

CENTRAL BANK OF CYPRUS  
EUROSYSTEM

**AUDITED  
FINANCIAL STATEMENTS  
FOR THE YEAR 2022**

CENTRAL BANK OF CYPRUS  
EUROSYSTEM

**BALANCE SHEET AS AT 31 DECEMBER 2022**

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

The "Notes to the Financial Statements" on pages 4 to 26 form part of these accounts.

CENTRAL BANK OF CYPRUS  
EUROSYSTEM

**BALANCE SHEET AS AT 31 DECEMBER 2022 (continued)**

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

The "Notes to the Financial Statements" on pages 4 to 26 form part of these accounts.

CENTRAL BANK OF CYPRUS  
EUROSYSTEM

**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR 2022**

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

28 March 2023

Constantinos Herodotou  
Governor

The "Notes to the Financial Statements" on pages 4 to 26 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, 2002-2017, on the basis of approved accounting principles applicable in the European System of Central Banks (ESCB), as these are adopted by the European Central Bank (ECB). The accounting principles have been determined by the Guideline ECB/2016/34, as amended.

These principles are based on generally accepted accounting principles, and have been designed to take account of the specialised operational framework of the national central banks (NCBs) of the Eurosystem.

#### Main accounting principles

For the accounting treatment of transactions, assets and liabilities and the establishment of accounting rules, the following basic accounting principles are applicable:

- **Economic reality and transparency:** The accounting methods and financial reporting reflect economic reality, are transparent and promote the qualitative characteristics of clarity, relevance, reliability and comparability. Transactions are accounted for and presented in accordance with their substance and economic reality, and not merely with their legal form.
- **Prudence:** The valuation of assets and liabilities and income recognition is carried out prudently. In the context of Guideline ECB/2016/34, as amended, this implies that unrealised gains are not recognised as income in the profit and loss account, but are recorded directly in a revaluation account and that unrealised losses are taken at year end to the profit and loss account if they exceed accumulated unrealised gains registered in the corresponding revaluation account.
- **Post-balance sheet events:** Assets and liabilities are adjusted for events that occur between the annual balance sheet date and the date on which the financial statements are approved by the relevant bodies, if they affect the condition of assets or liabilities at the balance sheet date. No adjustment is made for assets and liabilities, but disclosure is made of those events occurring after the balance sheet date, if they do not affect the condition of assets and liabilities at the balance sheet date, but which are of such importance that non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions.
- **Materiality:** Deviations from the accounting rules, including those affecting the calculation of the profit and loss accounts of the CBC, are allowed only if they can be reasonably considered as immaterial in the overall context and presentation of the CBC's financial accounts.
- **Going concern basis:** Accounts are prepared on a going concern basis.
- **The accruals principle:** Income and expenses are recognised in the accounting period in which they are earned or incurred, and not in the period in which they are received or paid.
- **Consistency and comparability:** The criteria for balance sheet valuation and income recognition are applied consistently in terms of commonality and continuity of approach within the Eurosystem, to ensure comparability of data in the financial statements.

#### Accounting rules

- **Recognition of assets and liabilities**  
A financial asset/ liability is recognised in the balance sheet only if: a) it is probable that any future economic benefit or cost will flow to or from the CBC; b) all of the risks and rewards have been substantially transferred to the CBC; and c) the cost or value of the asset or liability can be measured reliably.

- **Valuation of assets and liabilities**

The assets and liabilities of the CBC in foreign currency and gold are valued on the basis of the ruling exchange rates on the reporting day, as these appear in the currency exchange rates report of the ECB.

The valuation of gold is based on the price of gold in euro per fine ounce, as determined from the euro/dollar exchange rate on the reporting day.

With the exception of marketable securities held to maturity and financial instruments held to maturity, any assets/ liabilities relating to financial instruments are valued in current prices at the end of the financial year.

The revaluation of the value of assets and liabilities in foreign currency is carried out on a currency by currency basis.

Capital gains or losses on the assets and liabilities denominated in foreign currency, which arise from fluctuations as a result of valuations, are presented separately from the revaluation of their value due to changes in the exchange rate.

