CENTRAL BANK OF CYPRUS
EUROSYSTEM

ANNUAL REPORT

2020

NICOSIA - CYPRUS

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ABBREVIATIONS AND CONVENTIONS

-ABBREVIATIONS

AnaCredit	Analytical Credit Datasets
ANFA	Agreement on Net Financial Assets
APP	Asset Purchase Programme
ATC	Advisory Technical Committee
C2D	Collateral and Counterparty Database
CBC	Central Bank of Cyprus
CBD	Consolidated Banking Data
CCH	Cyprus Clearing House
CIR	Central Information Register for Issuers of Dishonoured Cheques
CPB	Cyprus Popular Bank Public Co Ltd
CSDB	Central Securities Database
CSDR	Central Securities Depositories Regulation
Cystat	Statistical Service of the Republic of Cyprus
DGS	Deposit Guarantee and Resolution of Credit and Other Institutions Scheme
EBA	European Banking Authority
ECB	European Central Bank
EFC	Economic and Financial Committee
ESCB	European System of Central Banks
ESMA	Economic Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
Eurostat	Statistical Office of the European Union
FSC	Financial Stability Committee
GDP	Gross Domestic Product
HFCS	Household Finance and Consumption Survey
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
MFIs	Monetary Financial Institutions
NPLs	Non-Performing Loans
RMS	Records Management System
SEPA	Single Euro Payments Area
SMP	Securities Markets Programme
SPEs	Special Purpose Entities
SSM	Single Supervisory Mechanism
TARGET2	Trans-European Automated Real-time Gross settlement Express Transfer system - second generation

CONVENTIONS

€	Euro

Thousands, millions and billions are separated by a dot (.) and decimals are separated by a comma (,). In some cases the totals in the tables may not add up due to rounding.

Note: The cut-off date for the statistics included in this report was 31 January 2021.

1. Governor's introduction

The Covid-19 pandemic and the resulting restrictive measures adopted to contain its spread, were the most decisive factors in the economic developments of the year 2020, both in Cyprus and internationally. In Cyprus, the contraction in economic activity recorded was of the order of 5,1%, while in the euro area the recession was even deeper (-6,6%). The extent of the recession is extraordinary. At the end of 2020, the Cypriot as well as many other European governments reimposed strict restrictive measures to deal with the new wave of the pandemic, resulting in a delay in the expected recovery. However, hopes for recovery have shifted later in 2021 and have been boosted by the availability and distribution of vaccines. However, the downward risks to economic forecasts continue to prevail, due to delays in vaccinations and the increase in Covid-19 cases in many euro area countries.

The most important matter in relation to the economy, for both Cypriot and European authorities, remains to limit the impact of the pandemic on economic activity and unemployment. In Cyprus, the state has implemented fiscal measures to support the economy amounting to around €800 million (3,8% of GDP) for 2020. Most of these measures are focussed on supporting workers and businesses. The European Commission (EC) has also approved a loan to Cyprus with favourable terms within the Support to Mitigate Unemployment Risks in an Emergency (SURE) programme. In addition, Cyprus is expected to receive around €968 million in grants for the period 2021-2026 from the EU Recovery and Resilience Facility.

With regard to monetary policy, the European Central Bank (ECB) through the decisions of its Governing Council, in which the Governor of the CBC also participates, continues to provide support to euro area economies through, inter alia, the Public Sector Purchase Programme (PSPP) and the Pandemic Emergency Purchase Programme (PEPP). It is noted that Cypriot government bonds with a total nominal value of €3,27 billion were purchased under the PSPP from the start of the programme until December 2020. In addition, the PEPP also contributed decisively to the reduction of the yields of Cypriot government bonds and, in turn, to the cost of borrowing, since Cypriot government bonds with a total nominal value of €1,65 billion were purchased between the end of March and the end of December 2020. The CBC's participation in the Cypriot bond purchases under PSPP and PEPP amounted to around 90%. At the same time, the ECB's policy of keeping interest rates at historically low levels as well as the Targeted Longer-Term Refining Operations (TLTROs) make a significant contribution to maintaining low borrowing costs in Cyprus. It should also be noted that through the explicit assurance to maintain supportive monetary policy for as long as needed (Forward Guidance), the ECB is decisively strengthening the efforts to boost economic activity.

Although progress was made before the start of the crisis, public and private debt rates as well as the level of non-performing exposures (NPEs) continued to be at very high levels, both in relation to Cyprus[1] macroeconomic fundamentals and in relation to the euro area average. This requires extremely careful and targeted planning to deal with the economic consequences of the pandemic.

This planning should take into account the same basic principles that govern the corresponding

1. Cyprus has already received the first tranche of €250 million in November 2020.

planning at European level, but with particular attention and adaptation to the conditions of Cyprus. On the one hand, it is necessary to avoid the early withdrawal of support measures, either in the economy as a whole or in individual sectors, before a sustainable recovery is achieved, causing further problems in the private sector, increasing unemployment and reducing the income of businesses and households. On the other hand, if the support measures are extended for an unnecessary long time, this could act as a distortion to the restart of economic activity by sector and increase the number of unsustainable enterprises that remain in operation, harming productivity and delaying recovery. At the same time, an unnecessary prolonged duration of the measures would pose a risk to the sustainability of public finances (public debt and budget deficit), with significant negative implications in relation to the determination of the investment grade of Cypriot bonds by the rating agencies, with everything that this entails for the country's borrowing costs. Of course, safeguarding the investment grade should always be seen as a permanent criterion in shaping the country's fiscal policy, not only in times of crisis, but even more so, in times of normal economic conditions in which fiscal consolidation is comparatively easier.

It should also be noted that Cyprus, along with some other euro area countries (such as Spain, Italy, France and Greece) are particularly vulnerable to further corporate bankruptcy and rising unemployment as they have a large proportion of small enterprises, which are under stronger pressure due to the pandemic. This pressure is also reinforced by the fact that Cyprus, like the aforementioned countries, is particularly vulnerable to tourism, which has taken a big hit by the pandemic. Therefore, setting the appropriate timetable for the withdrawal of support measures is a very important policy challenge, particularly for countries such as Cyprus that have implemented important employment support schemes.

As regards GDP in 2020, its growth recorded a significant decrease of 5,1% due to the implementation of restrictive measures to contain the pandemic and the closure of various businesses. The contraction, though significant, was milder than initially expected. External demand has been significantly affected, with arrivals and tourist revenues falling by around 84% in 2020. On the domestic demand side, private consumption recorded a decrease of 3,9%. A significant increase was recorded, however, in the third quarter of the year (5,2%), which reflected the gradual lifting of the restrictive measures as from May due to the relatively good epidemiological picture following the strict restrictive measures of the March-April period. Investments decreased by 2,1% in 2020, reflecting negative developments in the construction sector. However, the decrease was to some extent restrained by the activities of the Special Purpose Entities (SPE). On the other hand, public consumption increased by 13%, mainly due to the increase in expenditure related to dealing with the effects of the pandemic and the purchase of health services by the General Health System (GHS) for the implementation of its second phase. In comparison to the impact on GDP, the negative impact of the pandemic on the labour market was relatively small in 2020 due to state measures to support private sector workers. More specifically, according to data from the Labour Force Survey (LFS), unemployment

in 2020 stood at 7,6% compared to 7,1% in 2019 but remains at lower levels than in the euro area (7,9%).

The recovery is expected to begin in mid-2021 due to the gradual increase projected in domestic and external demand. However, due to the great uncertainty prevailing, three forecast scenarios were drawn up by the CBC in December: one baseline, one mild and one adverse. Specifically, the recovery for 2021 is placed at 4,1% in the baseline scenario and 4,8% and 1,8% in the mild and adverse scenario, respectively. It is noted that the positive growth rate for 2021 as included in the December 2020 projections appears to be already optimistic due to the rapid spread of the pandemic in December and the prolonged lockdowns both in Cyprus and abroad. Moreover, the observed delays in the vaccination process in the EU may have a further negative impact on the forecasts. On the basis of these new developments and according to subsequent internal CBC forecasts (January 2021), the growth rate for 2021 is expected to reach 3,1%.

The country's fiscal situation in 2020 has also deteriorated. According to Cystat data for 2020, the budget deficit is at 5,8% of GDP compared to a surplus of 1,5% of GDP in 2019. The government debt-to-GDP ratio increased significantly at the end of the year, to 118,2% from 94% at the end of 2019. This mainly reflects the revision of the fiscal planning in order to meet the funding needs created by the pandemic and maintain a significant cash buffer.

Regarding prices, inflation based on the Harmonised Index of Consumer Prices (CPI), stood at -1,1% in 2020 compared to 0,5% in 2019. It is noted that, in the euro area, inflation stood at 0,3% in 2020 compared to 1,2% in 2019. In general, inflation developments in Cyprus mainly reflect the negative impact of the pandemic on domestic economic activity and aggregate demand, as well as the significant declines in energy prices internationally as a result of the sharp decline in global demand for oil. With regard to inflation projections, an increase to 0,5% is expected in 2021 mainly due to the projected economic recovery, as well as the increase in energy prices.

The outbreak of the pandemic and the restrictive measures imposed to limit its expansion, inevitably affected the Cypriot banking sector. The contraction of economic activity has had a negative impact in the financial position of both households and businesses and in the servicing of their financial obligations. Demand for new lending has also been affected negatively.

Consequently, the above developments have turned over the business plans of credit institutions and have acted as an inhibiting factor in their efforts of deleveraging their balance sheet from non-performing lending. In addition, the difficulty of households and businesses in serving their existing credit obligations has created the need for measures by European and national authorities.

The CBC, without delay and realising that taking timely measures is crucial, acted immediately in cooperation with the European authorities in order to provide the necessary flexibility with regard to prudential regulations. As a consequence of the above, concrete measures and decisions were taken to support the economy. In particular, the amendment of the relevant CBC Directive on the granting of new short-term credit facilities, the preparation of the payment moratorium and the cooperation with the Ministry of Finance on the adoption of the Decree implementing the payment moratorium,

the release of capital to provide breathing space to banks to absorb losses and to facilitate them to provide new lending or proceed with restructurings and the circular of the CBC to all banks to accelerate the restructurings of existing loans so as to facilitate the smooth operation of businesses, were key elements that supported and enhanced thousands of households and businesses and at the same time assisted the banking sector.

Specifically, the loan repayment moratorium provided significant liquidity buffer to households and businesses. The amount of credit facilities that was subject under the payment moratorium amounted to €11,8bn approximately and represents the 48% of total performing credit facilities. It is noted that the payment moratorium, which began at the end of March 2020 with a validity of nine months and it had one of the longest durations within the European countries, has expired at the end of December 2020.

It should also be noted at the same time that the amount of new lending, although reduced compared to 2019 by 8,8%, was maintained at satisfactory levels, under the circumstances, as it amounted to €2,8bn. This reflects the above-mentioned efforts of the banking sector, through the measures taken, to support the real economy.

