide Financial Literacy Survey, conducted in collaboration with the OECD in 2023, will serve as a foundation of CyFLEC's future actions. A detailed report on the findings specific to Cyprus is expected to be published soon. Meanwhile, the key results were featured in a cross-country comparative report by the OECD in December 2023.

As part of technical assistance from the Euro-

pean Commission, the CBC continued its collaboration with the OECD to develop a national financial literacy website and design a training programme for educators to enhance adult financial literacy.

During Global Money Week (GMW) 2024, the CBC organised a range of activities, including educational presentations for high school students, the creation of educational materials, and the production of five educational videos. Additionally, the 2nd International Conference on Digital Financial Literacy, held under the auspices of the Presidency of the Republic of Cyprus, took place in March 2024.

The CBC remains an active member of the OECD's International Network on Financial Education, actively contributing to the development of global financial literacy policies.

#### **Other activities**

During 2024, expert staff in the Department briefed the CBC Board of Directors on economic developments and forecasts for the Cypriot economy. 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. The CBC also delivers presentations to university and secondary school students with sessions focusing on enhancing financial literacy and raising awareness about the CBC's functions.

Since September 2024, aiming to further enhance transparency, the CBC publishes detailed interest rate data on deposits and loans

for each credit institution. The publication of the interest rate data contributes to keeping the public informed and providing households and businesses with direct access to more comprehensive information.

## 6.9 Statistics

In 2024, the external circumstances shaped primarily by the ongoing wars in Ukraine and Gaza, as well as the broader instability in the fragile Middle East, intensified the need for the production and dissemination of additional statistical analyses to main users of the CBC's data.

At the same time, the current year was, for the CBC and for other statistical authorities at both national and European level, a benchmark revision year for macroeconomic statistics. This type of revision is conducted at a European level every five years and is in line with the recommendations of the harmonised EU revision policy.

Within 2024, the work of the new ECB working group on financial market data (WGFIMA), in which the CBC is also represented, took place. The purpose of this WG is to assist the ECB Statistics Committee in the operation of the Money Market Statistical Reporting (MMSR) Regulation, in the operation of the euro short-term rate (€STR), and in the European Market Infrastructure Regulation (EMIR) data sharing within the Eurosystem.

A milestone was also achieved with the implementation of EU Regulation 2019/2152 on European business statistics. More specifically, trade in services data broken down by the resident enterprise characteristics were produced for the first time.

Furthermore, in March 2024, the revised framework on infringement procedures in cases of non-compliance of reporting agents with the statistical reporting requirements emanating from relevant ECB Regulations, entered into force. The new framework streamlines the relevant procedures and clarifies the roles of the involved institutions in the process.

In June 2024, the meeting of the ESCB AnaCredit Working Group was successfully organised in Cyprus, with the participation of the ECB and all the NCBs of the ESCB. As Cyprus's AnaCredit figures are ranked among those with the highest quality indicators in the Eurosystem, during the said meeting the CBC presented the design and the internal procedures implemented at the national level in order to maximise the quality of the data produced.

Important developments also took place regarding the Integrated Reporting Framework (IReF) project, the largest statistical project of the ESCB to date. In 2024, the CBC participated in the elaborated High Level Eurosystem Cost Benefit Analysis (ECBA) exercise, while at the same time, cost-benefit matching notes were completed for forty-eight different aspects of the project. The results of these exercises are crucial in finalising the requirements, the approach, and the implementation timeline of the project.

Finally, starting in September 2024, as part of the CBC's policy to enhance transparency and facilitate public access to information, the CBC compiles new series of data for publication. In particular, the Department initiated the preparation of detailed weighted average interest rate data for various loan and deposit products by

credit institution. The said data is published on a monthly basis on the CBC's website.

### Monetary and financial statistics

In 2024 the CBC continued the collection, processing and dissemination of quarterly and semi-annual payment statistics, on the basis of the recast 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, and in the context of the continuous improvement of the quality of the data, revised data have been transmitted to the ECB for all the reference periods as required in the relevant Regulation. In parallel, and for the purpose of providing complete time series to the users of the data, the CBC carried out estimates of the data for the years 2019 – 2021, in relation to the cases where the pre-existing estimates were incomplete. The payments data for the first and second semesters of 2023 were published on the ECB's website in January and July 2024, respectively.

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 revision of the ECB Regulation on statistics of investment funds was approved by the Governing Council of the ECB in the course of 2024. The 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, and a public consultation. In addition, the process of the update of the Regulation of Insurance Companies data has commenced.

### Financial accounts

Regarding the Quarterly Financial Accounts (QFAs) statistics, several significant improvements in the broader data compilation framework were implemented in 2024, while the data itself was also significantly revised. These improvements partly concerned the implementation of the recommendations made by the ECB and Eurostat mission which visited Cyprus in June 2023 for the purpose of assessing the quality of national statistics under the Macroeconomic Imbalances Procedure.

In parallel, part of the recommendations of the internal audit which was conducted for QFAs at a European level in 2023 under the supervision of the ECB, was also implemented. The changes covered a wide range of issues, including optimising the processes for data collection, processing and quality control, enriching the sources, and addressing statistical methodology and consistency issues between QFAs and other national statistics.

Along with these improvements, the scheduled benchmark data revision was also carried out. The

most important revisions concerned the incorporation of new data into QFAs for Special Purpose Entities and the improvement in the estimation method for loans between non-financial companies.

In addition to the data of the QFAs, the data of the Distributional Wealth Accounts were published for the first time on the ECB's website during 2024. These data are experimental statistics produced by the ESCB and supplement the macroeconomic sector accounts with distribution information for the household sector.

### External statistics

In 2024, there was a significant increase in the demand for relevant statistical data as users, especially institutional ones, sought more information to analyse the impact of geopolitical events and risks to which the Cypriot economy is exposed. This underscores the growing importance and value of timely and reliable statistical information, especially in times of a crisis.

In September 2024, as part of the benchmark revision, it was deemed necessary to revise and enhance the quality of external statistics as from 2008, the year in which Cyprus joined the Eurozone. This contributed to the normalisation of the time series, thus addressing past discontinuities, as previous revisions did not cover data for earlier periods. The most significant changes included the improved coverage of Special Purpose Entities as well as the enhanced coverage of newly established companies operating in Cyprus through surveys. In addition, progress was made in recording households' assets abroad, enhancing the accuracy and reliability of the data.

At the same time, the September revisions incorporated recommendations from an on-site methodological review conducted by the ECB and Eurostat team in Cyprus the previous year. The visit focused on the statistical indicators used to detect emerging or persistent macroeconomic imbalances, aiming to improve the quality and reliability of the data collected for monitoring the country's economic conditions. Implementing these recommendations, along with the abovementioned revisions carried out in September 2024, further improved the quality of external statistics.

Regarding foreign direct investment (FDI), the CBC continued its participation in the respective task force of the ESCB and Eurostat. In the context of its participation and with the aim of reducing bilateral asymmetries with other EU member states, Cyprus took the initiative to communicate with the countries where the most significant discrepancies were identified. The goal of this communication was to exchange information, and the outcome of this initiative was incorporated into Cyprus' FDI statistics.

Lastly, in 2024, within the framework of the implementation of Regulation (EU) 2019/2152 of the European Parliament and of the Council of 27 November 2019 on European business statistics, the CBC compiled data on trade in services by enterprise characteristics. Specifically, services data were broken down by enterprise size, type of ownership and economic activity. Additionally, within the same regulation, the CBC obtained a derogation until 2027 for the compilation of services data based on the mode of supply for each type of service. This derogation will allow the CBC to adapt its data

collection methods to fully comply with the requirements of the legal framework.

### General economic and government finance statistics

The CBC, through its Statistics Department, participated in all working groups and task forces of the ECB and the Eurostat related to the areas of government finance statistics, general economic statistics and statistical communication. Based on predetermined schedules, both the quarterly and annual submissions of statistical data to the ECB, as well as the written procedures communicated for consultation among the member states of the EU were successfully completed.

Very important actions undertaken in this context include: the completion of a survey on Statistical Literacy prepared by the ECB, the change of the base year in the annual government finance statistics tables, the compilation of business demography indicators for Cyprus, the updating of the Structural Housing Indicators (RESH) database based on the results of the last population census in Cyprus, as well as the strategic review of the sample design for the ship management survey.

### Microeconomic Statistics and Integrated Reporting System

During the year, the efforts to further streamline the data collection and transformation processes and maximise the benefits from integrating the granular datasets and enhance the overall efficiency and data quality, was intensified.

During 2024, 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. Finally, during the year, an audit was conducted by the Internal Auditors Committee (IAC), with the participation of both the ECB and the NCBs, aiming to ensure the adequacy and effectiveness of the organisation, governance, operation, data quality control, and risk management processes related to AnaCredit.

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 a plethora of deliverables, including the conduct of the High Level Eurosystem Cost Benefit Analysis (ECBA) exercise, the results of which are crucial in finalising the approach and the implementation timeline of the project.

As regards the Securities Issues Statistics and the functioning of the ESCB's Centralised Securities Database (CSDB), additional releases were successfully implemented during 2024, 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 2024 further enhanced 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 CBC 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 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. Enhancements were also implemented as regards the coverage and the frequency of the updates, further improving the usefulness of these reference datasets for the users. Moreover, the codifications for the unique identification of legal entities without a registration number in the Registrar of Companies' registry were updated, incorporating also the changes made for the local government. Finally, the collaboration with the Statistical Service was intensified to create a joint Register of Legal Entities, in accordance with the recommendations of the ECB and Eurostat.

## Publications and Statistical Communication

In August 2024, the CBC published, for the first time, a report on Payment Statistics. Furthermore, in 2024 the quarterly explanatory note on External Statistics was further enhanced, covering the main developments in the data since 2008 as they have been shaped by the benchmark revision.