- **Recognition of transactions**

- Foreign currency transactions, financial instruments denominated in foreign currency and accrued interest are recorded at the spot settlement date (economic approach).
- Interest accrued on financial instruments, including amortised premiums or discounts, are calculated and recorded on a daily basis.
- Income and expenses are translated into euro, using the exchange rates ruling at the time of the transaction.
- Accrued income and expenses are translated into euro, using the exchange rates ruling at the reporting date.

**Measurement of income and expenses**

Gains and losses, realised in the course of transactions in foreign currency and debt securities, are transferred to the profit and loss account. The average cost method for the respective asset is used on a daily basis for disposed assets, taking into consideration any effects of exchange rate and/ or market price movements on securities.

Unrealised revaluation gains arising from the revaluation of a debt security or currency or holdings in gold, are not recognised in the profit and loss account, but transferred directly to revaluation accounts on the balance sheet. Unrealised losses are recognised in the profit and loss account when they exceed previous revaluation gains registered in the corresponding revaluation account; they may not be reversed against unrealised gains in subsequent years. These unrealised losses on a specific security, currency or holdings in gold are not offset against unrealised gains on other securities, currency or gold. In the event of such unrealised losses, which are transferred to the profit and loss account, the average cost of this asset is reduced to its exchange rate or market price at the end of the year.

Impairment losses are taken to the profit and loss account, and are not reversed in subsequent years, unless the impairment change is related to an observable event that occurred after the impairment was recorded.

Premiums or discounts are calculated and presented as part of interest income, and are amortised over the remaining life of the debt securities.

**Accounting treatment**

- **Collateralised gold transactions**

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

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

– **Portfolio of debt securities**

*Securities held for monetary policy purposes* - are valued at amortised cost subject to impairment tests.

*Marketable securities, other than those held to maturity* - are valued at the mid-market price prevailing at the balance sheet date, on a security by security basis by ISIN (International Securities Identification Number).

*Other securities classified as held to maturity* - are valued at amortised cost subject to impairment tests.

– **Tangible and intangible fixed assets**

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

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

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

– **Banknotes in circulation**

Euro banknotes are issued by the ECB and the euro area NCBs which together form the Eurosystem. The aggregate liability for banknotes in circulation is allocated to the ECB and NCBs of the Eurosystem. An 8% share of the total value of banknotes in circulation is issued by the ECB and the remaining 92% is issued by the NCBs according to the adjusted Eurosystem key (banknote allocation key, see note "P12. Key for subscription to the ECB's capital (ESCB capital key)").

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

– **Post-retirement benefits**

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

– **Foreign exchange swaps/ Foreign exchange forwards**

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

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

## BALANCE SHEET

### ASSETS

#### A1. Gold and gold receivables

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

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

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

In 2022, collateralised gold transactions were carried out and treated as repurchase agreements. The gold relating to these transactions amounted to 42.000 fine ounces (2021: 51.000 fine ounces), which is valued at €71,7 million as at 31 December 2022 (2021: €82,1 million) and remains on the asset side of the balance sheet and the corresponding gold repurchase obligation amounting to €71,7 million (2021: €77,6 million) is recognised in the liability item "L6 Liabilities to non-euro area residents denominated in euro".

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

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

##### A2.1 Receivables from the IMF

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

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

The increase in SDR assets is mainly due to the purchase of SDR70,0 million (€88,8 million) in exchange for euro within the framework of «Voluntary Trading Arrangement», in combination with the full repayment of the loan arrangement «New Arrangement to Borrow» of SDR8,0 million (€9,3 million) and the foreign exchange difference of €4,8 million in the reporting year.



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

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

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

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

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

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

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

This item consists of the outstanding loan accounts providing liquidity to credit institutions established in Cyprus in the context of the single monetary policy of the Eurosystem. At the end of the reporting year, the outstanding Eurosystem monetary policy operations amounted to €1.324,3 billion (2021: €2.201,5 billion), of which €5.215,0 million (2021: €6.513,3 million) was granted to the CBC's counterparties.

Liquidity through the main and longer-term refinancing operations is provided against sufficient collateral provided by the counterparties. The underlying assets are divided into marketable and non-marketable and satisfy the relevant eligibility criteria of the Eurosystem's monetary policy.