In addition to the above, the challenges faced and continue to be faced by credit institutions, i.e. the resolution of legacy non-performing loans that are still burdening their balance sheets and the need to rationalise their business model, remain amongst the highest priorities of the banking sector. In relation to non-performing loans, it is important that the litigations of financial disputes between borrowers and banking institutions to be accelerated by the courts, and in addition no suspension or amendment of the foreclosures law to take place. By speeding up the litigation procedures of the disputes, protection can also be given to the vulnerable borrowers under the existing law, while on the contrary, any change in the law aimed at delaying proceedings will have negative consequences for the whole economy as well as the financial stability of the country.

Despite the decline in economic activity and the adverse conditions for further deleveraging of non performing loans, credit institutions continued their efforts to clean - up their balances sheets mainly through disposals of non – performing portfolios, totalling around to €2bln (which correspond to around 9,7% of country's GDP). This is particularly encouraging as it is indicative of the investors view for the positive outlook of Cyprus economy, especially under the unprecedented conditions of economic uncertainty. In particular, the total amount of non – performing loans decreased from the end of 2019 to the end of 2020 by €3,9bln, reaching €5,1bln or 17,7% of total credit facilities. Furthermore, the common equity tier 1 ratio has slightly increased (17,4% at the end of 2019) and stood at 17,6% at the end of 2020. At the same time, the amount of new lending, although reduced compared to 2019 by 8,8%, was maintained at satisfactory levels as it amounted to €2,8bln.

Credit institutions should continue to adapt and evolve to new market conditions in order to meet the needs of the real economy. It is widely accepted that the digitisation of financial services has radically changed the way the sector works. It is thus an absolute necessity for credit institutions to adapt and transform their business model in such a way

that they can successfully meet the needs of the new era. In addition, they should continue their improvement in the area of restructurings by working more constructively with their borrowers and carrying more restructurings in terms of both volume and quality. Moreover, they should serve their customers even better, manage their clients' issues more quickly, demonstrate consistency in their services offered and strengthen properly their anti-money laundering efforts while avoiding those practices that remove law-making businesses.

As a result of the pandemic, the current state of our economy needs very careful handling, both in relation to businesses and households, as well as the banking sector. The macroeconomic and microeconomic policy applied for limiting the consequences of the crisis and restarting economic activity as soon as possible should also take into account the fact that the credit risks to our country are still high due to high rates of private and public debt. A carefully planned withdrawal of support measures by sector, safeguarding of the sustainability of the country's public finances and investment grade, accelerating the process of resolving financial disputes between borrowers and banking institutions, continuation of structural changes and the gradual transition to a green economy through incentives to promote environmentally friendly investments, are the biggest policy challenges. A successful exit of our economy from the crisis caused by the pandemic, as well as sustainable, long-term growth, will depend on these challenges.

Constantinos Herodotou
Governor

Management of operational issues arising from the Covid-19 Pandemic

The outburst of the Covid-19 pandemic in Cyprus in March 2020, resulted in unprecedented circumstances and heightened challenges, especially as regards the health and safety of employees and business continuity at the Bank.

A Covid-19 Incident Response Team was set up in March 2020, to ensure close monitoring of the pandemic developments and dynamic adjustment of the work arrangements. The team consisted of a Senior Director and representatives from the the Human Resources, Organisation & Planning Department and the Risk & Compliance Department. The team worked closely with the Bank's Health & Safety Officer and the Information Technology Department.

The team proceeded with the planning and implementation of precautionary measures against Covid-19, in compliance with the relevant instructions and decrees issued by the government authorities, which are responsible for safeguarding public health.

Actions of the Covid-19 Incident Response Team included:

- continuous and timely guidance to staff on appropriate measures to combat/control the spread of Covid-19, especially when members of staff were regarded as close contacts or confirmed cases,
- issuance of internal instructions for the implementation of measures determined by the competent Ministries,
- intensified health and safety measures, such as frequent cleaning of surfaces and common areas, installation of disinfection stations, installation of plexiglass screens in offices, provision of personal protective equipment to staff, placement of signs inside the Bank and temperature screening at the entrances of the building,
- issuance of instructions to staff, according to the guidelines of the competent Ministries, regarding business trips, physical meetings, restriction of external visits, and
- preparation of an action plan in case a confirmed or suspected case was detected inside the Bank.

In order to decongest the workplaces, emergency teleworking arrangements were implemented to reduce the physical presence of staff in the building. Special arrangements were introduced for Departments carrying out critical functions, due to the nature of their activities. For these Departments, employee groups working in segregated locations (split teams) and teleworking arrangements were applied. During March - April 2020 when increased lockdown restrictions were in place, more than 60% of staff worked from home through remote access. Despite the extent and duration of teleworking, it was assessed that work activities were performed smoothly without any serious problems.

2. MANAGEMENT AND ORGANISATION OF THE BANK

2.1 BOARD OF DIRECTORS

Constantinos Herodotou

Stavros Agrotis

Maria Heracleous

Constantinos Herodotou

Governor and Chairman from 11 April 2019.

Stavros Agrotis

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

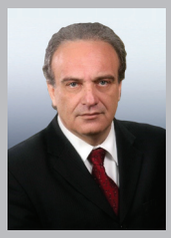
On returning to Cyprus, he commenced employment at the Cyprus Investment and Securities Corporation Ltd (CISCO) - Investment Banking Operations, where he served for 19 years, holding the position of Manager Brokerage Services with involvement in the full spectrum of investment banking activities. He was one of the pioneers in the efforts to establish the Cyprus Stock Exchange and served for a number of years as Vice-President of the Cyprus Financial Services Firms Association, contributing to the drafting and approval of relevant legislation. During the period 1998-2004, he served on the Board of Management of The English School Nicosia. From 2008 to 2019, he worked at AXIA Ventures Group Ltd (Investment Banking Operations) as Director – Equities Trading. In parallel, during the period 2014-2019 he served initially as Vice-President and then as President of the Housing Finance Corporation (a local authorised credit institution). He has served on the Boards of a number of listed and non-listed Cypriot and foreign owned companies, gaining valuable experience in a wide spectrum of activities such as banking, insurance, trade, industry, shipping, financial services and construction. He was appointed as an executive member of the CBC Board in May 2019.

Maria Heracleous

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

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

Ioannis Charilaou



Stavros Evagorou

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

Ioannis Charilaou

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

From 1988 until 1997, he worked in the Internal Audit Department of the Cyprus Telecommunications Authority. From 1997 until September 2003, he worked at the Central Ecclesiastical Fund and at the Audit Department of the Church of Cyprus. Since September 2003, he has been the Chief Executive Officer of the Central Ecclesiastical Fund and the Auditor General of the Church of Cyprus. Between 2005 and 2014, he served on the Board of Hellenic Bank and, for a consecutive number of years, he was a member and then Chairman of the bank's Risk Management Committee as well as member of the Audit Committee. From 2005 until recently, he was a member of 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.

Stavros Evagorou

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

From 1984-1985, he served as District Manager in the Famagusta Area for Photis Photiou Estates Ltd. From 1985-1987, he served as Accountant and Payroll Officer in Dome Hotel, Ayia Napa and from 1987-2016 he was Head of the Economic and Social Research Advisory Office of AKEL. He also held the posts of member of the Nicosia Municipal Council (1991-2001), member of the Nicosia Sewerage Board (1991-2001), member of the

Angelos Gregoriades

Makis Keravnos

Nicosia Water Board (1996-2001), Member of Parliament (2001-2016), Chairman of the House of Representatives Standing Committee on Crime and on the Fight Against Drugs and Addictive Substances (2006-2011), Head of the Delegation of the House of Representatives to the Parliamentary Assembly of the Organisation for Security and Co-operation in Europe (OSCE) (2003-2009), member of the House of Representatives Standing Committee on Financial and Budgetary Affairs (2001-2016) and Deputy Parliamentary Spokesman (2011-2016). Furthermore, he has been a member of the Board of Directors of Eurocypria Airlines Ltd (1993-1998), member of the Board of Directors of Cyprus Airways Public Ltd (1998-2001) and Chairman of Demetra Investment Public Ltd (2005-2009). He has published many articles in economic magazines and newspapers, as well as the book on "The Future of Cooperative Banks in the European Union". He was appointed as a non-executive member of the CBC Board in March 2017.

Angelos Gregoriades

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

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

Makis Keravnos

Makis Keravnos studied Economics at the University of Athens (1973-1977). He then completed his postgraduate studies in Development Economics (1978-1979) and in Industrial Relations (1986). With a scholarship granted by the United Nations Development Programme, he attended Oxford Brookes University where he studied New Technology and Human Resource Management. In addition, he underwent professional training in the area of Human Resource Management and the provision of consultancy services for small to medium-sized enterprises, through the ETP programme of the European Foundation for Management Development.

Yiannis Savvides

For a number of years, he worked in managerial positions in large companies in Cyprus and abroad. Between 1983 and 2003, he served as senior officer in the Training and Development Directorate and the Research and Planning Directorate at the Human Resource Development Authority of Cyprus. In March 2003, he was appointed Minister of Labour and Social Insurance and from May 2004 until the end of 2005 he served as Minister of Finance. In September 2005, he was appointed CEO and member of the Board of Directors of Hellenic Bank, where he served until September 2014. From 2006 until 2009, he served as Chairman of the Board of Directors of the Cyprus Broadcasting Corporation and from 2008 until 2014 he served as Chairman of the Board of Directors of HellenicAlico Life Insurance Company. He was a founder member of the Pancyprian Association of Economists where he served as President for over three decades. Since 2015, he has been a freelance consultant in the fields of finance, management, strategic planning and business development. He has lectured at the University of Cyprus and the Centre for European and International Affairs of the University of Nicosia and has been a speaker at international conferences. He has published a number of articles in academic journals and newspapers. He was appointed as a non-executive member of the CBC Board in October 2018.

Yiannis Savvides

Yiannis Savvides received a Bachelor of Arts (BA) in Business Studies from The Philips College. Simultaneously, he received a Diploma in Marketing from the Chartered Institute of Marketing and a Master of Business Administration (MBA) from the University of Newcastle-Upon Tyne. He is a member of the Association of Chartered Certified Accountants (ACCA) and a member of the Institute of Certified Public Accountants of Cyprus (ICPAC).

Between 1997 and 2009, he served as Financial Controller in various private and public companies covering a wide range of sectors such as trading, manufacturing, insurance underwriting and car dealership. He gained in-depth experience in financial re-engineering, company re-structuring, special IT projects and the listing of companies. In 2009 he joined Aphrodite Hills Resort Ltd, one of the biggest resorts in the Middle East, where he worked as Financial Controller. Between 2015 and 2017 he served as the company's Group Chief Financial Officer (CFO) as well as Executive Director of its subsidiaries. From 2014 until 2016, he served as a non-executive Director on the Board of the Cyprus Ports Authority and as a member of the internal auditing committee. Since 2017 he has been serving as a partner in the audit firm A.V. Savvides & Partners Ltd. He was appointed as a non-executive member of the CBC Board in October 2018.