### 6.10 Information Technology

During 2024 the development of new systems and the upgrade of existing ones continued, based on the Department's planning. Priority was given on the IT Restructuring project for the provision of a more efficient IT service with the new tools and

technologies adopted. The Department worked on integrating the Bank to the Target Instant Payments Settlement (TIPS) for incoming payments and the Eurosystem Collateral Management System (ECMS) – test phase - along with expanding existing solutions to comply with the European Authorities' regulations and directives including DORA. Focus was given on expanding in latest technologies building proof-of-concept solutions with collaboration with other national central banks, mainly on data-analytics, setting up the basis for a data-hub and preparing for the adoption of emerging technologies like artificial intelligence. The Department has investigated the way forward for replacing solutions for three of the main business areas of the Bank: accounting, human capital management and payroll.

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 to 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 CBC infrastructure and information systems.

Efforts to strengthen the security controls of the Bank's IT systems continued through systematic assessments of the IT infrastructure and risk assessments of existing controls in applications and systems. Emphasis was given on tasks included in the Bank's 7-year Cybersecurity Programme and the introduction of new technologies to address the increasing challenges in cybersecurity.

The Information Technology Department (ITD) 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. The Department continued to represent the CBC in the work for the development of the Eurosystem *Common Data Management* (CDM) system, participating in the project steering and management groups as well as in the ECB system development teams, being a service provider along with the ECB and the National Banks of Italy, Spain, Germany and France.

#### IT systems implementation and maintenance

During 2024, the Systems Development Section focused on meeting the annual strategic goals set for the IT Department with the implementation of the IT project portfolio.

The focus was on the expansion of the new agile methodology and reforming all the software developers into SCRUM teams with the support of external consultation services, for a more efficient systems implementation. All new internal solutions are developed using the latest technology stack with a cloud ready technology based on the Red Hat Open Shift platform completed this year as part of the IT Restructuring project, starting with the automation of the Eurosystem Inventory of Functions (ESIF) system. The acquisition of solutions and consultancy services continued from external providers, to meet the business needs of

the Bank. Moreover, the Section was engaged in the adoption of new technologies: two experts, one from the Bank of Greece and one from Austrian National Bank, joined the team as part of the Schuman programme, to assist building state-of-the-art proof-of-concept models in data analytics using delta lakes and DEVOPS tool chains, respectively. Digital signatures were also adopted as a p-o-c, before production use.

The Section is also participating as one of the system providers for the Eurosystem Common Data Management (CDM) and integrated Reporting Framework (iREF) platform in its investigation phase collaborating at a cross-border level within the Eurosystem.

The introduction of a ready-made ticketing system for the Legal Department along with a similar setup for the management of external complaints were implemented along with setting the basis for the creation of a data-hub. The replacement of old reports with new reports technology continued, giving more flexibility to the business users along with the ongoing maintenance and expansion of existing applications to comply with the new regulations and directives of the European Authorities (ESCB, EBA, SRB), including DORA. The team members followed upskilling trainings, including secure coding practices and programmes offered by the EU-Supervisory Digital Finance Academy.

### Information systems infrastructure management

During 2024 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 upgrade of the applications' reporting system to the newest version, the replacement of all user desktops with new laptops, the replacement of the business continuity equipment with new ones, the replacement of the remote access solution with a new one, which enables compliance checks on computers according to the CBC computer security rules, before they are remotely connected to the CBC network, the upgrade of the network security systems (Network Firewalls), the privileged access management system and the user authentication and authorisation system, the replacement of wireless network service (WiFi) equipment, as well as updates and upgrades in the payment systems' infrastructure.

- B. Extension of the existing systems and services to meet new business requirements, which included the consolidation of the backup system and the extension of the internet browsing protection system from computers which are not connected to the CBC network.
- C. Introduction of new technologies, which included the provisioning of a new environment for applications' hosting (Container Platform), a new server virtualisation system, a new centralised printer security configuration system, a new managed printing software (Pin2Print), as well as the introduction of a new system for the management of the Board meetings.

### Information systems security

In 2024, significant actions related to IT systems security took place. As part of the Bank's Cyber-

security Programme and its continuous efforts to enhance the security of its systems, security systems upgrades and improvements were made, in order to strengthen their functionality and effectiveness. At the same time, new technologies were evaluated and introduced to address the growing challenges in the cybersecurity field. Security controls aiming to protect the Bank's network and systems were reinforced and security assessments were conducted to detect and address potential vulnerabilities. Additionally, the Information Systems Security Officer participated and contributed to the workings of the relevant ESCB groups. She also participated in trainings, along with members of the security systems administration team, focusing on system and information security, cloud, and new technologies.

### Impact of Artificial Intelligence (AI) on the CBC's operations

#### *a. Status within the Organisation*

Artificial Intelligence (AI) has significantly impacted the banks and the community in general over the last two years. During this period, there have been substantial advancements in the adoption and integration of AI-driven technologies and products within the financial sector.

At the European level, authorities such as the European Central Bank (ECB) have initiated several projects leveraging AI with the collaboration of the BIS and the Eurosystem Innovation Hub, while the European Union is introducing the AI Act, since May 2024, to regulate its use being fully applicable 24 months later.

#### *b. Internal Developments*

The IT Department has been undertaking specialised training to explore how AI can enhance the Bank's operations. Efforts are currently focused on introducing AI technologies across various business areas while in the meantime evaluating the framework for the proper implementation and use of AI in those operations where benefits have been identified from the introduction of these technologies.

Notably, the IT team is working on building a proof-of-concept generative AI model and considering innovative applications of these technologies on building a solution for a business use case requested by the HR to create a generative-AI language model to allow the staff to inquire about the Bank's regulations and employment directives.

As part of this initiative, the Bank is also exploring the use of cloud technologies. AI-driven models often require robust data access and processing capabilities, which cloud solutions can provide. The adoption of cloud technologies is planned for further investigation in the coming year.

In addition, the ITD is investigating the advances of automatic code generation using AI technology to enhance the efficiency of delivering IT projects.

#### *c. Application of AI in Compliance and Productivity*

The Bank is evaluating the use of AI to enhance monitoring and supervision within the anti-money laundering (AML) framework. Additionally, the adoption of modern technologies is evaluated for extension to office automation and collaboration tools to boost productivity across teams.

#### *d. Information Security*

The Bank remains committed to maintaining stringent information security measures, while integrating advanced AI and cloud technologies. The IT Department is actively addressing information security concerns and aligning safeguards with the European System of Central Banks (ESCB) guidelines to ensure the highest level of data protection.

To this end, the ITD is enhancing the security and protection of the CBC's infrastructure and information systems, where within the scope of the Cybersecurity Programme 2021-2028, we have proceeded with the relevant investigation, evaluation and pilot implementation of a new solution for computer security and protection, which detects sophisticated types of malware or other cybersecurity threats through advanced detection methods based on Artificial Intelligence (AI) and Machine Learning (ML) mechanisms.

### **6.11 Human Resources, Organisation and Planning**

During 2024, the Human Resources, Organisation & Planning Department (HR, O&P) continued focusing its efforts towards the effective management and utilisation of the Bank's human resources, the improvement of existing internal processes and practices, as well as the introduction of new methods to enhance the Bank's organisation and efficiency.

#### **Human Resource**

In the context of the continuous and active support of the Departments for adequate and

proper staffing and with the aim of effectively utilising and strengthening the Bank's human resources, HR, O&P proceeded to fill the vacancies in order to meet the operational needs of the Bank.

In addition, during the year, HR O&P finalised the revision of the CBC Employees' Directives, aiming at harmonizing with new legislation, incorporating the agreement between the CBC and ETYK for the reorganization of the Bank, as well as revising and adding new provisions to address operational issues.

Aiming to provide alternative and flexible working arrangements designed for the mutual benefit of staff / employer in terms of productivity, business continuity, commitment and motivation of staff, HR, O&P prepared and implemented a framework for teleworking. The framework runs for a six (6) month pilot period, so as to evaluate its effectiveness.

In relation to Training and Development, HR, O&P continued aiming at developing and enhancing the knowledge and skills of both existing and new staff members. Staff members were encouraged to participate in both general and technical/specialised training programmes within Cyprus, the European System of Central Banks (ESCB), the Single Supervisory Mechanism (SSM) and the EU Supervisory Digital Finance Academy. In the context of strengthening the CBC's presence and involvement in the ESCB/SSM programmes, HR, O&P undertook the organisation and delivery of a two - day seminar of common interest, titled "Introduction to Operational Risk Management", where staff members of the CBC and other national central banks and supervisory authorities had the opportunity to participate. In

In addition, HR, O&P proceeded more intensively in encouraging staff to further utilise the e-learning training platform of the ESCB/SSM called 'Eureka', which provides opportunities to staff members to participate in asynchronous and distance learning activities as well as face to face participation in joint and other training activities of the ESCB/SSM. In addition, efforts were made to further increase the use of the international online training platform, contributing towards the development of staff skills and the use of online learning.

HR, O&P updated and signed Memoranda of Understanding with the Cyprus' Universities accredited by the Cyprus Council for the Recognition of Higher Education Qualifications (KY.S.A.T.S.), implementing a programme for acquiring work experience and developing professional skills for students, graduates and postgraduates students. Under the same pillar, the CBC participated in the student internship programme of Deutsche Bundesbank, hosting two students for the year 2024. The CBC also participated in a student internship programme aiming at the acquisition of experience and the development of professional skills, for a period of up to one week, under the School-Work Connection Scheme.

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 continued to the ESCB and the SSM, as well as in the EU, in accordance with the CBC approved secondment policy.

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, the CBC continued its actions in implementing the principles of the "ESCB and SSM, Equality, Diversity and Inclusion Charter" aiming to embrace inclusive and safe workplaces free from any form of discrimination and prejudice, where all employees feel a sense of belonging. In this context, seminars and workshops on diversity and inclusion matters were organised, addressed to the staff and the management team, respectively. Also, the review of policies and procedures continued, as well as the active participation of CBC in the ESCB & SSM Diversity & Inclusion Network.

In the field of industrial relations, the dialogue continued with the Trade Union (ETYK) on labour issues concerning the staff members as well as on the renewal of the collective agreement.