A5.2 Longer-term refinancing operations

	31 Dec. 2022 €'000	31 Dec. 2021 €'000	Change €'000
Longer-term refinancing operations	5.214.950	6.513.300	(1.298.350)
<b>Total</b>	<b>5.214.950</b>	<b>6.513.300</b>	<b>(1.298.350)</b>

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

On 27 October 2022, the Governing Council of the ECB decided to introduce three early voluntary repayment dates where the participating credit institutions had additional opportunities to partly, or fully, repay their respective TLTRO III borrowings before their maturity. In particular, the operations carried out by various participating credit institutions as voluntary repayments of TLTROs III amounted to €85,0 million in March, €213,4 million in June and €1,0 billion in December 2022.

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

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

The non-targeted Pandemic Emergency Longer-Term Refinancing Operations (PELTROs), carried out by decision of the Governing Council of the ECB on 30 April 2020, expired in September 2021. The PELTROs had an interest rate 25 basis points lower than the average interest rate of the Eurosystem's main refinancing operations during the respective PELTRO operation.

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

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

#### A7. Securities of euro area residents denominated in euro

##### A7.1 Securities held for monetary policy purposes

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

The following table refers to the market value of securities, not recorded in the balance sheet, but provided for comparison purposes only.

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

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

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

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

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

In March 2020 the Governing Council of the ECB launched a temporary pandemic emergency purchase programme (PEPP), to ease the overall monetary policy stance and to counter the severe risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the coronavirus pandemic. During the first quarter of 2022, the Eurosystem continued its net asset purchases under the PEPP at a lower pace than in the previous quarter, following the decision of the Governing Council of the ECB in December 2021. Based on the same decision, the net PEPP purchases were discontinued at the end of March 2022. The Governing Council of the ECB intends to reinvest the principal payments from the maturing securities purchased under the PEPP until at least the end of 2024. The purchases were made with flexibility, in order to address the risks related to the pandemic within the monetary policy transmission mechanism.

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

As at 31 December 2022, the total balance of securities held for monetary policy purposes in the Eurosystem amounted to €4.937,2 billion (2021: €4.713,5 billion), and according to the Eurosystem capital key, the total investments corresponding to the CBC amount to €8,4 billion (2021: €8,7 billion).

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

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

#### A7.2 Other securities

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.

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

Marketable securities other than held to maturity

These securities are valued at fair value and constitute a marketable variable investment portfolio in the context of the investment policy. They are valued at mid-market price at the reporting date.

Marketable securities classified as held to maturity

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

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

**A9. Intra-Eurosystem 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 amounts to €10.825,0 million and the CBC's share in the ECB's subscribed capital is 0,1750% (see note "P12. Key for subscription to the ECB's capital (ESCB capital key)").

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

A9.2 Claims equivalent to the transfer of foreign reserves

This item represents the CBC's claims arising from the transfer of foreign reserves to the ECB in accordance with the article 30 of the ESCB statute.

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

These claims were converted in euro at the exchange rate prevailing at the time of their initial transfer. The foreign reserves in US dollars are remunerated at the latest available marginal rate for the Eurosystem's main refinancing operations, and the gold component is adjusted to reflect a zero return.

Following (a) the increase in the share of euro area NCBs (which transferred foreign exchange reserves to the ECB) in the ECB's subscribed capital as a result of the Bank of England withdrawal from the ESCB and (b) the decision of the Governing Council of the ECB to reduce the proportion of the euro area NCBs contributions, so that the total amount of foreign reserve assets already transferred by the euro area NCBs remain unchanged, the CBC's claim was marginally adjusted to €86,8 million.

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

This item refers to the claims of the CBC from ECB relating to the allocation of euro banknotes in the Eurosystem (see liability item "L1 Banknotes in circulation"). The net claim arising from the allocation of euro banknotes bears the interest rate applied by the Eurosystem on main refinancing operations, which is positive as from 27 July 2022 (2021: 0%) (see Profit and Loss Account, note "P1.1 Interest income").

A9.5 Other claims within the Eurosystem (net)

Intra-Eurosystem balances

These balances include the net claims of the CBC against the ECB arising from transactions of the CBC with other euro area NCBs with the ECB, as well as non-euro area NCBs which participate in TARGET2 (Trans-European Automated Real-time Gross settlement Express Transfer system – second-generation).

Additionally, this item includes the liability arising at the end of the year from the pooling and redistribution of monetary income (see Profit and Loss Account, note "P5 Net result from the pooling and redistribution of monetary income"). The claim related to the interim distribution of the ECB's profits for 2021 is also included (see Profit and Loss Account, note "P4 Income from equity shares and participating interests").