2.2 SENIOR MANAGEMENT TEAM

Constantinos Herodotou
Governor

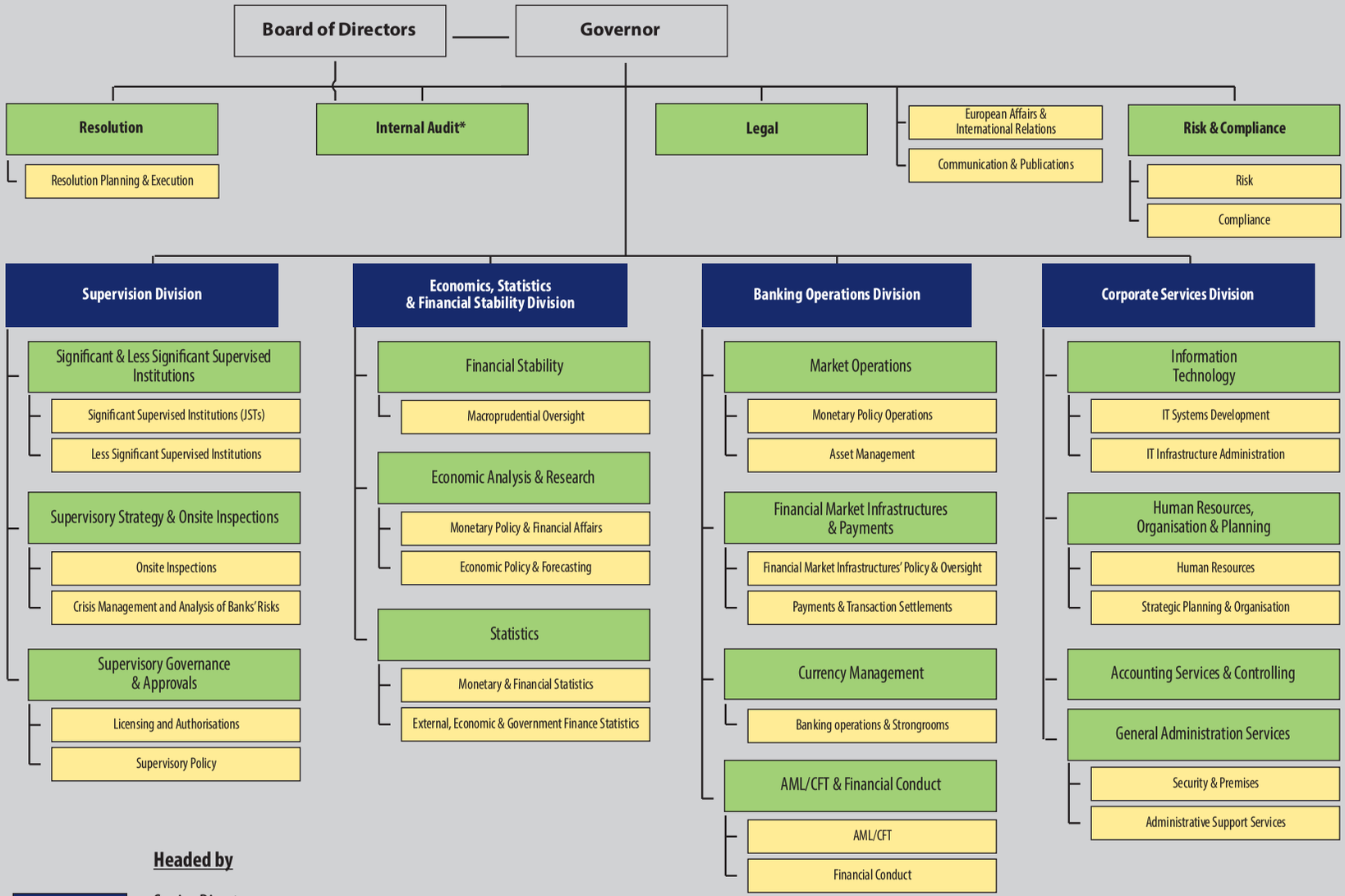
P. Frank
Senior Director

A. Kapatais
Acting Senior Director

G. Nicolaou
Acting Senior Director

K. Stavrou
Acting Senior Director
(until 31 October 2020)

2.3 ORGANISATIONAL CHART



** Internal Audit reports to the Governor as per article 119(3) of the Constitution and to the Board's Audit Committee as per article 60(A) of the CBC Laws.*

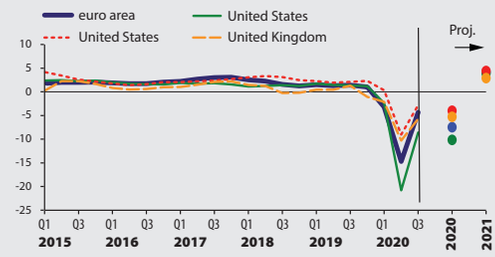
3. ECONOMIC DEVELOPMENTS

3.1 External developments

During 2020, the Covid-19 pandemic caused the biggest blow to the global economy since the Second World War. Hence, governments, amid unprecedented uncertainty regarding the course and the evolution of the pandemic, adopted restrictive measures, which contributed to a deterioration in trade and economic activity in general, during the year under review. Since the beginning of the pandemic, the major central banks around the world have adopted significant expansionary monetary policy measures, while governments have taken supportive fiscal policy measures. According to the projections of international organisations and despite high uncertainty, GDP growth in selected major economies is expected to return to positive levels in 2021 (**Chart 3.1**).

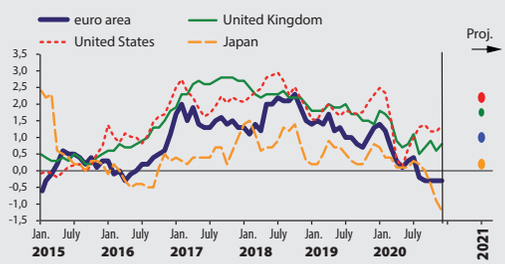
In 2020, global inflation remained at subdued levels. The trend of global inflation is directly linked to the path of global economic activity and the consequent sharp fall in oil prices (**Chart 3.2**).

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



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

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



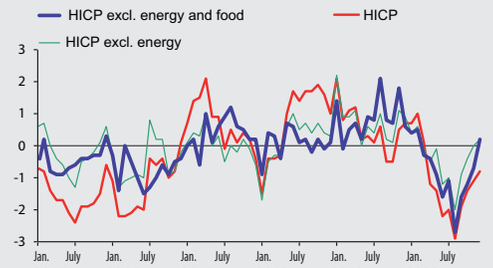
Source: Eurostat.
Note: The projections are for the year and are calculated as averages of the most recent projections from the European Commission and the IMF.

3.2 Domestic developments

3.2.1 Inflation

Domestic headline inflation[2] recorded an annual decrease of 1,1% in 2020 compared with an increase of 0,5% in 2019 (**Chart 3.3**). This was mainly due to the abovementioned negative effects of the pandemic, the large reductions in services prices, especially in tourism-related prices and in energy prices.

CHART 3.3 **Inflation in Cyprus**
(annual change, %)



Source: Eurostat.

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

3.2.2 Monetary developments[3,4]

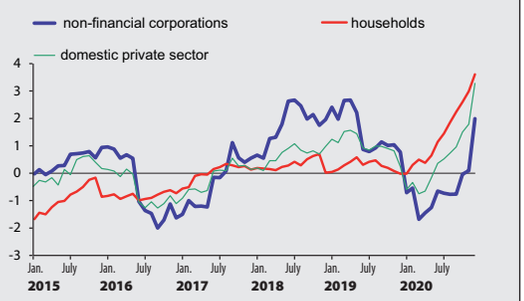
Due to the pandemic, the measures adopted to support the domestic banking sector involved the suspension of loan and interest instalments until the end of 2020 and the interest rate subsidisation scheme for new housing and NFCs loans.

The contraction of non-performing loans in the banks' balance sheets continued in 2020, recording a further decrease of € 3,9 billion on the back of NPFs sales and write-offs, reaching €5,1 billion or 17,7% of gross loans in December 2020. Despite the significantly reduced level of NPFs, these figures remain high compared with the euro area average.

The high levels of NPFs and private debt constitute a major obstacle to economic activity, limiting any new sound lending to the real economy. Furthermore, the contraction in GDP had a negative impact on new loan contracts to the non-financial private sector. Specifically, new lending, and in particular to non-financial corporations decreased. However, the interest rate subsidisation measure partially supported new lending during the second half of the year, in particular, housing loans.

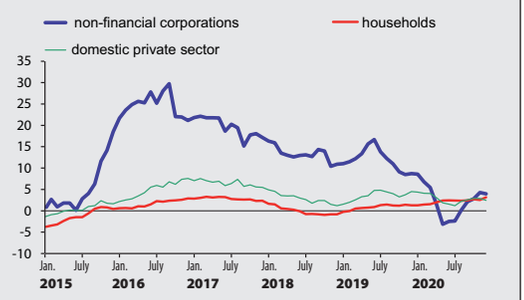
On the other hand, net loans to the domestic private sector recorded an annual increase of 3,3% at the end of 2020 compared with a marginal increase of 0,2% at the end of 2019 (**Chart 3.4**). This reflects the significant reduction in debt repayments as a result of the loan moratorium as well as the partial recovery in new lending during the second half of the year, although this remained lower than the previous year's levels.

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



Source: CBC.

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

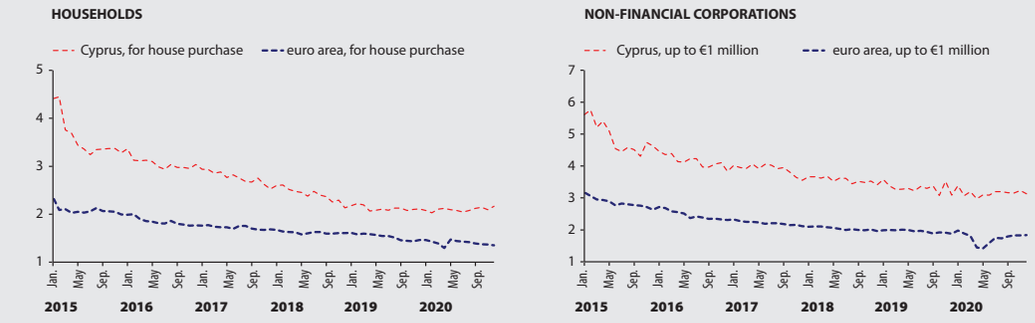


Source: CBC.