Moreover, HR, O&P has implemented the initiative entitled "Happiness@work" which is a thorough programme that aims to promote well-being, health and a positive working environment for CBC staff. This programme competed among other similar programmes developed by other National Central Banks and supervisory authorities and following evaluation by representatives of the Human Resources Committee of the ESCB, it was nominated to receive an Award of Excellence.

### Strategic Planning and Organisation

In the area of planning and organisation, the

Department provided continuous support to the CBC's Departments on organisational matters, contributed to the formulation of new and/or the redesign of existing policies and procedures and conducted studies aimed at improving and automating existing work methods, to enhance the Bank's organisation and efficiency. Additionally, it played an active role in the development of automated systems, one of which was implemented during the year under the Section's responsibility and relates to the collection of data on Full Time Equivalents (FTEs) used in internal cost calculations.

Furthermore, the Department submitted its proposals and opinions for amendments to the Bank's organisational structure and, in collaboration, the two Sections of the Department, submitted relevant analyses and proposals to the Governor regarding the future headcount of the CBC. Aiming at the successful implementation of significant projects for the Bank, the Department continued to provide project management services.

In relation to strategic planning, during the first four months of the year, a diagnostic assessment was conducted in collaboration with external consultants, including an evaluation of the internal and external environment in which the Bank operates.

Finally, concerning the Eurosystem, the Department actively contributed to the work programme of the ESCB's "Organisational Development Committee" and its substructures.

## Health and Safety

With the aim of improving the quality of the work

environment, permanent air quality sensors have been installed in offices for continuous monitoring of the indoor environment. Additionally, during monthly inspections, measurements are taken for various other environmental factors such as light, humidity, temperature, and the quality of drinking water. These data are regularly evaluated to prevent potential issues that could affect employees' health.

Furthermore, compliance and evaluation procedures for subcontractors and partners have been established during procurement processes to ensure that their activities align with the Bank's health and safety standards. By the end of 2024, the Bank will be certified with ISO 45001, confirming its adherence to international standards for health and safety management.

The Bank aims to foster a culture of well-being, while simultaneously promoting physical and mental health among its employees through initiatives such as blood donation, yoga classes, and mindfulness sessions.

In 2024, fire safety training seminars were organised for all Bank employees and collaborators, while evacuation drills were conducted in collaboration with the Civil Defence Force in June and December. Through these preventive measures, the Bank aims to prepare its staff for a quick, smooth, and safe evacuation of the building to prevent injuries in case of an emergency.

Through the preparation of information brochures and the organisation of seminars, short videos have been created to educate and raise awareness among staff on topics such as fire safety, evacuation procedures, blood donation, safety and health practices, use of electrical

energy, and the use of evacuation chairs for the transport of injured individuals and persons with disabilities during emergencies.

### Corporate Social Responsibility

In 2024, 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.

Specifically, among other actions, the Bank supported financially organised social groups that do charitable work. Moreover, financial support was provided for the organisation of events, such as the annual Conference of the Cyprus Association of Human Resources Management and the Conference of the Centre for Economic Policy Research (CEPR), while at the same time the award to the highest performing students of the Department of Economics and the Department of Accounting and Finance of the University of Cyprus was granted for the academic year 2023-2024.

The CBC Sports Club participated in a number of sporting events of a charitable/social nature. Finally, as part of the staff voluntary work, a Christmas Bazaar was held, the proceeds of which were used to support the needs of institutions which perform charity work.

### 6.12 Legal Issues

#### Pending litigation

During 2024, with the help of its external legal counsels and with the contribution of its compe-

tent 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.

On 3 July 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, the deadline for submitting applications was extended until 31st December 2024.

The conditions for the reduced payment of legal costs, the application process and the forms are included in the CBC's announcements of the dated 3 July and 10 July 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 2024, the CBC continued contributing, through the Law Office of the Republic, to the Republic's response insofar as it concerns the CBC's operations.

On 21 May 2024, the Decision (Decision on liability) was issued by the Arbitral Tribunal established under the Arbitration Rules of the International Centre for Settlement of Investment Disputes (ICSID) of the World Bank, in the arbitration Theodoros Adamakopoulos and others v. Republic of Cyprus (ICSID Case No. ARB/15/49).

The Arbitral Tribunal dismissed the claims of the

claimants against the Republic of Cyprus, who were depositors and bondholders of the Bank of Cyprus and Laiki Bank against the Republic of Cyprus in 2013, which amounted to approximately 570 million US dollars, plus costs of 30 million US dollars. The Arbitral Tribunal ordered the payment of costs by the claimants to the Republic of Cyprus in the amount of approximately 6 million US dollars.

### 6.13 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 technical support, operation and maintenance of the Bank's building facilities, the security and protection of the CBC's premises, staff and visitors as well as the provision of administrative support across the organisation.

#### 6.13.1 Security and premises

During 2024, projects and measures have been implemented to enhance the security and protection of the Bank's building facilities, personnel, and visitors. The CBC's regular building maintenance programme was also adhered to while specific

actions have been launched for the upgrade and replacement of part of the Bank's mechanical and electrical equipment. In addition, preparatory work for the renovation and maintenance of the CBC's building has continued. At the same time, various issues relating to the implementation of the provisions of the legislation governing the handling of classified information at the national and European levels have been dealt with by the Department.

#### 6.13.2 Administrative support

During the reference year, the Department has handled various administrative matters relating to, among others, the review of the CBC's document and records management policy, the central archive, the implementation of the Bank's new electronic 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, business travel, the CBC's insurance policies, the provision of guidance to the Bank's employees regarding the public's right of access to public sector information, the cafeteria, the stationery and consumables store, business cards, the print, copy and scan centre as well as the call centre.



CENTRAL BANK OF CYPRUS  
EUROSYSTEM

**7. AUDITED  
FINANCIAL STATEMENTS  
FOR THE YEAR 2024**

**Central Bank of Cyprus**  
Eurosystem

**BALANCE SHEET AS AT 31 DECEMBER 2024**

	31 Dec. 2024		31 Dec. 2023	
	€'000	€'000	€'000	€'000
<b>ASSETS</b>				
<b>1 Gold and gold receivables</b>		1.121.648		835.490
<b>2 Claims on non-euro area residents denominated in foreign currency</b>		1.161.031		1.046.059
2.1 Receivables from the IMF	642.401		620.582	
2.2 Balances with banks and security investments, external loans and other external assets	518.630		425.477	
<b>3 Claims on euro area residents denominated in foreign currency</b>		19.690		30.085
<b>4 Claims on non-euro area residents denominated in euro</b>		494.740		282.532
4.1 Balances with banks, security investments and loans	494.740		282.532	
4.2 Claims arising from the credit facility under ERM II	-		-	
<b>5 Lending to euro area credit institutions related to monetary policy operations denominated in euro</b>		-		4.500.000
5.1 Main refinancing operations	-		-	
5.2 Longer-term refinancing operations	-		4.500.000	
5.3 Fine-tuning reverse operations	-		-	
5.4 Structural reverse operations	-		-	
5.5 Marginal lending facility	-		-	
5.6 Credits related to margin calls	-		-	
<b>6 Other claims on euro area credit institutions denominated in euro</b>		10		12
<b>7 Securities of euro area residents denominated in euro</b>		7.299.654		8.233.225
7.1 Securities held for monetary policy purposes	6.458.356		7.663.839	
7.2 Other securities	841.298		569.386	
<b>8 General government debt denominated in euro</b>		-		-
<b>9 Intra-Eurosystem claims</b>		18.518.810		17.883.433
9.1 Participating interest in ECB	45.112		42.064	
9.2 Claims equivalent to the transfer of foreign reserves	89.390		86.811	
9.3 Claims related to TARGET	14.665.123		14.846.058	
9.4 Net claims related to the allocation of euro banknotes within the Eurosystem	3.719.185		2.908.500	
9.5 Other claims within the Eurosystem (net)	-		-	
<b>10 Items in course of settlement</b>		2.463		1.779
<b>11 Other assets</b>		213.960		324.816
11.1 Coins of euro area	-		-	
11.2 Tangible and intangible fixed assets	5.653		6.281	
11.3 Other financial assets	-		-	
11.4 Off-balance sheet instruments revaluation differences	13		8	
11.5 Accruals and prepaid expenses	188.100		298.565	
11.6 Sundry	20.194		19.962	
<b>Total assets</b>		<b>28.832.006</b>		<b>33.137.431</b>

The "Notes to the Financial Statements" on pages 101 to 130 form part of these accounts.

Central Bank of Cyprus  
Eurosystem

## BALANCE SHEET AS AT 31 DECEMBER 2024 (continued)

LIABILITIES	31 Dec. 2024		31 Dec. 2023	
	€'000	€'000	€'000	€'000
<b>1 Banknotes in circulation</b>		3.216.396		3.079.601
<b>2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro</b>		19.569.000		23.773.223
2.1 Current accounts (covering the minimum reserve system)	594.064		611.060	
2.2 Deposit facility	18.974.936		23.162.163	
2.3 Fixed-term deposit	-		-	
2.4 Fine-tuning reverse operations	-		-	
2.5 Deposits related to margin calls	-		-	
<b>3 Other liabilities to euro area credit institutions denominated in euro</b>		50.004		50.004
<b>4 Debt certificates issued</b>		-		-
<b>5 Liabilities to other euro area residents denominated in euro</b>		2.780.558		3.314.185
5.1 General government	2.508.699		3.166.456	
5.2 Other liabilities	271.859		147.729	
<b>6 Liabilities to non-euro area residents denominated in euro</b>		24.791		184.022
<b>7 Liabilities to euro area residents denominated in foreign currency</b>		254.149		250.734
<b>8 Liabilities to non-euro area residents denominated in foreign currency</b>		-		-
<b>9 Counterpart of special drawing rights allocated by the IMF</b>		531.842		515.434
<b>10 Intra-Eurosystem liabilities</b>		45.842		59.894
10.1 Liabilities equivalent to the transfer of foreign reserves	-		-	
10.2 Liabilities related to TARGET	-		-	
10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem	-		-	
10.4 Other liabilities within the Eurosystem (net)	45.842		59.894	
<b>11 Items in course of settlement</b>		2.522		1.896
<b>12 Other liabilities</b>		228.486		173.870
12.1 Off-balance sheet instruments revaluation differences	781		-	
12.2 Accruals and income collected in advance	9.147		9.665	
12.3 Sundry	218.558		164.205	
<b>13 Provisions</b>		596.571		571.663
13.1 Risk Provisions	596.571		571.571	
13.2 Other Provisions	-		92	
<b>14 Revaluation accounts</b>		1.138.016		844.085
<b>15 Capital and reserves</b>		318.820		318.820
15.1 Capital	150.000		150.000	
15.2 General Reserve Fund	168.820		168.820	
<b>16 Profit for the year</b>		75.009		-
<b>Total liabilities</b>		28.832.006		33.137.431

The "Notes to the Financial Statements" on pages 101 to 130 form part of these accounts.