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

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

**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

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

#### A11.5 Accruals and prepaid expenses

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

#### A11.6 Sundry

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

### LIABILITIES

#### L1. Banknotes in circulation

This item comprises the CBC's share in the total amount of euro banknotes in circulation issued by the Eurosystem. The total amount of banknotes in circulation is allocated to the NCBs of the Eurosystem on the last working day of each month in accordance with the banknote allocation key.

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

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

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

This change is due to the increase in euro banknotes put into circulation by all NCBs of the euro area, which amounted to €1.572,0 billion as at 31 December 2022 compared with €1.544,4 billion as at 31 December 2021.

#### L2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro

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

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

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

This item consists of the credit institutions' current accounts, part of which are required to be held with the CBC within the framework of the Eurosystem's minimum reserve system and for the settlement of payments between them. The total of minimum reserve balances for credit institutions, as on 31 December 2022, amounted to €503,0 million (2021: €501,6 million). On 27 October 2022 the Governing Council of the ECB decided that, starting from 21 December 2022, these balances will be remunerated at the Eurosystem's deposit facility rate. The reserve holdings exceeding the required minimum reserves bear zero interest.

#### L2.2 Deposit facility

This item represents a deposit facility provided by the Eurosystem to credit institutions. It relates to overnight deposits by credit institutions to the CBC, under the single monetary policy in the countries of the euro area at a predetermined rate. Following the decision of the Governing Council of the ECB, the deposit facility rate became positive as from 14 September 2022. As a result, the excess liquidity of the current accounts of the credit institutions was transferred from item "L2.1 Current accounts (covering the minimum reserve system)" to the item "L2.2 Deposit facility".

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

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

### **L5. Liabilities to other euro area residents denominated in euro**

#### L5.1 General government

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

#### L5.2 Other liabilities

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

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

This item mainly consists of CBC's liability in relation to the collateralised gold transactions which amounted to €71,7 million as at 31 December 2022 (2021: €77,6 million).

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

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

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

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

This item represents the CBC's liabilities to the IMF as at 31 December 2022 amounting to €530,7 million (2021: €524,0 million) of special drawing rights of SDR424,0 million (31 December 2021: SDR424,0 million).

### **L11. Items in course of settlement**

This is mainly a liability to the Government resulting from the operations of the Cyprus Clearing House for cheques and amounted to €2,0 million (2021: €4,3 million).

## L12. Other liabilities

### L12.1 Off-balance sheet instruments revaluation differences

This item includes adjustments to the value of foreign exchange transactions in SDR in off-balance sheet accounts amounting to €295,0 thousand (2021: €0).

### L12.2 Accruals and income collected in advance

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

### L12.3 Sundry

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

### Retirement benefits

The CBC provides to its employees, who held a permanent and pensionable position before 1 October 2011, a pension scheme with retirement benefits. Up to and including 30 September 2011, employees contributed only to the transfer of their pensions to their widows and orphans. Under the provisions of the relevant laws as from 1 October 2011, an amount equal to 3% of employees earnings is withheld and applied to secure the long term sustainability of the pension scheme, without converting it into a funded scheme for the purpose of the Social Insurance Law, 2010. As from October 2012 the amounts withheld by the CBC are accounted against the cost of the scheme.

The CBC's employees' pensionable service liability is reviewed annually by independent qualified actuaries.

The actuarial valuation carried out as at 31 December 2022 revealed net actuarial gain of €69,8 million compared with the net actuarial gain of €19,4 million, as at 31 December 2021. The main reason for this gain is the increase of the discount rate from 1,07% to 3,86%, in combination with the increase of the inflation rate and the increases in social insurance pensions from 1,50% to 2,50%. The main reason for the actuarial gain in 2021 was the increase of the discount rate from 0,48% to 1,07%.