At the same time, the annual growth rate in domestic private sector deposits reached 2,5% at the end of 2020, compared with 4,5% at the end of 2019. (**Chart 3.5**). Specifically, household deposits recorded an increase as a result of forced/precautionary savings due to the imposition of restrictive measures and high uncertainty. In addition, non-financial corporations' deposits increased and used as a safety net, possibly as a result of the postponement of long-term investments due to the

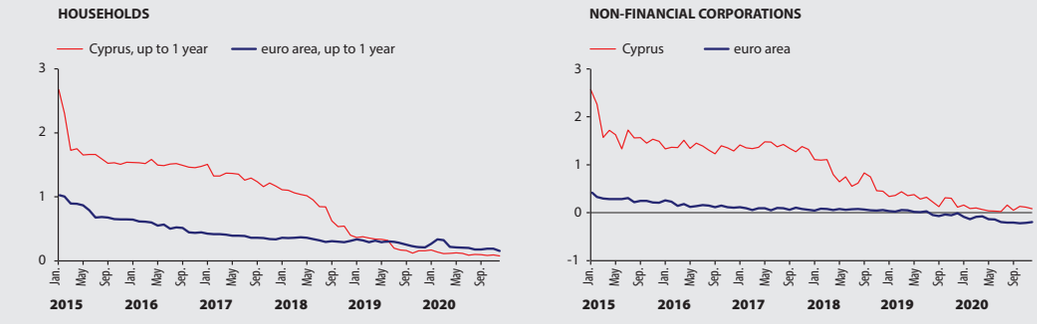
3. All monetary data, including interest rates, unless otherwise indicated, refer to data excluding the CBC and/or the Eurosystem. It should also be noted that data referring to residents of Cyprus and analysed in this section exclude special purpose entities (SPEs).
4. For details on the calculation of transactions and annual growth rates, please refer to the CBC's Monetary and Financial Statistics, which is available on the CBC website (https://www.centralbank.cy/en/publications/monetary-and-financial-statistics).

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



Sources: SDW (ECB), CBC.
(1) At floating rate and up to 1 year initial rate fixation.

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



Sources: SDW (ECB), CBC.
(1) With agreed maturity of up to 1 year.

negative economic environment. The annual growth of non-resident deposits (including SPEs) remained virtually unchanged at -6,9% in December 2020.

Regarding interest rates in Cyprus, these remained low as a result of the ECB's expansionary monetary policy and the additional supportive policy measures adopted to address the negative effects of the pandemic. Specifically, lending interest rates recorded a marginal increase of 4 basis points and 5 basis points in 2020 for NFCs and households, respectively (**Chart 3.6**), whereas domestic deposit interest rates decreased by 3 basis points and 8 basis points, respectively (**Chart 3.7**).

In conclusion, the maintenance of a low interest rate environment supports new lending, the strengthening of economic activity and the ongoing deleveraging efforts of the domestic private sector. On the other hand, the downward trend of interest rates in conjunction with bank's excess liquidity, continue to challenge banks' profitability.

3.2.3 Domestic economy

GDP in Cyprus dropped by 5,1% in 2020 owing to the pandemic and the restrictive measures adopted to limit its spread, as well as the deterioration in the global economy. The GDP contraction was smaller than the average drop in the euro area.

At the sectoral level, the sectors of trade, transportation, hotels and restaurants contributed the most to the contraction in GDP growth (3,8 percentage points) (**Chart 3.8**). On the expenditure side, annual reductions were recorded in domestic demand, excluding public consumption, and in net exports.

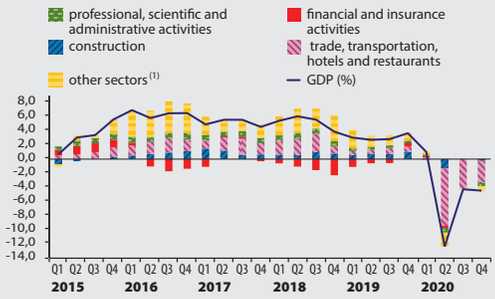
In 2020, the real estate sector in Cyprus was negatively affected by the developments. Real estate sales fell significantly in the year under examination, as a result of the lockdown measures for the pandemic, which significantly reduced purchases from foreigners. Domestic demand offset to some extend the downward pressures, supported by the low interest rate environment, as well as the plan for a partial interest rate subsidy for new housing loans. In 2020, the first quarterly reductions in house prices occurred, albeit to a modest degree.

The negative impact of the pandemic on the labour market was relatively muted owing to the government measures to support jobs. Employment fell by 0,6% and the unemployment rate, based on the Labour Force Survey (LFS), rose to 7,6% (**Chart 3.9**). In 2020Q4, unemployment reached 8% and the percentage of the long-term unemployed with a duration of six months and more rose to 4,4%.

Despite the significant contraction in GDP, there has been a relatively small decline in compensation per employee (-3,2%). An annual increase of 4,7% was recorded in compensation per public sector employee, mainly due to the ongoing gradual restitution of cuts in wages and pensions, while a decrease of 6,6% in the private sector was observed. The significant drop in productivity led to a significant increase in unit labour costs by 1,5% (**Chart 3.10**, p. 25). However, the level of the relevant index remains lower than in the euro area.

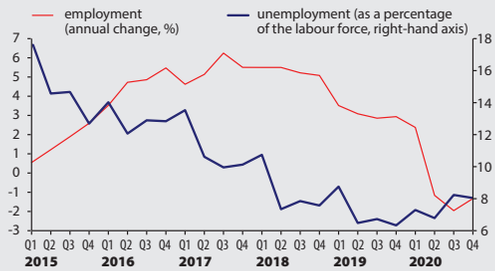
In 2020, the current account deficit[5] worsened, reaching -€2.476,4 million (-11,8% of GDP), com-

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



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

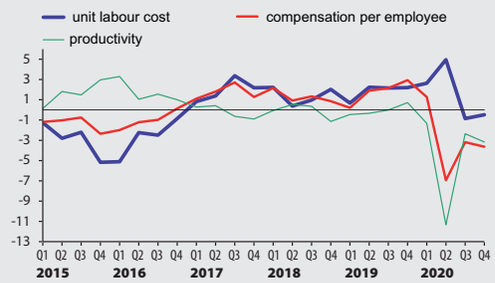
CHART 3.9 **Unemployment and employment**



Source: Cystat (LFS).

5. The external statistics data are significantly affected by the classification of SPEs as residents of Cyprus and, in partic¬ular, by those, which are considered as economic owners of mobile transport equipment (mainly ships). The transac¬tions of SPEs do not affect nor are affected substantially by the domestic economic cycle.

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



Source: Cystat.

pared with -€1.406 million (-6,3% of GDP) in the previous year (**Table 3.1**). Adjusted for the impact of SPEs, the current account deficit, reached -€2.384,5million (-11,4% of GDP), compared with -€1.510 million (-6,8% of GDP) in 2019. This development was mainly driven by the reduction in the surplus of services balance, due to the shrinkage in tourism revenues, which was partly offset by the reduction in the trade deficit of goods. The net International Investment Position (IIP) reached -€29,4 billion (-140,2% of GDP) in 2020. Adjusted for the impact of SPEs, IIP improved by 88,6 percentage points, standing at -€10,8 billion (-51,6% of GDP).

The economic impact of the pandemic has significantly affected public finances. The fiscal measures implemented amount to around €1 billion or 5% of GDP, as the budget deficit reached to 5% of GDP (preliminary data) compared to a surplus of 1,5% of GDP in 2019 (**Table 3.2**, p. 26). The government debt-to-GDP ratio stood at 118,2% in 2020 (**Chart 3.11**, p. 26), reflecting debt issuance for supporting the economy and the maintenance of a large cash buffer.

Table 3.1 **Balance of payments (main categories)**

	2019 (€ million)	2020 (€ million)	Change (€ million)
Current account balance	**-1.406,0**	**-2.476,4**	**-1.070,4**
Current account balance adjusted for the impact of SPEs	**-1.510,0**	**-2.384,5**	**-874,5**
Goods and services balance	**-237,8**	**-1.295,9**	**-1.058,1**
Trade balace	**-4.634,4**	**-4.177,1**	**457,3**
Exports of goods	3.106,2	2.964,0	-142,3
Exports of goods - SPEs	998,2	870,6	-127,6
Imports of goods	7.740,7	7.141,1	-599,6
Imports of goods - SPEs	1.275,2	1.295,2	20,0
Services balance	**4.396,6**	**2.881,2**	**-1.515,4**
Exports of services	**12.912,4**	**11.135,2**	**-1.777,1**
of which:			
Transport	3.249,2	2.794,0	-455,2
Travel	2.906,7	576,4	-2.330,4
Finanacial services	3.260,2	3.930,5	670,3
Telecommunications, computer and information services	2.365,4	2.598,6	233,2
Other business services	378,3	491,3	113,0
Imports of services	**8.515,8**	**8.254,0**	**-261,7**
of which:			
Transport	2.099,9	1.548,2	-551,7
Travel	1.426,4	769,5	-656,9
Finanacial services	1.857,4	2.312,3	454,9
Telecommunications, computer and information services	1.748,2	2.062,9	314,7
Other business services	747,8	920,4	172,5
Primary income (net)	**-898,7**	**-877,5**	**21,2**
Secondary income (net)	**-269,6**	**-303,0**	**-33,4**
Current account balance (% of GDP)	**-6,3**	**-11,8**	
Current account balance adjusted for the impact of SPEs (% of GDP)	**-6,8**	**-11,4**	

Sources: Cystat, CBC.

3.2.4 Forecasts

The December 2020 CBC forecasts for the Cyprus economy have already proved optimistic[6] owing to the resurgence of the pandemic in December as well as the economic impact associated with the imposition of restrictive measures to limit its spread both in Cyprus and abroad. At the same time, developments regarding the vaccination rollout show

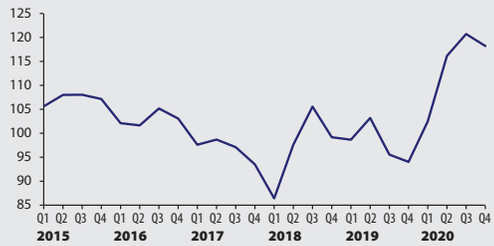
6. For more analysis on December 2020 forecasts see the Economic Bulletin.

Table 3.2 **Accounts of general government**

	2019 (€ milion)	2020 (€ milion)	Change %
EXPENDITURE			
Intermediate consumption	983,7	908,2	-7,7
Compensation of employees	2.732,7	2.891,3	5,8
Social transfers	3.034,2	3.619,0	19,3
Interest	509,6	451,7	-11,4
Subsidies	70,1	578,2	724,8
Other current expenditure	538,3	576,1	7,0
Gross fixed capital formation	577,1	614,8	6,5
Other capital expenditure	419,8	148,7	-64,6
Total expenditure	**8.865,4**	**9.787,8**	**10,4**
Total expenditure as a % of GDP	**39,8**	**46,6**	**17,2**
REVENUE			
Taxes on production and imports	3.329,1	2.852,3	-14,3
Current taxes on income, wealth, etc	2.156,3	2.099,7	-2,6
Social contributions	2.378,1	2.403,9	1,1
Other current resources	235,4	240,1	2,0
Sales	803,9	714,6	-11,1
Capital transfers received	90,0	114,3	27,0
Property income	213,3	150,0	-29,7
Total revenue	**9.206,1**	**8.574,9**	**-6,9**
Total revenue as a % of GDP	**41,3**	**40,8**	
Primary balance	**852,4**	**-761,5**	
Primary Balance as a % of GDP	**3,8**	**-3,6**	
Surplus (+) / Deficit (-)	**340,7**	**-1.213,0**	
Surplus (+) / Deficit (-) % of GDP	**1,5**	**-5,8**	

Sources: Cystat, CBC.