Central Bank of Cyprus  
Eurosystem

PROFIT AND LOSS ACCOUNT FOR THE YEAR 2024

	2024		2023	
	€'000	€'000	€'000	€'000
1.1 Interest income	972.429		945.817	
1.2 Interest expense	(796.889)		(774.775)	
<b>1 Net interest income</b>		<b>175.540</b>		<b>171.042</b>
2.1 Realised gains/(losses) arising from financial operations	4.714		(633)	
2.2 Write-downs on financial assets and positions	(1.438)		(323)	
<b>2 Net result of financial operations and writedowns</b>		<b>3.276</b>		<b>(956)</b>
3 Net result from the pooling and redistribution of monetary income		(46.329)		(60.453)
4 Net income from fees and commissions		18.669		15.425
5 Income from equity shares and participating interests		-		-
6 Other income		561		1.948
7 Staff costs	(37.493)		(35.396)	
8 Administrative expenses	(8.213)		(9.857)	
9 Depreciation of tangible fixed assets	(934)		(1.196)	
10 Banknote acquisition cost	(1.302)		(1.252)	
11 Other expenses	(3.766)		(9.310)	
<b>Total expenses</b>		<b>(51.708)</b>		<b>(57.011)</b>
<b>Profit for the year</b>		<b>100.009</b>		<b>69.995</b>
12 Transfer to risk provisions		(25.000)		(69.995)
<b>Profit for the year for allocation</b>		<b>75.009</b>		-
<b>General Reserve Fund</b>		<b>15.002</b>		-
<b>Consolidated Fund of the Republic</b>		<b>60.007</b>		-
<b>Profit for the year allocated</b>		<b>75.009</b>		-

Nicosia, 31 March 2025

Christodoulos Patsalides  
Governor

The "Notes to the Financial Statements" on pages 101 to 130 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/2024/31, 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/2024/31, 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.

The financial instruments which are held to maturity are valued at amortised cost, subjected to impairment. Any other 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

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

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

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

#### • Banknotes in circulation

Euro banknotes are issued by the ECB and the euro area NCBs which together form the Eurosystem. The aggregate liability for banknotes in circulation is allocated to the ECB and NCBs of

the Eurosystem. An 8% share of the total value of banknotes in circulation is issued by the ECB and the remaining 92% is issued by the NCBs according to the adjusted Eurosystem key (banknote allocation key, see note "P12. Key for subscription to the ECB's capital (ESCB capital key)").

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

- **Post-retirement benefits**

The CBC provides defined post-retirement benefits to its employees. The liability of the CBC, for its employees holding a permanent and pensionable position before October 2011, 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.

For the rest of its employees, the CBC participates in the professional pension scheme for public servants and employees of the broader public sector.

- **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 2024 which amounted to 446.416,09 fine ounces (31 December 2023 : 446.987,04 fine ounces). The CBC's gold holdings are valued at market prices which at the end of the year were €2.511,07 per fine ounce (31 December 2023: €1.867,83 per fine ounce) amounting to €1.121,6 million (31 December 2023: €835,5 million).

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

The increase in the price of gold in 2024 resulted in an unrealised gain of €286,5 million (31 December 2023: €72,7 million). The increase in the CBC's gold holdings, which represents the difference between the value as at 31 December 2024 and the average acquisition cost, amounted to €1.107,9 million (31 December 2023: €821,4 million) and is accounted for as an unrealised gain. It is included in the balance sheet within liability item "L14 Revaluation accounts".

During 2024, collateralised gold transactions were carried out and treated as repurchase agreements. The gold relating to these transactions amounted to 52.000 fine ounces and has been settled fully as at 31 December 2024. The

gold relating to the 2023 transactions amounting to 72.000 fine ounces were outstanding as at 31 December 2023, remained on the asset side of the balance sheet and valued at €132,4 million. The corresponding gold repurchase obligation was 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** (p. 106).

The claims on the IMF were valued at the SDR rate prevailing on 31 December 2024 as reported by the ECB in its Exchange Rates Circular, i.e. SDR1= €1,2544 (31 December 2023: SDR1= €1,2157).

The increase in SDR assets is mainly due to the foreign exchange difference of SDR against euro in the reporting year.

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

Balances with banks and security investments,

Table 1 **Receivables from the IMF**

	31 Dec. 2024 €'000	31 Dec. 2023 €'000	Change €'000
Quota in IMF (equivalent to SDR303,8 million as at 31 December 2024 and SDR303,8 as at 31 December 2023)	381.087	369.330	11.757
IMF deposits	(274.492)	(266.334)	(8.158)
Reserve Tranche Position	106.595	102.996	3.599
SDR holdings	535.806	517.586	18.220
<b>Total claims on the IMF</b>	<b>642.401</b>	<b>620.582</b>	<b>21.819</b>

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

	31 Dec. 2024 €'000	31 Dec. 2023 €'000	Change €'000
Balances with credit institutions	283.165	268.577	14.588
Marketable securities other than those held to maturity	235.310	156.695	78.615
Other claims	155	205	(50)
<b>Total</b>	<b>518.630</b>	<b>425.477</b>	<b>93.153</b>
<b>Balance by currency:</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
USD	459.820	418.574	41.246
GBP	58.634	6.720	51.914
CHF	125	128	(3)
CAD	43	45	(2)
Other currencies (AUD, DKK, JPY, NOK, SEK)	8	10	(2)
<b>Total</b>	<b>518.630</b>	<b>425.477</b>	<b>93.153</b>

external loans and other external assets are analysed in **Table 2**.

The increase in this item is mainly due to the purchase of marketable securities in sterling and US dollars.

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

Claims on euro area residents denominated in foreign currency are analysed in **Table 3** (p. 107).

The decrease in this item is mainly due to the maturity of marketable securities in US dollars.

Table 3 Claims on euro area residents denominated in foreign currency

	31 Dec. 2024 €'000	31 Dec. 2023 €'000	Change €'000
Balances with credit institutions	2.354	12.159	(9.805)
Marketable securities other than those held to maturity	17.336	17.926	(590)
<b>Total</b>	<b>19.690</b>	<b>30.085</b>	<b>(10.395)</b>
<b>Balance by currency:</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
GBP	10.039	3.277	6.762
USD	9.649	26.806	(17.157)
Other currencies (CHF, JPY)	2	2	-
<b>Total</b>	<b>19.690</b>	<b>30.085</b>	<b>(10.395)</b>

Table 4 Balances with banks, security investments and loans

	31 Dec. 2024 €'000	31 Dec. 2023 €'000	Change €'000
Marketable securities classified as held to maturity	489.740	282.532	207.208
Bank deposits	5.000	-	5.000
<b>Total</b>	<b>494.740</b>	<b>282.532</b>	<b>212.208</b>

#### 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 into 2022. The green bond programme invests in renewable energy production, energy efficiency and other environmentally friendly projects. Additionally, an amount of €43,3 million is included which is part of the portfolio of exclusively green bonds activated in 2024.

The impairment test performed on 31 December 2024 indicated that there was no

impairment on the value of the marketable 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 €34,2 billion (2023: €410,3 billion, of which €4,5 billion was granted to the CBC's counterparties).

Liquidity through the main and longer-term

Table 5 Longer-term refinancing operations

	31 Dec. 2024 €'000	31 Dec. 2023 €'000	Change €'000
Longer-term refinancing operations	-	4.500.000	(4.500.000)
<b>Total</b>	-	<b>4.500.000</b>	<b>(4.500.000)</b>

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 collateral 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 longer term refinancing and are carried out on the basis of fixed rate tender procedures with full allotment of the requested liquidity. In 2024, operations of a 3-month maturity were carried out, in the context of the longer term refinancing operations, and at the same time, under the third series of

Targeted Longer-Term Refinancing Operations (TLTRO III), three planned early voluntary repayments were effected. Additionally, during 2024, four operations under the third series of Targeted Longer-Term Refinancing Operations, expired.

The interest rate applied for TLTRO III operations could be lower up to 50 basis points from the average deposit facility rate for the period from 24 June 2020 until 23 June 2022, but not less than -1% and as low as the average deposit facility rate over the period of the life of each respective TLTRO III.

The effective interest rate for the purposes of calculating the accrued interest for the TLTRO III operations was known at the expiration of each operation or on the early repayment date. Therefore, for the purposes of calculating the accrued interest on TLTRO III operations, in the annual accounts of 2023, the applicable interest rate was set to be the average deposit facility rate for the period from 23 November 2022 until 31 December 2023. Any difference between the accrued interest on TLTRO III operations and the actual interest is reflected in the 2024 annual accounts upon the maturity of those operations.