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

The actuarial assumptions used for the actuarial valuations are as stated below:

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



**Actuarial assumptions for pensioners' healthcare scheme**

	<b>2022</b>	<b>2021</b>
Discount rate	3,86%	1,14%
Rate of increase in pensions	1,50%	1,00%
Mortality table	60% of PA90 (Males) and 65% of PA90 (Females)	60% of PA90 (Males) and 65% of PA90 (Females)

**Movement in net retirement benefits liability**

	<b>2022</b>	<b>2021</b>	<b>Change</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
<b>Liability related to the CBC's pension scheme</b>			
Net liability as at 1 January	196.878	217.597	(20.719)
<b><u>Employees</u></b>			
Provision for the year	2.089	2.560	(471)
Arrangement/Deductions (transfer to public sector)	(820)	-	(820)
Net actuarial gain of the actuarial liability	(68.491)	(18.134)	(50.357)
<b><u>Executives</u></b>			
Provision for the year	49	74	(25)
Net actuarial gain of the actuarial liability	(1.336)	(1.282)	(54)
Capitalisation of interest	2.096	1.040	1.056
Contribution of employees and executives	647	664	(17)
Benefits paid	(4.830)	(5.641)	811
	<b><u>126.282</u></b>	<b><u>196.878</u></b>	<b><u>(70.596)</u></b>

**Liability to the State for new professional pension scheme**

Net liability as at 1 January	-	-	-
Provision for the year and past service cost	900	-	900
	<b><u>900</u></b>	<b><u>-</u></b>	<b><u>900</u></b>

**Liability related to the pensioners' healthcare scheme**

Net liability as at 1 January	1.735	1.932	(197)
Provision for the year	53	73	(20)
Net actuarial gain of the actuarial liability	(351)	(281)	(70)
Capitalisation of interest	20	11	9
	<b><u>1.457</u></b>	<b><u>1.735</u></b>	<b><u>(278)</u></b>
<b>Total liability as at 31 December</b>	<b><u>128.639</u></b>	<b><u>198.613</u></b>	<b><u>(69.974)</u></b>

In relation to the pension benefits of the permanent employees of the CBC with employment date after 1 October 2011, and the benefits of the employees on contract for an indefinite period, the CBC's Board of Directors decided to participate in the new professional pension scheme for employees of the public sector and the general public sector. Under the new scheme, both employees and the employer are required to contribute a financing rate of 5% on their monthly pensionable income. The contribution of the CBC is approximately €150 thousand for 2022 and €350 thousand for past service, a total of €500 thousand (see Profit and Loss Account, note "P7. Staff Costs"). For the purposes of calculating the contribution rate corresponding to the member for the past service, the social insurance contributions are included pursuant to the article 6 of the Social Insurance Law (Law 59(I)/2010). Therefore, a cost of approximately €123 thousand arises for 2022 and €277 thousand for past service, totalling to €400 thousand (see Profit and Loss Account, note "P7. Staff costs"). The CBC's total liability to the State for the new professional pension scheme is €900 thousand.

### L13. Provisions

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

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

The CBC forms and maintains a general provision against the risks arising from its activities, applying appropriate assumptions, valuation principles and rules, governed by the principle of prudence. The maintenance of sufficient financial reserves ensures the financial and operational independence of the CBC, which as per the Treaty of the European Union and the ESCB Statute and the ECB is a requirement for all Eurosystem NCBs. Additionally, it enhances the CBC's ability to withstand potential losses without the erosion of its capital or affecting its ability to carry out its operations in an effective manner.

The provision is focused on the following risks:

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

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

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

After assessing the amount of the provisioning account against an updated estimate of the risks arising from the CBC's main activities, the Board of Directors of the CBC decided to increase this provision by €45,9 million to €501,6 million by transferring the full profit of the year in the provisioning account. The updated risk assessment for the CBC's main activities also includes the dynamic risks associated with the implementation of the single Eurosystem monetary policy, which includes the emergency measures decided by the Governing Council of the ECB to mitigate the effect of the pandemic, deceleration of inflation and the normalization of conditions in the euro bond markets as a means of transmitting monetary policy to all euro area economies.

It is noted that the risk assessment and the establishment of provisions requires the management and the Board of Directors of the CBC to apply critical judgement and make assumptions and estimates. The estimates and supporting assumptions are based on factors that are deemed reasonable and sufficiently conservative under the circumstances.

### L14. Revaluation accounts

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

The revaluation of the overall unrealised gains, excluding the remeasurement of retirement benefits, increased by €52,1 million (2021: increase €41,3 million) and are shown in detail in the table below. The total of the revaluation accounts including the effect of the remeasurement of the retirement benefits liability amounted to €798,1 million (2021: €675,9 million), showing an increase of €122,2 million.