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



Sources: Cystat, CBC.

that, due to both production capacity constraints and distribution problems, will not proceed as expected in 2021. The unavoidable downward revision in the forecasts for 2021 will also take into account possible medium or long-term effects of the pandemic on companies already in a difficult financial situation, both in Cyprus and internationally ("scarring effects").

4. FUNCTIONS OF THE BANK

4.1 Regulation and Supervision of the Banking Sector

4.1.1 Developments in the banking sector

The outbreak of the pandemic in early 2020 and the restrictive measures imposed to limit its expansion, inevitably affected the Cypriot banking sector. The temporary downswing of economic activity has had a negative impact in the servicing of current financial obligations by households and businesses, as well as in the demand for new financing.

Consequently, the above developments have turned over the business plans of credit institutions and have acted as an inhibiting factor in the efforts of deleveraging their balance sheet from non-performing lending. In addition, the difficulty of households and businesses in serving their existing credit obligations has created the need for measures by European and national authorities.

The CBC, without delay and realizing that taking actions as well as the speed of taking such actions are crucial, acted immediately in cooperation with the European authorities in order to provide the necessary flexibility with regard to prudential regulations. As a consequence of the above, concrete measures and decisions were taken to support the economy. In particular, the amendment of the relevant CBC Directive on the granting of new short-term credit facilities, the cooperation with the Ministry of Finance on the adoption of the Decree implementing the payment moratorium, the release of funds to cover losses and the granting of new facilities were key elements that relieved thousands of households and businesses and at the same time assisted the banking sector in minimising the adverse effects of the pandemic.

The amount of credit facilities that was subject under the payment moratorium amounted to around €11,8bn, of which €11bn pertain to performing credit facilities and represent 48% of total performing credit facilities, which is the highest in Europe. The payment moratorium, which began at the end of March 2020 with a validity of nine months, had one of the longest durations within the European countries, and expired at the end of December 2020. It is important that borrowers who anticipate to experience problems in servicing their credit facilities to contact their credit institutions as soon as possible so as to find a mutually acceptable and sustainable restructuring solution. The CBC has drawn the attention of credit institutions to the need for their operational preparedness for the expected flow of new applications for restructuring as well as the preparedness to communicate with borrowers and reassessed their financial position.

In addition to the above, the challenges faced and continue to be faced by credit institutions, i.e. the resolution of legacy non-performing loans that are still a burden on their balance sheets and the need to rationalise their business model, remain amongst the highest priorities of the banking sector.

Despite the decline in economic activity due to the restrictive measures undertaken in order to limit the expansion of the pandemic, credit institutions continued their efforts to clean - up their balances sheets mainly through disposals of non – performing portfolios, totalling around to €2 bil-

lion, which correspond to approximately 9,7% of country's GDP. This is particularly encouraging as it is indicative of the investors' view for the positive outlook of the Cyprus economy, especially under the unprecedented conditions of economic uncertainty due to the outbreak of the pandemic. In particular, the total amount of non – performing loans decreased from the end of 2019 to the end of 2020 by €3,9 billion, reaching €5,1 billion or 17,7% of all credit facilities. Furthermore, the common equity tier 1 ratio registered a small increase, reaching 17,6% at the end of 2020, compared with 17,4% at the end of 2019. At the same time, the amount of new lending, although reduced compared to 2019 by 8,8%, was maintained at satisfactory levels as it amounted to €2,8 billion.

Credit institutions should continue to adapt and evolve to new market conditions in order to meet the needs of the economy. It is widely accepted that the digitalisation of financial services has radically changed the way the sector works. It is thus an absolute necessity for credit institutions to adapt and transform their business model in such a way that they can successfully meet the needs of the new era.

4.1.2 On-site inspection of credit institutions

The CBC, within the framework of its powers and responsibilities, shall carry out on – site inspections to credit institutions in accordance with the plan drawn up annually and in accordance with the risks identified. With regard to the significant credit institutions both in Cyprus and abroad, whose supervision has been undertaken by the ECB, the CBC participates through its staff, as a member of the Single Supervisory Mechanism, in a number of on –site inspections both in Cyprus and abroad. With reference to the less significant credit institutions in Cyprus, whose supervision is the responsibility of the CBC, the on – site inspections are conducted solely by the CBC. However, due to the outbreak of the pandemic, the scheduled inspections for 2020 have been suspended until the improvement of health conditions.

4.1.3 Supervision of institutions outside the SSM scope

The CBC exercises prudential supervision over institutions that fall outside the scope of the SSM and includes branches of credit institutions from third countries, payment and e-money institutions. The supervisory framework is applied by means of off-site and on-site examinations on the basis of the existing laws and regulations.

4.1.4 AML/CFT, Financial Conduct and Investment Services Supervision

Prevention and suppression of money laundering activities

The CBC is designated as the competent authority in accordance with article 59(1)(a) of the *Prevention and Suppression of Money Laundering Activities Law*, for credit, payment and electronic money institutions as well as all other institutions licensed by the CBC. The CBC's response to its legal responsibilities includes the implementation of off-site and on-site supervisory programmes as well as the organisation of and participation to activities both domestically and internationally, aimed at effective supervision.

An important factor in CBC's activities is the updating of the relevant regulatory framework in

line with best international practices and assessments, guidelines and recommendations of 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).

In 2020, due to the unprecedented health conditions of the Covid-19 pandemic, the CBC adapted the on-site examination process into an off-site one and carried out examinations of supervised institutions on various topics.

In March 2020, the CBC issued a Directive to all supervised institutions to comply with the provisions of the UN Security Council Resolutions (Sanctions) and the Resolutions and Regulations of the Council of the EU (Restrictive Measures), in accordance with article 3(2) of the *Law on the Implementation of the Provisions of the Resolutions or Decisions of the United Nations Security Council (Sanctions) and the Decisions and Regulations of the Council of the European Union (Restrictive Measures) of 2016*.

On the legal front, in 2020, the CBC continued to work with other competent authorities to finalise the bill harmonising the domestic legal framework with the provisions of European Directive (EU) 2018/843, amending Directive (EU) 2015/849, on the prevention of the use of the financial system for money laundering or terrorist financing.

In addition, in 2020 the CBC continued to be actively involved as a competent authority in the proceedings of both the European Commission and the European Banking Authority, thereby contributing to the implementation of the action plan laid down by the Economic and Financial Affairs Council (Ecofin) for the achievement of strategic objectives in preventing and combating money laundering and for strengthening the existing legal framework.

Lastly, in 2020, the CBC contributed to the completion of the second round of evaluation of Cyprus by the Global Forum on Transparency and Exchange of Information for Tax Purposes (OECD), of which the final report was published on 11 December 2020, as well as to the evaluation by the European Commission for the effective implementation by Cyprus of Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for money laundering or terrorist financing.

Financial Conduct and Investment Services Supervision

The CBC carries out prudential supervision also in relation to the provision of investment services by banks. These activities are governed by the *Investment Services and Activities and Regulated Markets Law of 2017*, which is a harmonisation with the European Directive on markets in financial instruments known as MiFID II, as well as MiFIR and other relevant European Regulations which are directly applicable and binding, such as PRIIPs which lays down the institutional framework for the manufacture and distribution of packaged retail investment products, EMIR, particularly in relation to the reporting of OTC derivatives contracts to trade repositories and CSDR on the reporting of internalised settlement transactions to ESMA.

The pandemic affected this area of supervision as well, in particular due to the need for banks to provide investment services via teleworking. Therefore, acting in the context of ESMA recommenda-

tions, the CBC exercised its supervisory role to ensure that banks adapted appropriately to these extraordinary working conditions and established all necessary organisational arrangements in order to address potential operational and market risks.

Also in 2020, the CBC monitored the work of the Financial Services Working Group of the Council of the EU in relation to the Capital Market Recovery Package (CMRP), in particular as regards adjustments in the Prospectus Regulation and the Markets in Financial Instruments Directive (MiFID II). The CBC continued to monitor developments in the legislative proposals related to sustainable finance and crowdfunding platforms which were adopted by the institutions, published in the Official Journal of the European Union and entered into force in 2020.

In the context of the reorganisation of the CBC, the Financial Conduct Section (FCS) was established on 1 November 2020. In addition to the above-mentioned regulatory and supervisory responsibilities, the CBC has gathered under one department its financial conduct responsibilities deriving from relevant laws and regulations, under which the CBC has been designated as the competent authority, i.e. legislations that do not fall within the competence of the Single Supervisory Mechanism or the Cyprus Securities and Exchange Commission or the Consumer Protection Service.

More specifically, with regard to investment services, the role of the CBC extends to the supervision of covered bonds, securitisations as well as other related Regulations such as the Securities Financing Transactions Regulation (SFTR). With regard to the other banking activities, the CBC undertakes issues concerning financial conduct such as in relation to the provision of residential loans, the restructuring of credit facilities, the provision of payment services, etc.

In this regard, the CBC is in the process of establishing an online breach reporting mechanism by customers and employees of supervised institutions for the investigation of actual and potential infringements of the provisions of the relevant laws and Directives by the supervised institutions.

4.2 Resolution of Credit Institutions and Investment Firms

The main duties of the CBC in its capacity as the National Resolution Authority during 2020, included the preparation of resolution plans, on a prudential basis, for less significant institutions in Cyprus and the examination of the resolution planning approach for the Cyprus investment firms and the Branches of third country institutions. Additionally, the CBC participated in the drafting, by the Single Resolution Board (SRB) based in Brussels, of resolution plans, on a prudential basis, for Cyprus' systemic credit institutions. Other tasks of the CBC during 2020, included the monitoring of the administration of the operations of Cyprus Popular Bank Public Co Ltd (CPB) and the Cyprus branch of FBME Bank Ltd, in both entities the resolution measures have been suspended, the preparation of draft legislative proposals for the transposition of EU Directives into national law and the participation in the committees of EU institutions for resolution issues.

As part of the operating framework of the Single Resolution Mechanism (SRM), the SRB, in cooperation with the CBC, as the national resolution

authority, drafts annual resolution plans for the systemic banks under its direct remit. In addition, the SRB proceeds with the calculation for every systemic bank of the ratio of minimum eligible own funds and liabilities with a maturity of more than a year (MREL ratio), that needs to be complied with in order to safeguard resolvability capacity. During 2020 a binding MREL target was communicated by the SRB to the systemic banks for the first time, to be met by 31.12.2025. Finally, the SRB has revised, during 2020, the paper on "Expectations for Banks" which documents the SRB expectations regarding the initiatives and actions that the institutions under its direct remit need to undertake to improve their resolvability capacity. On that basis, the significant banks have been required, inter alia, to identify the actions for the preparation of manuals and the revision of documents, policies and procedures and set a budgeted timeframe for their completion.