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

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

Table 6 **Securities held for monetary policy purposes**

	31 Dec. 2024 Amortised Cost €'000	31 Dec. 2023 Amortised Cost €'000	Change Amortised Cost €'000
Public sector purchase programme (PSPP)	4.578.021	5.636.687	(1.058.666)
Pandemic emergency purchase programme (PEPP)	1.880.335	2.027.152	(146.817)
<b>Total</b>	<b>6.458.356</b>	<b>7.663.839</b>	<b>(1.205.483)</b>

Table 7 **Market value of securities**

	31 Dec. 2024 Market Value €'000	31 Dec. 2023 Market Value €'000	Change Market Value €'000
Public sector purchase programme (PSPP)	4.121.875	5.076.472	(954.597)
Pandemic emergency purchase programme (PEPP)	1.709.586	1.811.449	(101.863)
<b>Total</b>	<b>5.831.461</b>	<b>6.887.921</b>	<b>(1.056.460)</b>

## 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 public sector purchase programme (PSPP) and the pandemic emergency purchase programme (PEPP).

In 2024, the investments of funds under the Asset Purchase Programme (APP) continue to decline, as, since July 2023, the Eurosystem no longer reinvest the principal payments from maturing securities.

As far as the Pandemic Emergency Purchase Program (PEPP) is concerned, based on a decision of

the ECB Governing Council in December 2023, during the first half of 2024 the Eurosystem continued the full reinvestment of the principal amounts from maturing PEPP securities. Over the second half of 2024 the PEPP portfolio declined by an average of €7,5 billion per month as the Eurosystem stopped the full reinvestment of the principal amounts from maturing securities. The PEPP reinvestments were terminated at the end of 2024.

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 2024, the total balance of securities held for monetary policy purposes in the

Table 8 **Portfolio of other securities of euro area residents**

	31 Dec. 2024 €'000	31 Dec. 2023 €'000	Change €'000
Marketable securities other than those held to maturity	137.627	-	137.627
Marketable securities classified as held to maturity	703.671	569.386	134.285
<b>Total</b>	<b>841.298</b>	<b>569.386</b>	<b>271.912</b>

Eurosystem amounted to €4.283,4 billion (2023: €4.694,3 billion), and according to the Eurosystem capital key, the total investments corresponding to the CBC amount to €6,5 billion (2023: €7,7 billion).

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

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

#### A7.2 Other securities (Table 8)

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

During the reporting year, the CBC carried out net purchases of euro-denominated marketable securities' portfolios, outside the monetary policy of € 271,9 million (2023: €339,4 million).

Marketable securities other than held to maturity  
Securities which 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  
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.

This item includes an amount of €11,0 million which is part of the portfolio activated in 2024, including exclusively green bonds.

The impairment test performed on 31 December 2024 indicated 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 €714,6 million (2023: €574,5 million).

#### 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 2024 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 0,2204% 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 at €8.948,3 million. As from 1 January 2024, following the event of a five yearly capital key change, the CBC's share in the ECB's paid-up capital increased to 0,2204% (2023: 0,2134%) and its share in the capital, reserves and provisions of the ECB, increased to €45,1 million (2023: €42,1 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.

#### A9.3 Claims related to TARGET

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).

The claim is interest-bearing and bears the

Table 9 **Tangible and intangible fixed assets**

	31 Dec. 2024 €'000	31 Dec. 2023 €'000	Change €'000
<b>Cost</b>			
Land and buildings	23.102	23.102	-
Furniture, building and other equipment	15.884	15.898	(14)
Computer software and hardware	9.933	10.434	(501)
Motor vehicles	131	131	-
<b>Total cost</b>	<b>49.050</b>	<b>49.565</b>	<b>(515)</b>
<b>Accumulated depreciation</b>			
Land and buildings	20.276	20.182	94
Furniture, building and other equipment	13.391	13.142	249
Computer software and hardware	9.602	9.845	(243)
Motor vehicles	128	115	13
<b>Total accumulated depreciation</b>	<b>43.397</b>	<b>43.284</b>	<b>113</b>
<b>Net book value</b>	<b>5.653</b>	<b>6.281</b>	<b>(628)</b>

interest rate applied by the Eurosystem for main refinancing operations, which up until 31 December 2024 has gradually decreased to 3,15% (2023: 4,50%) (see Profit and Loss Account, note "P1.1 Interest income").

#### 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 until 31 December 2024, gradually decreased to 3,15% (31 December 2023: 4,5%) (see Profit and Loss Account, note "P1.1 Interest income").

#### **A10. Items in course of settlement**

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

#### **A11. Other assets**

A11.2 Tangible and intangible fixed assets (Table 9).

#### A11.5 Accruals and prepaid expenses

The balance of this item amounting to €188,1 million (2023: €298,6 million) includes mainly accrued interest on monetary policy securities amounting to €64,9 million (2023: €70,8 million), accrued interest income on the claim related to TARGET amounting to €42,0 million (2023: €55,9 million) and the claim related to the allocation of banknotes amounting to €32,1 million (2023: €33,2

Table 10 **Banknotes in circulation**

	31 Dec. 2024 €'000	31 Dec. 2023 €'000	Change €'000
Net value of euro banknotes in circulation by the CBC	(502.789)	171.101	(673.890)
Liability arising from the share of banknotes issued on behalf of the ECB <sup>(i)</sup>	(280.031)	(267.614)	(12.417)
Claim arising from the allocation of euro banknotes within the Eurosystem	3.999.216	3.176.114	823.102
<b>Net claim related to the allocation of euro banknotes within the Eurosystem (A9.4)</b>	<b>3.719.185</b>	<b>2.908.500</b>	<b>810.685</b>
<b>Total value of euro banknotes in circulation by the CBC on the basis of the banknote allocation key</b>	<b>3.216.396</b>	<b>3.079.601</b>	<b>136.795</b>

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

million). The balance in 2023 also includes accrued interest income on TLTRO III of €115,4 million. Additionally, this item includes accrued income relating to supervisory and resolution fees amounting to €25,9 million (2023: €10,5 million) and accrued income from coin issuance amounting to €0,7 million (2023: €2,3 million). Accrued fees in 2024 accounts are increased as they include fees relating to 2023 for which the issue of the relevant invoices was delayed.

#### A11.6 Sundry

This item mainly consists of the loans to CBC's employees of €20,2 million (2023: €20,0 million).

## LIABILITIES

### L1. Banknotes in circulation (Table 10)

This item comprises the CBC's share in the total amount of euro banknotes in circulation issued by

the Eurosystem. The total amount of banknotes in circulation is allocated to the NCBs of the Eurosystem on the last working day of each month in accordance with the banknote allocation key.

The CBC's banknote allocation key as from 1 January 2024 is 0,2025% (2023: 0,1965%) (see note "P12. Key for subscription to the ECB's capital (ESCB capital key)").

During 2024, the total value of banknotes in circulation within the Eurosystem increased by 1,31%. According to the allocation key, the CBC's total value of euro banknotes in circulation amounted to €3,2 billion from €3,1 billion in 2023.

This change is due to the increase in euro banknotes put into circulation by all NCBs of the euro area, which amounted to €1.588,3 billion as at 31 December 2024 compared with €1.567,7 billion as at 31 December 2023.

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

	31 Dec. 2024 €'000	31 Dec. 2023 €'000	Change €'000
2.1 - Current accounts (covering the minimum reserve system)			
Current Accounts	67.350	110.702	(43.352)
Minimum Reserves	526.714	500.358	26.356
2.2 - Deposit facility	18.974.936	23.162.163	(4.187.227)
<b>Total</b>	<b>19.569.000</b>	<b>23.773.223</b>	<b>(4.204.223)</b>

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

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

This item consists of the credit institutions' current accounts, part of which are required to be held with the CBC within the framework of the Eurosystem's minimum reserve system and for the settlement of payments between them. The total of minimum reserve balances for credit institutions, as on 31 December 2024, amounted to €526,7 million (2023: €500,4 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.

## 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 organizations of the wider public sector, amounting to €2.508,7 million (2023: €3.166,5 million).

### L5.2 Other liabilities

This item mainly includes the balances of the deposits of the institutions under liquidation amounting to €271,1 million (2023: €147,0 million).

Table 12 **Other liabilities within the Eurosystem (net)**

	31 Dec. 2024 €'000	31 Dec. 2023 €'000	Change €'000
Liability relating to the redistribution of the Eurosystem monetary income	46.195	60.247	(14.052)
Claim related to SURE	(353)	(353)	-
<b>Total</b>	<b>45.842</b>	<b>59.894</b>	<b>(14.052)</b>

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

This item mainly consists of the CBC's liability to the European Commission of €19,9 million (2023: €47,4 million). The balance of 2023 also includes the CBC's liability in relation to the collateralized gold transactions of €132,4 million, while the gold transactions of the reporting year had been settled by 31 December 2024.

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 organizations.

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

This item represents the CBC's liabilities to the IMF as at 31 December 2024 amounting to €531,8

million (2023: €515,4 million) of special drawing rights of SDR424,0 million (31 December 2023: SDR424,0 million).

### L10. Intra-Eurosystem liabilities

This item consists of the CBC's liabilities to the ECB and the other NCBs of the Eurosystem.

#### L10.4 Other liabilities within the Eurosystem (net) (Table 12)

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 "P3 Net result from the pooling and redistribution of monetary income").

The claim in relation to SURE (Support to mitigate Unemployment Risks in an Emergency) of €0,4 million (2023: €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.

### L11. Items in course of settlement

This is mainly a liability to the Government resulting from the operations of the Cyprus Clearing House for cheques and amounted to €2,5 million (2023: €1,7 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 year 2024 amounting to €0,8 million relates 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 (2023: €5,2 million) and accrued expenses amounting to €2,7 million (2023: €3,5 million).

### L12.3 Sundry

This item mainly represents the net liability for the CBC's pension plan amounting to €155,9 million (31 December 2023: €150,3 million).

### Retirement benefits

The CBC provides to its employees, who held a permanent and pensionable position before 1 October 2011, a pension scheme with retirement benefits. Up to and including 30 September 2011, employees contributed only to the transfer of their pensions to their widows and orphans. Under the provisions of the relevant laws as from 1 October 2011, an amount equal to 3% of employees' earnings is withheld and applied to secure the long term sustainability of the pension scheme, without converting it into a funded scheme for the purpose of the *Social Insurance Law, 2010*.