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	31 Dec. 2022 €'000	31 Dec. 2021 €'000	Change €'000
Pre-stage III revaluations			
– Gold	240.030	240.030	-
– Foreign currency	977	977	-
	<u>241.007</u>	<u>241.007</u>	<u>-</u>
Other revaluations			
– Gold	508.662	465.661	43.001
– Foreign currency	25.304	14.031	11.273
– Prices of debt instruments	-	2.208	(2.208)
	<u>533.966</u>	<u>481.900</u>	<u>52.066</u>
	<b><u>774.973</u></b>	<b><u>722.907</u></b>	<b><u>52.066</u></b>
Remeasurement of the pension scheme liability	22.988	(46.839)	69.827
Remeasurement of healthcare scheme for pensioners liability	133	(218)	351
<b>Total</b>	<b><u>798.094</u></b>	<b><u>675.850</u></b>	<b><u>122.244</u></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 2022, the largest exchange rate revaluation arose from the valuation of the CBC's holdings in US dollars due to exchange rate changes. In accordance with the Eurosystem's accounting rules, any unrealized losses arising from foreign currency revaluations which exceed the accumulated unrealised gains on a specific currency are recognised in the profit and loss account.

The main exchange rates used for the revaluations against the euro as reported in the exchange rates circular of the ECB on 31 December 2022 are the following: Sterling €0,8869 (31 December 2021: €0,8403) and US dollar €1,0666 (31 December 2021: €1,1326).

#### L15. Capital and reserves

	31 Dec. 2022 €'000	31 Dec. 2021 €'000	Change €'000
Capital	150.000	150.000	-
General Reserve Fund	168.820	168.820	-
<b>Total</b>	<b><u>318.820</u></b>	<b><u>318.820</u></b>	<b><u>-</u></b>

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

The CBC has a reserve fund, named the General Reserve Fund, where CBC's net profits are transferred at the end of each financial year. The amount of funds that the CBC withholds is determined by the Board of Directors. The Board's decision aims at ensuring the CBC's proper and sustainable operation as well as its financial independence.

#### Other notes

##### Pending court cases

On 31 December 2022, a number of court cases were pending against the CBC in many cases as co-defendant with the Government and others in relation to its operations. The majority of these court cases were initiated as a result of the decrees issued in 2013 for the implementation of the resolution measures as well as in connection with the bonds issued by the supervised institutions and the decrees issued by the CBC in relation to FBME Bank Ltd.

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

### **Off-balance sheet items**

As at 31 December 2022, the Bank had outstanding balances from foreign exchange forwards and swaps contracts amounting to net payables of €2,6 million against other currencies (mainly SDRs), while as at 31 December 2021 the outstanding balances amounted to net receivables of €21,0 million. As at 31 December 2022, the net unsettled spot transactions were €0,1 million (2021: €0,1 million). As a result of the valuation at the year-end, a gain of €13,8 thousand (2021: €8,0 thousand) arose from the outstanding foreign exchange contracts which is recorded under the balance sheet item "A11.4 Off-balance sheet instruments revaluation differences".

### **Post-balance sheet events**

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

The CBC and its Board of Directors monitor the developments very closely, direct or indirect, resulting from the recent events of bankruptcies and liquidity problems of banks abroad. The CBC does not own any assets related to the, to date, said banking institutions. The CBC monitors its counterparties closely on a daily basis, in accordance with the relevant risk control frameworks of the Eurosystem and/or of the CBC, depending on the nature of the operation and the characteristics of those assets, in order to ensure the appropriate level of protection against the risks for both the Eurosystem and the CBC is in place. The ECB assured that it is fully equipped with all the financial tools to provide liquidity support to the financial euro area system if this is necessary to maintain the smooth transmission of monetary policy.

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

## **PROFIT AND LOSS ACCOUNT**

### **P1. Net interest income**

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

#### **P1.1 Interest income**

Increased by €91,9 million and amounted to €244,1 million compared with €152,2 million in the previous year.