It is noted, that the CBC, following the SRB policy, took measures during 2020 to mitigate the effects of the outbreak of Covid-19, mostly on the institutions' operations. These measures included extending data submission deadlines for resolution planning purposes as well as relaxations to the deliverables for the improvement of their resolution capacity.

The resolution measures implemented in CPB since March 2013 concerning the sale of operations, had been suspended after examining the possibility for the sale of its remaining assets, comprising mainly of deposits with the CBC and investment in the share capital of Bank of Cyprus and part of its liabilities to suitable domestic credit institutions. It is noted that the said possibility was rejected due to unfavourable bids. Following this, the CBC revoked CPB's banking license and in January 2021 filed an application with the District Court of Nicosia requesting an order for its liquidation.

As regards the resolution legal framework, during 2020, the CBC's Resolution Department participated in working groups set up by the Ministry of Finance for the preparation of legislative proposals for the transposition of Directive 2019/879/EU in the Cypriot Law and the amendment of sections of Part XIII of the *Business of Credit Institutions Law* to align them with the eligibility criteria for liabilities issued for MREL purposes.

Additionally, the CBC participated in a project financed by the European Commission for the amendment of the insolvency framework of credit institutions.

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

The DGS is constituted as a separate legal public entity. The exercise of powers of the DGS and the administration of the funds which constitute

the Scheme is carried out by the Management Committee, which consists of employees of the Ministry of Finance and the CBC appointed by the CBC Governor.

Participation in the deposit guarantee arrangements of the DGS is compulsory for all authorised credit institutions (ACIs), including the Cyprus branches of credit institutions from third countries. The DGS provides coverage of up to €100.000 for the aggregate amount of deposits held with a particular credit institution by a natural or a legal person, with certain exemptions. Participation in the resolution financing arrangements of the DGS is compulsory for the branches of third country credit institutions and the investment firms that fall under the scope of Law 22(I)/2016. ACIs that have been incorporated in Cyprus and their subsidiaries that fall under the scope of Regulation (EU) 2014/806 contribute to the Single Resolution Fund, as required by the aforementioned Regulation.

According to the Law 5(I)/2016, the CBC provides administrative support for the execution of the DGS's tasks. During 2020, CBC's main administrative support to the DGS related to the collection of the contributions to the funds under administration. Specifically, contributions to the Deposit Guarantee Fund (DGF) were collected from the ACIs for a total amount of approximately €13,4 million calculated on the basis of a methodology that was approved by the Management Committee of the DGS. Further contributions to the DGF would be collected from the ACIs within the period 2021 – 2024, so that the target level of 0,8% of covered deposits is reached by 3 July 2024, as provided for in the relevant legislation and the European Directive.

With regard to resolution financing arrangements, during 2020, contributions to the National Resolution Fund (NRF) totalling around €236 thousand were collected. The above contributions were calculated in accordance with the methodology provided in the Delegated Regulation (EU) 2016/63. Further contributions to the NRF would be collected in the period 2021 – 2024, so that the target level of 1% of covered deposits is reached by 31 of December 2024, as provided for in the relevant legislation and the European Directive.

During 2020, CBC also provided technocratic support to the DGS for putting forward proposals for amendments of the relevant legislation. The said proposals, inter alia, were aiming at the abolition of the Deposit Guarantee Fund of Cooperative Credit Institutions and fuller harmonisation with the Directive 2014/49/EU, were adopted by the House of Representatives in March and June 2020. Finally, CBC participated in committees of European institutions and organisations on deposit guarantee matters.

Investor Compensation Fund for Clients of Banks

The Investor Compensation Fund for Clients of Banks (ICF), operating since 2004, provides additional security to clients of banks regarding claims they might have in connection with the provision of investment services through the payment of compensation, if the necessary preconditions are fulfilled. The maximum amount of compensation payable to each covered investor cannot exceed €20.000.

Participation to ICF is obligatory for all ACIs which offer investment services and have been incorporated in the Republic of Cyprus or have been

established in third countries and operate in Cyprus through branches. The exercise of powers of the ICF, including the administration of the funds which constitute the Scheme is carried out by the Management Committee, which consists of representatives from the Ministry of Finance, the Banking Associations and the CBC. CBC provides administrative support to the Management Committee for the exercise of its powers.

The main administrative support relates to the collection of the contributions to the fund. Due to the fact that all members have reached their target levels from previous contributions, no contributions have been collected during 2020. Instead, certain members were refunded with their previous contributions either because they lost their membership status or because the value of their funds with the ICF exceeded the 1% of the average eligible funds and financial instruments held under their management during the two previous years.

4.3 Financial Stability

The CBC is the designated macroprudential authority of Cyprus. Macroprudential oversight focuses on the monitoring and assessment of the stability of the financial system of Cyprus, as well as on the implementation of macroprudential policy tools. The CBC, through its macroprudential policy, analyses the cyclical and structural developments in the financial system and the wider macroeconomic and financial environment, with a view to identifying, monitoring, assessing and limiting the accumulation of systemic risks, which could potentially pose a threat to the stability of the financial system. The epicentre is the banking sector, which constitutes the largest component of the broader domestic financial system and the primary channel for the propagation of risks within the financial system and the real economy. Developments in the non-bank financial sector are also monitored, especially in the insurance sector, the investment services sector, the investment funds sector and the occupational retirement funds sector. Macroeconomic and financial developments are analysed by focusing on macroeconomic conditions and macroeconomic imbalances, the households sector, the non-financial corporations sector, the real estate sector and public finances.

4.3.1 Aggregate data and financial indicators for the banking sector

In 2020, the CBC continued to regularly compile and publish on its website, aggregate data and financial indicators for the banking sector, which are used for macroprudential analysis. The consolidated banking data (CBD) and data regarding the compilation of financial soundness indicators (FSIs) for the Cyprus banking sector, are submitted quarterly to the ECB and the IMF, respectively.

4.3.2 Main macroprudential policy decisions

In 2020 the CBC has:

- Set the capital buffers for the systemically important credit institutions[7] and systemically important investment firms[8].
- Set, on a quarterly basis, the countercyclical capital buffer (CCyB) rate for credit institutions and certain investment firms, to 0% of their total risk exposure amount.

7. Central Bank of Cyprus - O-SII capital buffer for Other Systemically Important Institutions - Credit institutions.
8. Central Bank of Cyprus - O-SII capital buffer for Other Systemically Important Institutions - Cyprus Investment Firms (CIFs).

- Terminated the measure it had taken in 2018, by which a number of Cyprus investment firms had been exempted from the requirement to maintain an institution-specific CCyB, due to their small and medium-size.

4.3.3 Macroprudential monitoring and measures taken to mitigate risks due to Covid-19 crisis

Due to the Covid- 19 pandemic, 2020 was an unprecedented year for the economy and financial stability. The European Systemic Risk Board (ESRB) issued various Recommendations of macroprudential and remedial nature to the EU and national authorities, in order to monitor the systemic risks and vulnerabilities instigated by the pandemic and to take measures to mitigate these risks.

Specifically, the CBC adopted the ESRB Recommendation ESRB/2020/8, and monitors the fiscal measures implemented to mitigate the impact of the pandemic to the economy. This is accomplished by following a number of indicators relevant with the design and uptake of the fiscal measures, including, among others, macroeconomic and banking indicators. These indicators monitor the flow of credit to the real economy, the ability of the credit institutions to meet liquidity requirements, bank profitability, funding costs, capital adequacy, the real estate sector and the non-bank financial sector.

Furthermore, the CBC carried out an analysis of the anticipated rate of corporate insolvencies during 2021 and the anticipated NPLs increase. This analysis is characterised by a significant degree of uncertainty due to the Covid-19 and the consequent economic crisis and as a result the possible implications on financial stability are closely monitored.

The CBC, announced in April 2020, the deferral of the phasing-in schedule for the gradual build-up of the systemically important capital buffer by 12 months, thus releasing on 1 January 2021, additional capital to further assist corporations and households and to safeguard the stability of the financial system.

Moreover, the CBC implemented the ESRB Recommendation ESRB/2020/07 on the restriction of distributions during the Covid-19 pandemic[9]. The ESRB recommended that at least until 1 January 2021 macroprudential authorities and competent authorities in the EU, request financial institutions under their supervisory remit (i.e. credit institutions, insurance and re-insurance companies and investments firms) to refrain from undertaking dividend distributions, bonus pay-outs and buy-backs of own shares (pay-outs). The aim of this Recommendation is for financial institutions to maintain the quality and quantity of their capital during the Covid-19 pandemic, so that they can mitigate systemic risks and contribute to the economic recovery.

The CBC, in order to comply with the ESRB Recommendation ESRB/2016/14, adopted in 2020 procedures for the collection of real estate data in order to better evaluate possible risks to financial stability stemming from the real estate sector.

4.3.4 Participation in EU committees and working groups

The CBC participated in the meetings and deliber-

9. Central Bank of Cyprus - Implementation by the CBC of Recommendation ESRB/2020/07 of the European Systemic Risk Board on the restriction of distributions during the Covid-19 pandemic.

ations of the Financial Stability Committee (FSC) of the ESCB and its working groups. The FSC provides support to the decision making bodies of the ECB in the fulfilment of their tasks in the field of financial stability.

The CBC also participated in the meetings and deliberations of the Advisory Technical Committee (ATC) of the ESRB and its working groups. The ATC provides advice and assistance on matters relevant to the work of the ESRB.

The CBC, actively participated in the ESRB Task Force on Stress Testing, which is responsible for developing the adverse scenario for the stress tests of the European Banking Authority for the banking sector, of the European Insurance and Occupational Pensions Authority (EIOPA) for the insurance and pensions sectors and of the corresponding stress test exercise of the European Securities and Markets Authority (ESMA) on money market funds and CCPs.

Furthermore, the CBC participated in the meetings of the Financial Stability Table (FST) of the EU Economic and Financial Committee (EFC). The EFC-FST is responsible for preparing the discussions of the Economic and Financial Affairs Council on financial stability matters.

4.3.5. National Financial Stability Committee (NFSC)

The CBC chairs the NFSC and provides secretariat support. The main task of the NFSC, is to discuss financial stability issues at the national level and exchange views among its members, i.e. the competent authorities of the financial sector and the Ministry of Finance.

4.4 Financial Market Infrastructures and Payments

As regards financial market infrastructures (FMIs) and payments, the role of the CBC stems from the *Central Bank of Cyprus Law of 2002*, as amended and is in line with the Treaty on the Functioning of the European Union (EU) and the Statute of the European System of Central Banks (ESCB) and of the European Central Bank (ECB).