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 professional pension scheme for civil servants and employees of the broader public sector (state scheme). Under the state scheme, both the employees and the employer are required to contribute a financing rate of 5% on their monthly pensionable income. The liability to the State covering the contribution of the employees of the state scheme for past service, is recorded as a provision in the Financial Statements of 2022, and will be settled in 36 monthly installments commencing from 1 January 2024, with a final instalment date 31 December 2026. The decrease in the liability during the year relates to the payment of the relevant instalments. For the purposes of the calculation of the CBC's contribution for past service, each member's entitlement for a refund of 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 2024 revealed a net actuarial loss of €5,3 million compared to the net actuarial loss of €23,0 million, revealed as at 31 December 2023. The main reason for this actuarial loss is the remeasurement, based on experience since pensions were higher than expected. The actuarial gain as a result of the increase of the discount rate from 3,38% to 3,44%, was much lower to cover the actuarial loss.

Table 13 Actuarial assumptions

	2024	2023
<b>Actuarial assumptions for the CBC's pension scheme</b>		
Discount rate	3,44%	3,38%
Inflation rate	2,50%	2,50%
General salary increases	0,00%	0,00%
Total salary increases	1,67%	1,67%
Increases in social insurance pensions	2,50%	2,50%
Rate of increase in pensions	1,67%	1,67%
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)

Table 14 Movement in net retirement benefits liability

	2024 €'000	2023 €'000	Change €'000
<b>Liability related to the CBC's pension scheme</b>			
Net liability as at 1 January	150.273	126.282	23.991
<b>Employees</b>			
Provision for the year	1.226	994	232
CBC's pension scheme – past service cost	262	-	262
Net actuarial loss/(gain) of the actuarial liability	6.068	22.605	(16.537)
<b>Executives</b>			
Provision for the year	31	20	11
Net actuarial loss/(gain) of the actuarial liability	(740)	418	(1.158)
Capitalisation of interest	4.992	4.813	179
Contribution of employees and executives	721	701	20
Benefits paid	(6.942)	(5.560)	(1.382)
	<b>155.891</b>	<b>150.273</b>	<b>5.618</b>
<b>Liability to the State for the professional pension scheme</b>			
Net liability as at 1 January	874	900	(26)
Provision for the year and past service cost	(381)	(26)	(355)
	<b>493</b>	<b>874</b>	<b>(381)</b>
<b>Total liability as at 31 December</b>	<b>156.384</b>	<b>151.147</b>	<b>5.237</b>

The actuarial assumptions used for the actuarial valuations are as stated in Table 13.

The movement in net retirement benefits liability is analysed in Table 14.

Table 15 Provisions

	31 Dec. 2024 €'000	31 Dec. 2023 €'000	Change €'000
Risk Provisions	596.571	571.571	25.000
Other Provisions	-	92	(92)
<b>Total</b>	<b>596.571</b>	<b>571.663</b>	<b>24.908</b>

### L13. Provisions (Table 15)

#### L13.1 Risk Provisions

The CBC maintains a general risk provision against the risks stemming from its main activities and its Balance Sheet, applying a well established framework and appropriate measurement assumptions, principles and rules, which are consistent with the principle of prudence.

The maintenance of an adequate level of financial buffers (resilience) is of significant importance in safeguarding the CBC's financial and operational independence, being an obligation of the National Central Banks of the Eurosystem as prescribed in the Treaty on the Functioning of the European Union and Statute of the European System of Central Banks and the ECB. Specifically, it enhances CBC's ability to withstand potential losses without the erosion of its capital base and/or affecting its ability to carry out its operations in the most effective manner.

For the purposes of determining the adequacy of the level of the risk provision against the risks stemming from its main activities and its Balance Sheet, or the total capital and reserves buffers of the CBC, the following risks are assessed:

- Market risk and credit risk inherent in the management of own funds.

- Credit risk assumed or corresponding to the CBC from the implementation of the Eurosystem single monetary policy, such as open market operations (liquidity providing operations) and Eurosystem 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 earnings and capital position 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 in the CBC's banking book is assessed based on 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 the updated estimate of the risks arising from the CBC's main activities, and taking into consideration the heightened uncertainty linked to geopolitical factors, the weakening economic growth in the euro area and the economic and trade policies and relations between key partners and their potential impact

Table 16 Revaluation accounts

	31 Dec. 2024 €'000	31 Dec. 2023 €'000	Change €'000
Pre-stage III revaluations			
- Gold	240.030	240.030	-
- Foreign currency	977	977	-
	<b>241.007</b>	<b>241.007</b>	-
Other revaluations			
- Gold	867.859	581.376	286.483
- Foreign currency	28.287	18.819	9.468
- Prices of debt instruments	6.225	2.917	3.308
	<b>902.371</b>	<b>603.112</b>	<b>299.259</b>
	<b>1.143.378</b>	<b>844.119</b>	<b>299.259</b>
Remeasurement of the pension scheme liability	(5.362)	(34)	(5.328)
<b>Total</b>	<b>1.138.016</b>	<b>844.085</b>	<b>293.931</b>

of inflation levels in the EU, the Board of Directors of the CBC decided to increase this provision by €25,0 million, to €596,6 million, by transferring the equivalent amount of profit.

It is noted that the assessment of the risk valuation and the decisions for the creation of provisions by the management and the Board of Directors of the CBC requires the application of critical judgement and the formulation of estimates. These estimates and supporting assumptions are based on factors that are deemed to be reasonable and sufficiently prudent towards this direction.

#### L13.2 Other Provisions

With respect to the provision established in 2023 by the NCBs of participating Member States with regard to credit risks in monetary policy operations, an amount of €43,0 million was used to cover the biggest part of the loss realised on the

sale in 2024 of an impaired security held by one of the Eurosystem NCBs under the PEPP-CORP. Out of this amount, €92,0 thousand was covered by the provision established in 2023 by the CBC.

#### L14. Revaluation accounts (Table 16)

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, as at 2024, of the overall unrealised gains, excluding the remeasurement of retirement benefits, increased by €299,3 million (2023: increase €69,1 million) and is shown in detail in the table below. The total of the revaluation accounts including the effect of the remeasurement of the retirement benefits liability amounted to €1.138,0 million (2023: €844,1 million), showing an increase of €293,9 million.

Table 17 **Capital and reserves**

	31 Dec. 2024 €'000	31 Dec. 2023 €'000	Change €'000
Capital	150.000	150.000	-
General Reserve Fund	168.820	168.820	-
<b>Total</b>	<b>318.820</b>	<b>318.820</b>	-

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 2024, 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 2024 are the following: Sterling €0,8292 (31 December 2023: €0,8691) and US dollar €1,0389 (31 December 2023: €1,1050).

#### **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

As at 31 December 2024, a number of court cases were pending against the CBC in many cases as co-defendant with the Republic of Cyprus 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, relating to bonds issued by supervised institutions before 2013.

The CBC, having consulted its legal advisors, and taking into consideration the grounds of its defence, based on the legal and institutional framework, as well as the real facts, no provision is deemed necessary in the financial statements, except for two legal cases, decisions for which were issued at the end of year 2023 against the CBC jointly with Cyprus Popular Bank (through its Special Administrator) and the Republic of Cyprus. These decisions were issued in favour of the plain-

tiffs, and against the CBC and the Republic of Cyprus, for the total amount of €6,168.297,70 plus interest until repayment. The CBC has filed an appeal in relation to the above two court decisions and the amounts resulting therefrom, and their hearing is expected to take place in the coming year, while a suspension of the decisions has been achieved for both these cases, up until the final decisions of the appeals filed are issued. Therefore, according to the provisions of the International of Accounting Standard 37 Provisions, Contingent Liabilities and Contingent Claims and based on prudence, a relevant provision has been recorded in the Financial Statements of 2023 under the Liability item "L12.3 Sundry".

#### Off-balance sheet items

As at 31 December 2024, the Bank had outstanding balances from foreign exchange forwards and swaps contracts amounting to net receivable balance of €0,3 million against other currencies, mainly SDRs (2023: €2,6 million payable balance). As at 31 December 2024, the net unsettled spot transactions were €0,1 million (2023: €0,1 million). As a result of the valuation at the year-end, a loss of €1,5 million (2023: €8,1 thousand gain) arose from the outstanding foreign exchange contracts which is recorded under the balance sheet item "L12.1 Off-balance sheet instruments revaluation differences".

#### Post-balance sheet events

On 13 March 2024 the Governing Council decided on a set of principles that will guide monetary policy implementation in the future and that, amongst other key parameters, it will continue to steer the monetary policy stance through the deposit facility rate. In the same context the Governing Council decided that from 1 January 2025 the deposit facility rate will become the basis for the remuneration of (1) the balances in TARGET, (2) the claims/liabilities related to the allocation of euro banknotes within the Eurosystem, and (3) the claims corresponding to the transfer of foreign reserves. The deposit facility rate will also be used for the purposes of calculating monetary income, replacing the main refinancing operations rate (see Profit and Loss Account, note "P3 Net result from the pooling and redistribution of monetary income").

The Board of Directors of the Central Bank of Cyprus has taken the decision to transfer an amount of €25,0 million to the CBC's risk provisions, distributing the remaining amount of its Profit for the year of €75,0 million, based on article 59 of the *Central Bank of Cyprus Laws of 2002-2024*, at 20% or €15,0 million to the CBC's General Reserve Fund and at 80% or €60,0 million to the Consolidated Fund of the Republic.

## PROFIT AND LOSS ACCOUNT

### P1. Net interest income

This item comprises of interest income less interest expense. Net interest income increased by €4,5 million and amounted to €175,5 million compared with €171,0 million in the previous year.

#### P1.1 Interest income (Table 18, p. 123)

Increased by €26,6 million and amounted to €972,4 million compared with €945,8 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 €3,5 million in 2024 is mainly due to PEPP programme, 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 average deposit facility rate, which was calculated for the period until expiration of each transaction or the early repayment date, as described in note "A5.2 Longer-term refinancing operations". The majority of transactions expired in June 2024, resulting in a €97,0 million decrease in interest income during the reporting year.