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

- **Securities for monetary policy purposes**

This item consists of interest arising from the purchase of debt securities by the CBC in the context of the covered bonds purchase programme (CBPP3), of public debt securities in the context of the securities markets programme (SMP), the secondary market public sector purchase programme (PSPP) and the pandemic emergency purchase programme (PEPP) (see note "A7.1 Securities held for monetary policy purposes"). The increase of €5,0 million in 2022 is mainly due to the increase in the purchases of PSPP and PEPP programmes, in combination with the decrease in the income from other monetary policy security purchase programmes.

- **Claims from TARGET2**

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

- **Securities for investment policy purposes**

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

- **Net claim on euro banknote allocation**

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

- Negative interest**  
 Following the decision of the Governing Council of the ECB to increase the key interest rates of the ECB from negative to positive, as from 14 September 2022 the positive deposit facility rate was imposed on bank deposits. As a result, the interest income from negative interest rates decreased by €23,3 million in 2022.
- Other interest**  
 Includes interest income in foreign currency mainly from investment in US Treasury bills amounting to €6,5 million (2021: €95,1 thousand). Also included in this item is the CBC's remuneration of €1,3 million (2021: €51,1 thousand) on the Reserve Tranche Position with the IMF which is part of the asset item "A2.1 Receivables from the IMF" and the interest on SDR holdings amounting to €6,1 million (2021: €69,4 thousand). The Reserve Tranche Position is a claim against the IMF and arises from the excess of Cyprus' quota with the IMF over the IMF's deposits in euro. The significant increase in interest income is mainly due to the increase in the interest rates of US Dollar and SDR during the reporting year.

#### P1.2 Interest expense

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

- Interest expense in euro**  
 Interest expense in euro mainly refers to accrued interest on bank deposits due to the increase in the deposit facility rate to positive as from 14 September 2022. It also includes the accrued interest on TLTRO III, which was calculated at the interest rate of -1% i.e. 50 basis points below the deposit facility rate, over the special interest rate periods until 23 June 2022. For the calculation of the accrued interest for the remaining period of each TLTRO III, the deposit facility rate was used, which according to the relevant ECB's decision was zero as from 27 July 2022 and became positive as from 14 September 2022. This was deemed a prudent approach (see asset item "A5.2 Longer-term refinancing operations"). In addition, following the decision of the Governing Council of the ECB, as from 23 November 2022, the interest rate of TLTRO III operations will be adjusted to the average applicable ECB interest rate over this period until the maturity date or early repayment date of each respective TLTRO III operation.
- Interest expense in foreign currency**  
 Interest expense in foreign currency mainly refers to interest of €6,6 million (2021: €0,1 million) paid by the CBC for its liabilities on special drawing rights as a result of Cyprus's counterparty in the IMF (see liability item "L9 Counterpart of special drawing rights allocated by the IMF").

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

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

This amount includes foreign exchange gains of €14,3 million (2021: €1,4 million), which mainly arise from SDR transactions. More specifically, during the reporting year, the average cost price of SDR against euro was decreased due to the high volume of SDR transactions. The conversion of the SDR balances has led to increased euro balances and to realised exchange gains. However, the corresponding unrealised foreign exchange loss arose as a result of the devaluation of euro during the year (see Profit and Loss Account, note "P2.2 Write-downs on financial assets and positions").

### P2.2 Write-downs on financial assets and positions

Write-downs of financial assets and positions largely reflect the reduction, below net acquisition cost, of the market value of debt securities that are valued at mid-market price. Specifically, unrealized foreign exchange loss of €14,4 million results from the devaluation of the euro against the SDR during the year.

### **P3. Net income from fees and commissions**

#### P3.1 Fees and commissions income

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

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

#### ECB profit distribution

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

In addition, no final profit distribution will take place due to the loss recorded by the ECB for the year, which was fully covered by realising the equivalent amount from the ECB's General Risk Provision account, compared to 2021 when the remaining net profit of €41,7 million was distributed (CBC's share: €89,8 thousand).

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

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

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

#### **The liability base consists of the following items:**

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

Any other expense paid on liabilities included within the liability base is to be deducted from the monetary income to be pooled.

#### **The earmarked assets consist of the following items:**

- Lending to euro area credit institutions related to monetary policy operations denominated in euro
- Intra-Eurosystem claims equivalent to the transfer of foreign reserves to the ECB
- Net intra-Eurosystem claims resulting from TARGET2 transactions
- Net intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem
- A limited amount of each NCB's gold holdings in proportion to each NCB's capital key share. Gold is not considered to generate income.