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

In 2020, one real-time gross settlement system, three retail payment systems and one securities settlement system, were operating in Cyprus, as follows:

Real-time gross settlement system

- TARGET2-CY

Retail Payment Systems

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

Securities Settlement System

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

4.4.1 Payments, clearing and securities settlement systems

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

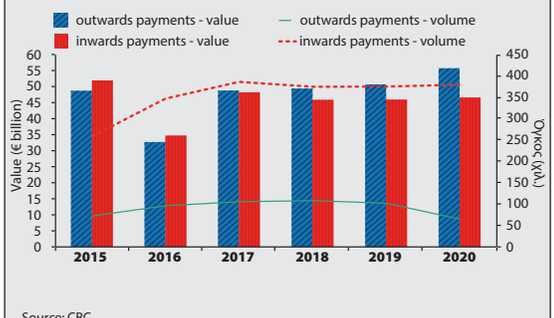
Real-time gross settlement system - TARGET2-CY

TARGET2-CY is the Cyprus component of TARGET2, which is the Eurosystem's Trans-European Automated Real-time Gross settlement Express Transfer and settlement system in central bank money.

The CBC acts as participant bank as well as the operator of TARGET2-CY, in line with the Guideline ECB/2012/27 and the TARGET2-CY CBC Directive, as amended.

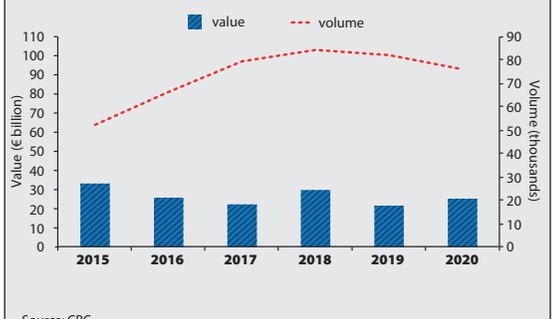
The number and value of cross-border and domestic payments settled in TARGET2-CY are illustrated in **Charts 4.1** and **4.2**, respectively.

CHART 4.1 **TARGET2-CY cross-border payments 2015 - 2020**



Source: CBC.

CHART 4.2 **TARGET2-CY domestic payments 2015 - 2020**



Source: CBC.

Project T2-T2S Consolidation

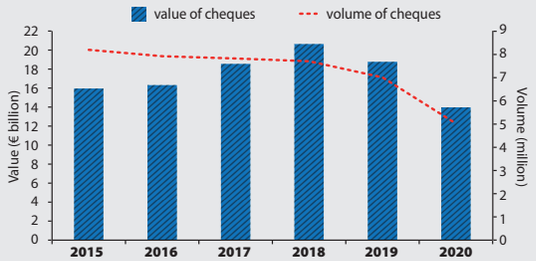
The T2-T2S Consolidation project concerns the consolidation of the TARGET2 and T2S services of the Eurosystem, both technically and operationally, in a new consolidated platform. The objective of the new consolidated platform is to respond to the changing needs of the market by replacing TARGET2 with a new Real Time Settlement System (RTGS), optimising liquidity management across all Target services.

In July 2020, the Governing Council of the ECB announced a twelve-month postponement of the go-live date of the T2-T2S Consolidation project; the new go-live date is now planned for November 2022. The rationale behind this decision, is the number of challenges posed to the market participants as a result of the COVID-19 pandemic which affected their timely preparations and the rescheduling of SWIFT's global migration of cross–border payments to ISO 20022.

TIPS-CY

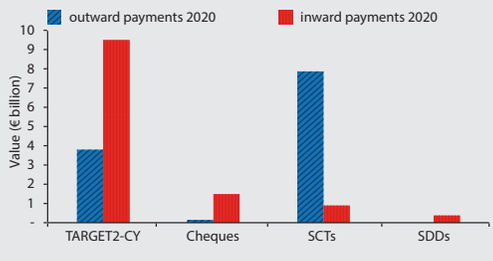
The TIPS service (TARGET Instant Payment Settlement) is operated by the Eurosystem and aims at

CHART 4.3 **CCH cheque clearing**



Source: CBC.

CHART 4.4 **Value of broader public sector payments through CBC**



Sources: CBC, JCC Payment systems Ltd.
Note: Incoming payments in TARGET2-CY include amounts due which are collected via the use of cards and in cooperation with ACIs, and are remitted to the CBC on behalf of the Government.

ensuring that the increasing demand for instant payments is met at a pan-European level.

The CBC, in its capacity as the operator of TARGET2-CY, stands ready to provide support to local authorised credit institutions and other potential participants, for their participation in TIPS. In this context, the CBC organised a workshop, in cooperation with the ECB, for banks, the Government and other users.

Cyprus Clearing House

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

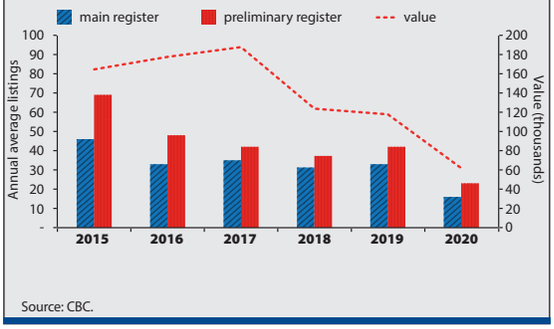
Chart 4.3 illustrates the number and value of cheques cleared through the Electronic Cheque Clearing System (ECCS) platform, for the period 2015-2020. The decrease in the number and value of cheques reflects the shrinking observed in economic activity due to the suspension of the operations of a number of businesses and the consequent decrease in household disposable income, as a result of the measures taken to prevent the spread of the coronavirus.

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

The CBC participates in domestic and cross-border payment systems, to provide banking services to the Government of the Republic of Cyprus and other corporate bodies governed by public law. Within the scope of these competencies, the CBC promotes, with close cooperation with the relevant authorities, the adoption of electronic payments as a means to pay and collect government receivables. In particular, in 2020, following an initiative by the Customs and Excise Department and the CBC, as well as in cooperation with Authorised Credit Institutions, the payment of money owed to the Customs and Excise Department is now facilitated through electronic payments.

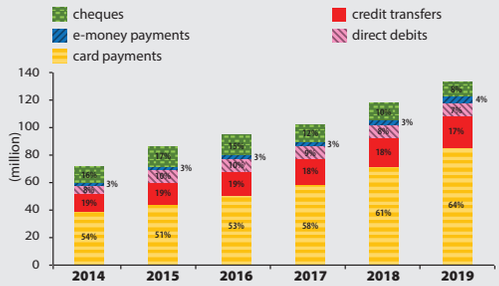
Chart 4.4, which illustrates the use of payment instruments for incoming and outgoing government payments via the CBC, shows clearly that the government payments are mainly effected through electronic means, whilst part of the inward payments is still processed via cheques. The small increase observed in payments through cheques as compared to 2019, relate to the payments effected

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



Source: CBC.

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



Source: CBC.
Note: The most recent data relate to the year ended 31 December 2019.

as a result of the support measures taken to address the consequences of the coronavirus. Nonetheless, the government's receipts via the use of cheques continued its downward trend as compared to previous years, with the biggest part being substituted by the use of electronic means.

4.4.3 Other activities

Central Information Register for Issuers of Dishonoured Cheques (CIR)

In 2020, the monthly average number of new natural and legal persons recorded in the main CIR register as well as in the preliminary register, decreased (**Chart 4.5**), while there was also a decrease in the monthly average total value of cheques.

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 has implemented a data collection procedure for monitoring the adherence of payment service providers and, where relevant, card payment schemes with the caps specified and regulated by IFR as regards interchange fees for card-based payment transactions.

4.4.4 Catalyst and Oversight Authority

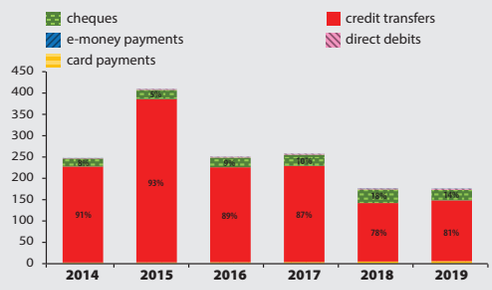
Catalyst for promoting changes in retail payments

The collection and analysis of payment statistics are prerequisites for catalyst action. In this respect, the CBC conducted consultations with payment service providers, in a way that the latter adhere to the additional requirements of the revised Regulation (ECB/2020/59), while it analysed the use of payment instruments in Cyprus from data collected in accordance with the current Regulation (ECB/2013/43).

As shown in **Charts 4.6** and **4.7** (p. 39), card payments account for the largest share of the volume of cashless transactions, whereas credit transfers largely dominate the total value, followed by cheques.

At the same time, through the work of the National Payments Committee (NPC), the CBC – in its role as chairman - has a catalyst role for promoting innovative payment solutions, emphasising that

CHART 4.7 **Value of transactions with different payment instruments**



Source: CBC.
Note: The most recent data relate to the year ended 31 December 2019.

instant payments are becoming the 'new norm' on a pan-European basis, in line with the 'Retail Payments Strategy' of the Eurosystem, as well as of the European Commission. In addition, the CBC monitored the actions taken by banks for adhering to the requirements of the instant payments scheme (SEPA Instant Credit Transfer – 'SCT Inst') and promoted the benefits of instant payments, while suggested solutions for meeting the major challenges identified.

Moreover, in contributing to the management of the pandemic and aiming at honouring social distancing, the CBC published an announcement of the NPC supporting the active promotion of the use of digital payments.

Acknowledging that digitalisation of payments is not restricted to existing payment instruments, the CBC contributed to the work of the ECB with respect to a possible issuance of a digital euro and encouraged the participation of domestic stakeholders in the Eurosystem's relevant public consultation.

In the context of financial markets integration on issues related to the clearing and settlement of securities and collateral management, the CBC coordinated and monitored the harmonisation of the practices of the national stakeholders group 'Advisory Group on Market Infrastructures for Securities and Collateral – CY National Stakeholders Group' (AMI-SeCo CY-NSG) against the AMI-SeCo standards, as regards corporate actions and billing processes.

Oversight

Smooth operation of FMIs during the pandemic

The CBC conducted a series of consultations with operators of domestic FMIs, aiming at monitoring their readiness with respect to managing the pandemic and safeguarding the smooth and safe operation of payment systems and securities settlement systems.

Central Securities Depositories

The CBC completed the eligibility assessment of the Central Depository Central Registry (CDCR) of the Cyprus Stock Exchange (CSE) for its use in Eurosystem credit operations.

Moreover, in line with Regulation (EU) 909/2014 on Central Securities Depositories (Central Securities Depositories Regulation – CSDR) and in its capacity as 'relevant authority', the CBC cooperated with the 'competent authority', being the Cyprus Securities and Exchange Commission, in the context of CDCR's review and evaluation.

4.5 Euro banknotes and coins

The CBC is responsible for issuing currency (banknotes and coins). In particular, regarding the issuance of banknotes, the CBC is the competent

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

The total number of euro banknotes issued by the Eurosystem as at the 31st of December 2020 amounted to 1.434.511,7 million, recording an annual increase of 11,0%. More detailed information on this matter is provided under "Note L1 Banknotes in circulation" of the annual financial statements of the CBC.

4.5.1 Currency cycle

In 2020 approximately 82 million pieces of banknotes were processed (i.e. counted and checked for authenticity and fitness before recirculation), of which 27,4% (22,5 million pieces) were deemed unfit for recirculation. During the same period, the CBC carried out inspections of the machines used for the processing of banknotes. The CBC also conducted on-site checks of licensed credit institutions to verify compliance with the provisions of its Directive of 2014 on the Authenticity and Fitness of Euro Banknotes and their Re-issuance.