- **Claims from TARGET**

This item consists of interest amounting to

€615,1 million calculated using the main refinancing operations rate on the daily balances of the TARGET account. The average main refinancing operations rate in 2024 was 4,1% compared to 2023 which was 3,8%.

- **Securities for investment policy purposes**

The interest generated from these securities increased by €20,9 million to €33,0 million in 2024, compared with €12,1 million in 2023, due to increase in both the interest rates and net purchases of securities. The interest income from foreign securities remained at the same level of €6,8 million in 2024, as in 2023 due to investments in US dollar.

- **Net claim on euro banknote allocation**

This item consists of interest increased by €37,4 million to €139,0 million (2023: €101,6 million). The average MRO rate in 2024 was 4,1% compared to 2023 which was 3,8% (see note "A9.4 Net claims related to the allocation of euro banknotes within the Eurosystem").

- **Other interest income**

This item includes interest income in foreign currency mainly from investment in US Treasury bills amounting to €13,6 million (2023: €13,3 million). Also, in this item is included the CBC's remuneration of €3,8 million (2023: €3,7 million) on the Reserve Tranche Position with the IMF which is part of the asset item "A2.1 Receivables from the IMF" and the interest on SDR holdings amounting to €21,1 million (2023: €16,8 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

Table 18 Interest income

	2024 €'000	2023 €'000	Change €'000
<b>Interest income in euro</b>			
<b><i>On monetary policy operations</i></b>			
Securities	75.416	71.934	3.482
Interest received–TLTRO III	59.437	156.409	(96.972)
	<b>134.853</b>	<b>228.343</b>	<b>(93.490)</b>
<b><i>Other interest income</i></b>			
Claims from TARGET	615.141	559.162	55.979
Securities for investment policy purposes	33.048	12.141	20.907
Claims arising from transfer of foreign exchange reserves to the ECB	3.192	2.849	343
Net claim on euro banknote allocation	139.044	101.639	37.405
Staff loans	80	75	5
Other interest	4	3	1
	<b>790.509</b>	<b>675.869</b>	<b>114.640</b>
<b>Total interest income in euro</b>	<b>925.362</b>	<b>904.212</b>	<b>21.150</b>
<b><i>Interest income in foreign currency</i></b>			
Securities	7.389	6.826	563
Other interest income	39.678	34.779	4.899
<b>Total interest income in foreign currency</b>	<b>47.067</b>	<b>41.605</b>	<b>5.462</b>
<b>Total interest income</b>	<b>972.429</b>	<b>945.817</b>	<b>26.612</b>

the interest rates of US dollar and SDR during the reporting year.

#### P1.2 Interest expense (Table 19, p. 124)

- **Interest expense in euro**  
Interest expense in euro relates mainly to accrued interest on bank deposits as a result of the increase in the deposit facility rate. During 2024 the average deposit facility rate was 3,73% (2023: 3,31%).
- **Interest expense in foreign currency**  
Interest expense in foreign currency mainly refers to interest of €20,7 million (2023: €21,6

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").

#### 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 gain of €4,7 million

Table 19 Interest expense

	2024 €'000	2023 €'000	Change €'000
Interest expense in euro	776.205	753.162	23.043
Interest expense in foreign currency	20.684	21.613	(929)
Total interest expense	796.889	774.775	22.114

(2023: €0,6 million loss). 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, unrealised foreign exchange loss results from the devaluation of the euro against the SDR during the year.

### P3. 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

Table 20 Net result of pooling of monetary income

	2024 €'000	2023 €'000	Change €'000
Monetary income allocated to the CBC according to its capital key in the Eurosystem	99,3	87,0	12,3
Minus: Monetary income pooled by the Central Bank of Cyprus	(145,3)	(147,2)	1,9
<b>Result of pooling of monetary income</b>	<b>(46,0)</b>	<b>(60,2)</b>	<b>14,2</b>
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
<b>Total</b>	<b>(46,1)</b>	<b>(60,3)</b>	<b>14,2</b>

among NCBs according to the subscribed ECB capital key (Table 20).

The difference of €46,0 million (2023: €60,2 million) between monetary income of €145,3 million (2023: €147,2 million), which the CBC earned in 2024, and its reallocated monetary income of €99,3 million (2023: €87,0 million), based on its Eurosystem key share on the total monetary income pooled, was paid on 31 January 2025 (Table 21, p. 126).

In addition, the CBC paid €137,4 thousand due to revisions of the monetary income for the year 2023.

This item also includes the CBC's share in the realised loss incurred from the sale in 2024 of impaired securities in the PEPP-CORP portfolio of a Eurosystem NCB, as well as, the CBC's share in the provision created in 2023, against credit risks in Eurosystem monetary policy operations, amounting to €92,0 thousand being released to be used against these losses (see note "L13. Provisions").

#### P4. Net income from fees and commissions

This item mainly includes the recovery of supervi-

sory fees from the domestic credit institutions for 2024, which amounted to €11,0 million (2023: €9,1 million) and cost recovery for coin issuance of €0,7 million for 2024 (2023: €2,3 million).

#### P5. Income from equity shares and participating interests

##### ECB profit distribution

No profit distribution will take place due to the loss recorded by the ECB for the year, which was transferred to ECB's balance sheet to be offset against future profits. The loss for 2023 was partially covered by the release of the ECB's General Risk Provision account.

#### P6. Other income

This item includes income from the issue of numismatic collection of coins, amounting to €559,8 thousand (2023: €262,1 thousand). In 2023, this item also includes the release of the CBC's liability for the pensioners healthcare scheme of €1,7 million, as valued by the actuarial valuations following the implementation of GeSY. Specifically, this amount

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

	Monetary income pooled	Total monetary income pooled by the Euro system NCBs	Monetary income reallocation based on the Eurosysteem key	Result of pooling of monetary income	Result of pooling of monetary income
	€ million (a)	2024 € million	€ million (b)	€ million (b-a)	2023 € million
Lending to euro area credit institutions related to monetary policy operations denominated in euro	59,4	6.709,5	14,8	(44,6)	(99,1)
Securities held for monetary policy purposes (risk sharing)	11,1	8.202,2	18,1	7,0	6,7
Securities held for monetary policy purposes (no-risk sharing)	230,1	130.280,6	287,1	57,0	48,8
Claims equivalent to the transfer of foreign reserves to the ECB	3,2	1.448,3	3,2	-	-
Net claims(+) / net liabilities(-) related to the allocation of euro banknotes within the Eurosysteem	139,0	(5.231,8)	(11,5)	(150,5)	(111,8)
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	(771,0)	(120.846,9)	(266,3)	504,7	469,9
Net claims(+) / net liabilities(-) arising from balances of TARGET accounts	615,1	15.608,5	34,4	(580,7)	(529,0)
GAP (difference between earmarkable assets and the liability base)	(141,6)	8.863,3	19,5	161,1	154,3
Claims related to liquidity provision to FCBs	-	1,1	-	-	-
<b>Total</b>	<b>145,3</b>	<b>45.034,8</b>	<b>99,3</b>	<b>(46,0)</b>	<b>(60,2)</b>

consists of the release of the liability for the pensioners healthcare scheme of €1.552,0 thousand, item "L14. Revaluation accounts".

#### P7. Staff costs

Staff costs stated in Table 22 (p. 127).

Remuneration of Governor and Board of Directors stated in Table 23 (p. 128).

#### P8. Administrative expenses (Table 24, p. 128)

During the year, administrative expenses decreased by €1,6 million to €8,2 million (2023: €9,9 million) mainly due to the €1,6 million decrease in legal expenses.

#### P9. Depreciation of tangible fixed assets

Depreciation of tangible fixed assets for the year 2023 amounted to €0,9 million (2023: €1,2 million).

Table 22 Staff costs

	2024 €'000	2023 €'000	Change €'000
<b>Employees' benefits</b>			
Remuneration (basic salary, wage indexation, allowances, overtime payments)	24.823	23.712	1.111
CBC's pension scheme—provision for current service cost	1.226	994	232
CBC's pension scheme—past service cost	262	-	262
Social insurance and other contributions	5.008	4.632	376
Cost of the State professional pension scheme for civil servants and employees of the broader public sector	350	312	38
<b>Total</b>	<b>31.669</b>	<b>29.650</b>	<b>2.019</b>
<b>Governor's and Board's benefits</b>			
Remuneration (basic salary, wage indexation, allowances)	526	496	30
CBC's pension scheme	31	20	11
Social insurance and other contributions	56	56	-
Remuneration of non-executive directors	147	143	4
<b>Total</b>	<b>760</b>	<b>715</b>	<b>45</b>
<b>Interest expense on CBC's pension scheme</b>	<b>4.992</b>	<b>4.813</b>	<b>179</b>
<b>Healthcare scheme for pensioners</b>			
Current service cost	-	38	(38)
Interest expense	-	57	(57)
<b>Total</b>	<b>4.992</b>	<b>4.908</b>	<b>84</b>
<b>Cost of leaves not taken</b>	<b>72</b>	<b>123</b>	<b>(51)</b>
<b>Total Staff costs</b>	<b>37.493</b>	<b>35.396</b>	<b>2.097</b>

Table 23 Remuneration of Governor and Board of Directors

	2024 €'000	2023 €'000
<b>Governor</b>		
Christodoulos Patsalides (Governor from 11 April 2024)	146	-
Constantinos Herodotou (Governor from 11 April 2019 to 10 April 2024)	98	196
<b>Executive Directors</b>		
Evgenia Christodoulou (Executive Director from 15 May 2024)	93	-
George Karatzias (Executive Director from 15 May 2024)	93	-
Stavros Agrotis (Executive Director from 15 May 2019 to 14 May 2024)	48	150
Maria Heracleous (Executive Director from 15 May 2019 to 14 May 2024)	48	150
<b>Total</b>	<b>526</b>	<b>496</b>
<b>Non-Executive Directors</b>		
Angelos Gregoriades (from 1 July 2019 to 16 April 2024)	9	30
Stavros Evagorou (from 1 March 2017)	30	30
Makis Keravnos (from 24 October 2018 to 28 February 2023)	-	5
Konstantinos Panayides (from 29 November 2023)	30	3
Kyriacos Stavrou (from 23 May 2024)	18	-
Yiannis Savvides (from 24 October 2018 to 23 October 2023)	-	24
Ioannis Charilaou (from 18 October 2016)	30	30
Andreas Charitou (from 21 April 2023)	30	21
<b>Total</b>	<b>147</b>	<b>143</b>

Table 24 Administrative expenses

	2024 €'000	2023 €'000	Change €'000
Consultancy services	172	170	2
Legal expenses	1.406	3.053	(1.647)
Maintenance, repairs, cleaning	1.589	1.639	(50)
Travel and subsistence expenses	675	591	84
Communications	646	609	37
Electricity, heating and water costs	850	927	(77)
Buildings, equipment and vehicle insurance	175	113	62
IT Services	1.143	1.422	(279)
Membership fees of committees other than the ECB	469	429	40
Miscellaneous	1.088	904	184
<b>Total</b>	<b>8.213</b>	<b>9.857</b>	<b>(1.644)</b>

**P10. Banknote acquisition cost**

Expenses related to acquisition and handling of banknotes and coins for 2024 is €1,3 million (2023: €1,3 million).