In cases where the value of an NCB's earmarked assets exceeds or falls short of the value of its liability base, the return on the difference (gap) is calculated by applying the main refinancing rate on the gap.

At the end of each financial year, the monetary income pooled by the Eurosystem is allocated among NCBs according to the subscribed ECB capital key.

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

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

### **P6. Other income**

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

## P7. Staff costs

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

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

## Remuneration of Governor and Board of Directors

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

	2022 €'000	2021 €'000
<b>Governor</b>		
Constantinos Herodotou (Governor from 11 April 2019)	173	165
<b>Executive Directors</b>		
Stavros Agrotis (Executive Director from 15 May 2019)	134	128
Maria Heracleous (Executive Director from 15 May 2019)	134	128
<b>Total</b>	<b>441</b>	<b>421</b>

	2022 €'000	2021 €'000
<b>Non-Executive Directors</b>		
Angelos Gregoriades (from 1 July 2019)	30	29
Stavros Evagorou (from 1 March 2017)	30	29
Makis Keravnos (from 24 October 2018 to 28 February 2023)	30	29
Yiannis Savvides (from 24 October 2018)	30	29
Ioannis Charilaou (from 18 October 2016)	30	29
<b>Total</b>	<b>150</b>	<b>145</b>



**P8. Administrative expenses**

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

During the year, administrative expenses increased by €3,7 million to €9,8 million (2021: €6,1 million) mainly due to the €1,6 million increase in legal expenses.

**P9. Depreciation of tangible fixed assets**

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

**P10. Banknote acquisition cost**

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

**P11. Other expenses**

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

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

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

The capital key is essentially a measure of the relative size of each ESCB member state, and is calculated to be 50% of the share of the member state in the population of the EU and 50% of the share of the member state in the GDP of the EU (article 29 paragraph 1 of the statute of the ESCB) (The capital key is used as the basis for allocating each NCB's share in the ECB capital). The NCBs shares in the ECB's subscribed capital are presented on table above.

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

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

CENTRAL BANK OF CYPRUS  
EUROSYSTEM

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

The Eurosystem key is the adjusted capital key for Eurosystem NCBs only, and is used as the basis for the allocation of monetary income, banknotes in circulation and the ECB's profit/ loss, as well as for the distribution of provisions and losses that may arise from monetary policy operations.

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

## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE BOARD OF DIRECTORS OF THE CENTRAL BANK OF CYPRUS**

#### **Report of the audit of the Financial Statements**

##### **Opinion**

We have audited the financial statements of the Central Bank of Cyprus (the "Bank"), which are presented on pages 1 to 26 and comprise the balance sheet as at 31 December 2022 and the profit and loss account for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Central Bank of Cyprus as at 31 December 2022 and of its financial performance for the year then ended in accordance with Article 57(2) of the Central Bank of Cyprus Laws, 2002-2017, in conformity with the accounting principles applicable in the European System of Central Banks (ESCB) as these are determined by the European Central Bank (ECB) in the Accounting Guideline ECB/2016/34, as amended.

##### **Basis for opinion**

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

##### **Other information**

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

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

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

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

##### **Responsibilities of the Board of Directors for the Financial Statements**

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with Article 57(2) of the Central Bank of Cyprus Laws, 2002-2017, in conformity with the accounting principles applicable in the European System of Central Banks (ESCB) as these are determined by the European Central Bank (ECB) in the Accounting Guideline ECB/2016/34, as amended and for such internal control as the Board of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the appropriateness of the basis used for the preparation of the financial statements and using the going concern basis of accounting in accordance with the accounting principles applicable in the European System of Central Banks (ESCB) as these are determined by the European Central Bank (ECB) in the Accounting Guideline ECB/2016/34, as amended and in accordance with the Central Bank of Cyprus Laws, 2002-2017.

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

## **Auditors' Responsibilities for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves true and fair view.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### **Other matter**

This report, including the opinion, has been prepared for and only for the Bank's Board of Directors as body in accordance with Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Anna Loizou  
Certified Public Accountant and Registered Auditor  
for and on behalf of

PricewaterhouseCoopers Limited  
Certified Public Accountants and Registered Auditors

City House, 6 Karaiskakis str.,  
CY-3032, Limassol, Cyprus.

28 March 2023