**P11. Other expenses**

This item includes various operating expenses of the CBC for the year 2024 amounting to €3,8 million (2023: €2,4 million).

In 2023, this item also includes a provision for pending legal cases issued against CBC of €6,2 million (see note 'Pending court cases').

**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. 130).

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 2024 amounts to €10.825,0 million, as in 2023. The CBC's share in the ECB's subscribed capital increased to 0,1802% (2023: 0,1750%) as from 1 January 2024, following the event of a five yearly capital key change, the Eurosystem key increased to 0,2204% and the banknote key increased to 0,2025%.

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

	31/12/2024 %	31/12/2023 %
Nationale Bank van België/Banque Nationale de Belgique	3,0005	2,9630
Deutsche Bundesbank	21,7749	21,4394
Eesti Pank	0,2437	0,2291
Bank of Greece	1,8474	2,0117
Banco de Espana	9,6690	9,6981
Banque de France	16,3575	16,6108
Central Bank and Financial Services Authority of Ireland	1,7811	1,3772
Banca d'Italia	13,0993	13,8165
Banque centrale du Luxembourg	0,2976	0,2679
De Nederlandsche Bank	4,8306	4,7662
Oesterreichische Nationalbank	2,4175	2,3804
Banco de Portugal	1,9014	1,9035
Suomen Pankki–Finlands Bank	1,4853	1,4939
Banka Slovenije	0,4041	0,3916
Latvijas Banka	0,3169	0,3169
Central Bank of Malta/ Bank Centrali ta' Malta	0,1053	0,0853
Central Bank of Cyprus	0,1802	0,1750
Narodna banka Slovenska	0,9403	0,9314
Lietuvos bankas	0,4826	0,4707
Hrvatska Narodna Banka	0,6329	0,6595
<b>Total amount for euro area NCBs</b>	<b>81,7681</b>	<b>81,9881</b>
Ceska narodni banka	1,9623	1,8794
Danmarks Nationalbank	1,7797	1,7591
Magyar Nemzeti Bank	1,5819	1,5488
Narodowy Bank Polski	6,0968	6,0335
Sveriges Riksbank	2,9441	2,9790
Bulgarian National Bank	0,9783	0,9832
Banca Nationala a Romaniei	2,8888	2,8289
<b>Total amount for non-euro area NCBs</b>	<b>18,2319</b>	<b>18,0119</b>
<b>Total amount for NCBs that are members of the ESCB</b>	<b>100,00</b>	<b>100,00</b>
<b>Central Bank of Cyprus</b>		
<b>Eurosystem Capital Key</b>	<b>0,2204</b>	<b>0,2134</b>
<b>Banknote Allocation Key</b>	<b>0,2025</b>	<b>0,1965</b>

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

### Report of the audit of the Financial Statements

#### Opinion

We have audited the financial statements of the Central Bank of Cyprus (the 'CBC'), which are presented on pages 97 to 130 and comprise the balance sheet as at 31 December 2024 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 the CBC as at 31 December 2024 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/2024/31, 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. The annual report is expected to be available to us after the date of this Independent Auditor's Report.

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

In connection with our audit of the financial statements, it is our responsibility to read the other information when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or with the knowledge we 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 regard.

If, upon reading the annual report, we conclude that there is a material misstatement in the additional information, we are required to report this matter to the Audit Committee and the Board of Directors. This is consistent with auditing standards, which require the auditor to communicate in writing to Management and the Audit

Committee all significant deficiencies and material weaknesses identified during the audit.

### 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/2024/31, 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 assur-

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting

policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure

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

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

#### Other matter

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

#### 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, 31 March 2025



CENTRAL BANK OF CYPRUS  
EUROSYSTEM

**8. ANNEX:  
COMMITTEES OF THE CBC BOARD  
OF DIRECTORS IN 2024**

## 8.1 Audit Committee

Established under section 60A of the *Central Bank of Cyprus Law, 2002*, as subsequently amended to audit the implementation of the bank's corporate governance code, supervise the execution of the internal operational audit of the Bank and submit a report to the Board of Directors for approval.

Members	Position	
Andreas Charitou <sup>(1)</sup>	Non-Executive Director	Chairman
Konstantinos Panayides <sup>(2)</sup>	Non-Executive Director	Member
Kyriacos Stavrou <sup>(3)</sup>	Non-Executive Director	Member

(1) Mr Andreas Charitou was appointed as Chairman of the Audit Committee on 26/06/2024.  
 (2) Mr Konstantinos Panayides was appointed as member of the Audit Committee on 26/06/2024.  
 (3) Mr Kyriacos Stavrou was appointed as member of the Audit Committee on 26/06/2024.

## 8.2 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	
Christodoulos Patsalides <sup>(1)</sup>	Governor	Chairman
----	Deputy Governor <sup>(2)</sup>	Member
Evgenia Christodoulou <sup>(3)</sup>	Executive Director	Member
George Karatzias <sup>(4)</sup>	Executive Director	Member
Kyriacos Stavrou <sup>(5)</sup>	Non-Executive Director	Member
Andreas Charitou <sup>(6)</sup>	Non-Executive Director	Member

(1) Dr Christodoulos Patsalides is ex officio Chairman of the Personnel Committee as of 11/04/2024.  
 (2) The position of the Deputy Governor is provided by the Constitution and is currently vacant.  
 (3) Mrs Evgenia Christodoulou is ex officio member of the Personnel Committee as of 28/05/2024.  
 (4) Mr George Karatzias is ex officio member of the Personnel Committee as of 28/05/2024.  
 (5) Mr Kyriacos Stavrou was appointed as member of the Personnel Committee on 26/06/2024.  
 (6) Mr Andreas Charitou was appointed as member of the Personnel Committee on 26/06/2024.

### 8.3 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. Established by a decision of the Board of Directors and its terms of reference have been revised. It determines, among other things, the guidelines for the preparation of the Bank's Annual Budget.

Members	Position	
Christodoulos Patsalides	Governor	Chairman
Evgenia Christodoulou <sup>(1)</sup>	Executive Director	Member
George Karatzias <sup>(2)</sup>	Executive Director	Member
Stavros Evagorou <sup>(3)</sup>	Non-Executive Director	Member
Ioannis Charilaou <sup>(4)</sup>	Non-Executive Director	Member

(1) Mrs Evgenia Christodoulou was appointed as member of the Budget Committee on 26/06/2024.  
 (2) Mr George Karatzias was appointed as member of the Budget Committee on 26/06/2024.  
 (3) Mr Stavros Evagorou was appointed as member of the Budget Committee on 26/06/2024.  
 (4) Mr Ioannis Charilaou was appointed as member of the Budget Committee on 26/06/2024.

### 8.4 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	
Ioannis Charilaou <sup>(1)</sup>	Non-Executive Director	Chairman
Konstantinos Panayides <sup>(2)</sup>	Non-Executive Director	Member
Stavros Evagorou <sup>(3)</sup>	Non-Executive Director	Member

(1) Mr Ioannis Charilaou was appointed Chairman of the Risk Management Committee on 26/06/2024.  
 (2) Mr Konstantinos Panayides was appointed as member of the Risk Management Committee on 26/06/2024.  
 (3) Mr Stavros Evagorou was appointed as member of the Risk Management Committee on 26/06/2024.

### 8.5 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. It was abolished by a decision of the Board of Directors on 26/06/2024.

Members	Position	
Andreas Charitou <sup>(1)</sup>	Non-Executive Director	Chairman
Angelos Gregoriades <sup>(2)</sup>	Non-Executive Director	Member
Stavros Evagorou <sup>(3)</sup>	Non-Executive Director	Member
Konstantinos Panayides <sup>(4)</sup>	Non-Executive Director	Member

(1) Mr Andreas Charitou was appointed as Chairman of the Investments Committee on 02/08/2023.  
 (2) Mr Angelos Gregoriades withdrew from the Investments Committee on 31/01/2024.  
 (3) Mr Stavros Evagorou was appointed as Member of the Investments Committee on 06/03/2023.  
 (4) Mr Konstantinos Panayides was appointed as member of the Investments Committee on 31/01/2024.

### 8.6 Sustainability Committee

Established by a decision of the Board of Directors on 22/01/2025 and aims to contribute and support the Board in the process of defining and reviewing the Sustainability Strategy and the Central Bank of Cyprus' own contribution to the goal of net zero carbon dioxide emissions.

Members	Position	
Evgenia Christodoulou	Executive Director	Chairwoman
Andreas Charitou	Non-Executive Director	Member
Stavros Evagorou	Non-Executive Director	Member
Ioannis Charilaou	Non-Executive Director	Member