During this year, 13,9 million euro coins were processed, out of which 0,01% (1.622 coins) were deemed unfit for recirculation. In addition, the CBC carried out on-site checks on credit institutions to verify compliance with the provisions of Regulation (EU) 1210/2010 on the verification of authenticity and the management of unfit euro coins.

4.5.2 Counterfeit euro banknotes and coins found in Cyprus in 2020

During the year under review, 260 counterfeit pieces of euro banknotes of various denominations were detected in circulation, compared to 414 pieces in 2019. The €50 banknote was the most frequently counterfeited, representing 35,8% of the total number of pieces. The majority of the counterfeited banknotes, which were withdrawn from circulation, were detected by cashiers of credit institutions. The number of counterfeit euro banknotes in Cyprus is very small and is one of the lowest in the euro area countries. Finally, regarding coins, a small number of counterfeit coins (652 coins) in denominations of €2, €1 and € 0,50 were detected in 2020.

4.5.3 Issue of numismatic items

Collector coin set

In June 2020, the CBC issued 5.000 pieces of the Cyprus collector euro coin set, minted in 2020, in brilliant uncirculated condition. This is the second of three sets of the three-ply collector coin set series dedicated to the national side of the Cyprus euro coins. The set is dedicated to the «Kyrenia ship» (4th century B.C.), one of the best-preserved

ancient shipwrecks in the world. There was great interest in the issue both from Cyprus and abroad.

Collector coin

In 2020 the CBC issued a silver collector coin, with a nominal value of €5, in proof condition. The coin depicts Leda and the swan, an outstanding mosaic dating to the 2nd century A.D., which decorated the floor of a Roman house found in Palaipafos. Specifically, the coin depicts the moment when Leda, the beautiful mythical queen of Sparta, had a first encounter with god Zeus who had transformed himself into a swan in order to approach her. The coin was designed by the Greek artist George Stamatopoulos and was issued in November 2020 with a limited quantity of 2.000 pieces.

Commemorative coin

In December 2020, the CBC issued a commemorative coin, with a nominal value of €2 on the occasion of thirty years of existence of the Cyprus

Institute of Neurology and Genetics. The national side of the coin depicts a neuron with its synapses, referring to the work of the Institute, which receives international recognition and plays an active and essential role as a national and international center of excellence in providing high quality services, innovative research and postgraduate education. The designer was George Stamatopoulos and the coin was minted by the Printing Works Department of Bank of Greece.

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

4.6 Activities in the Financial Markets

4.6.1 Management of reserves and other activities

On 31 December 2020, the CBC's reserves, including gold bullion holdings valued at €689 million, amounted to €1.184 million compared with €1.242 million at the end of 2019.

The primary objective of the CBC's Investment Policy framework is to safeguard and preserve the value of the CBC's reserves in euro, foreign currencies and gold. Subject to the fulfilment of this objective, the management of the reserves aims at maximising long-term return on investment. 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. The Investment Policy framework provides for the investment of the currency and gold reserves in approved asset classes, such as government bonds, bonds issued by national and supranational organisations, covered bonds, corporate bonds, gold deposits, etc.

The year 2020 has been marked by the Covid-19 pandemic which led to a severe disruption of economic activity and hindered global economic growth prospects. During the year, the reserves were managed in an environment of low and/or negative market interest rates as well as of continued easy monetary policy applied by the major central banks. The general investment strategy of the CBC has proved even under these conditions to be sufficiently appropriate and has protected the value of the reserves. In this regard, during the year under review the CBC held currency reserves primarily in euro and, to a lesser extent, in dollars and sterling.

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

In 2020, the CBC joined Banco de España and Banque de France in implementing the Market Activities Processing System (MAPS). MAPS is a modern and complete treasury management system which supports market operation activities, including its portfolio management activities, and which has been jointly developed by Banque de France and Banco de España in order to be used by members of the European System of Central Banks.

Net financial assets

The Agreement on Net Financial Assets (ANFA) between the members of the Eurosystem sets rules and limits for holdings of financial assets which are related to the institutional tasks of the national central banks beyond monetary policy. Such assets are for example the financial assets corresponding to their capital and accounting reserves, their foreign reserves or employee pension funds. The agreement, along with an explanatory text, is published on the ECB's website[10]. During 2020 the net financial assets of the CBC were estimated under the ANFA to be on average - €4,59 billion.

Participation in the management of the foreign exchange reserves of the ECB

The management of the ECB's foreign exchange re-

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

serves is decentralised and is conducted by the euro area national central banks, which act as agents of the ECB. The CBC participates in the management of ECB foreign reserve assets with the management of its share carried out under a pooling arrangement with the Bank of Greece.

4.6.2 Monetary policy implementation

On behalf of the ECB, the CBC participates in a uniform and equal way with the other euro area national central banks in the implementation of the single monetary policy, as set out by the decisions and guidelines of the ECB's Governing Council ("GC of ECB"), which is responsible for formulating monetary policy in the euro area. 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 national central banks in the euro area, pursuant to the principle of decentralisation.

Both the regular and the supplementary open market operations of the Eurosystem continued to be carried out through fixed rate tenders with full allotment. In December 2020, the GC of ECB decided that this tender procedure will continue to be applied for as long as necessary.

In March 2020, considerably more favourable terms for the Targeted Longer-Term Refinancing Operations (TLTRO III) were decided, to be applied during the period from June 2020 to June 2021 to all outstanding TLTRO III operations during the said period, aiming to support bank lending in particular to small and medium-sized enterprises. In April 2020, these terms were further eased and in December 2020 the GC of ECB decided, among other, the extension of the period over which considerably more favourable terms will apply, to June 2022, so that these operations continue to be an attractive funding source for banks incentivising them to further support the provision of bank credit to firms and households.

In April 2020, the GC of ECB decided to conduct a new series of seven non-targeted Pandemic Emergency Longer-term Refinancing Operations (PELTRO), to support the liquidity conditions in the euro area financial system and by extension preserve the smooth functioning of money markets by providing an effective liquidity backstop. In December 2020, it was decided that four additional PELTRO will be conducted.

Furthermore and complementary to other measures, the GC of ECB adopted an unprecedented package of temporary collateral easing measures to facilitate the availability of eligible collateral for Eurosystem counterparties to participate in liquidity providing operations. These measures, among other, encompass the additional credit claims (ACCs) frameworks, the eligibility of marketable debt instruments issued by the Hellenic Republic as collateral, the risk control measures such as valuation haircuts, as well as, a further regular–not linked to the pandemic crisis- review of the valuation haircuts applied to non-marketable assets. Furthermore, in the same spirit of supporting measures, the GC of ECB decided to temporarily mitigate the effect on counterparties' collateral availability from possible rating downgrades arising from the economic impact of coronavirus. In December 2020, it was decided that the duration of all the aforementioned temporary collateral easing measures will be extended to June 2022.

During 2020, in order to prevent and address any possible dysfunctions in global funding markets resulting from the pandemic crisis, the ECB, in a coordinated action with other major central banks, adopted new measures and conditions for conducting US dollar liquidity providing operations. Additionally, the ECB established temporary bilateral agreements with European central banks of non-euro area countries for currency swaps and repo lines to provide euro liquidity to financial institutions in these countries. The ECB also decided to set up a new Eurosystem Repo Facility for Central Banks (EUREP). In December 2020, the GC of ECB decided to extend the aforementioned arrangements until March 2022.

In September 2020, the GC of ECB decided that bonds with coupon structures linked to certain sustainability performance targets will become eligible as collateral for Eurosystem credit operations, a decision that signals the Eurosystem's support for innovation in the area of sustainable finance.

Participation in private and public sector asset purchase programmes

Within a set of measures aimed at supporting the real economy and enhancing the monetary policy transmission mechanism, the Eurosystem continued during 2020 as well its net purchases under the asset purchase programme (APP[11]) at a monthly pace of €20 billion. On 12 March 2020, the Governing Council of the ECB decided an additional envelope of net purchases of €120 billion until the end of 2020 under the APP. Moreover, the Governing Council of the ECB initiated in March 2020 the pandemic emergency purchase programme (PEPP), a temporary asset purchase programme of private and public sector securities to counter the serious risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the coronavirus (Covid-19) outbreak. The Governing Council of the ECB decided to increase its initial €750 billion envelope to a total of €1.850 billion (+ €600 billion on 4 June 2020; + €500 billion on 10 December 2020).

The reinvestments of the principal payments from maturing securities purchased under the APP will continue, in full, for an extended period of time past the date on which the Governing Council begins to raise the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation. Net asset purchases under the PEPP will be terminated once the Governing Council of the ECB judges that the Covid-19 crisis phase is over, but in any case not before the end of March 2022, while the maturing principal payments from securities purchased under the PEPP will be reinvested until at least the end of 2023.

Information about the Eurosystem's purchases under the APP and the PEPP are published and regularly updated on the ECB's website[12].

The CBC actively participates in the implementation of the APP and the PEPP. During 2020, the CBC conducted purchases of Cyprus government bonds under the Public Sector Purchase Programme (PSPP) and under the PEPP. As at 31 De-

11. The Asset Purchase Programme (APP) is composed of the following programmes: (1) Public Sector Purchase Programme (PSPP) (2) Corporate Sector Purchase Programme (CSPP) (3) Asset-Backed Securities Purchase Programme (ABSPP) (4) Covered Bond Purchase Programme (CBPP).
12. https://www.ecb.europa.eu/mopo/implement/app/html/index.en.html
https://www.ecb.europa.eu/mopo/implement/pepp/html/index.en.html

cember 2020, the CBC had monetary policy portfolios totalling €7,64 billion on its balance sheet.

The securities purchased under the APP and the PEPP are made available for lending by the CBC within the strategic lending facilities operated by international securities depositories, as well as their automated securities lending facilities operated solely in cases of failed settlement of transactions executed by the depositories' customers.

4.7 Financial Risk Management

The CBC is exposed to financial risks that primarily stem from its investment activities in relation to its euro, foreign currency and gold reserves as well as from the implementation of the Eurosystem single monetary policy.

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

4.7.1 Investment operations

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

In particular, this Framework specifies the investment objectives and principles guiding CBC's investment operations, the responsibilities of involved parties, as well as the general framework for controlling and managing investment risks, including the permissible activities (e.g. the eligible currencies, countries, issuers, counterparties and financial instruments). It also provides for the formulation of a strategic benchmark for each portfolio under active management. The strategic benchmarks reflect the CBC's investment strategy and allow for the comparative evaluation of the performance and risks undertaken by the asset managers. The detailed operational and risk control frameworks governing the management of CBC's reserves are encompassed in the Guidelines.

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

4.7.2 Financial risks from investment operations

The financial risks associated with CBC's investment activities are the following:

Market risk

Market risk refers to the risk of loss in the value of an investment as a result of unfavourable movements in foreign exchange rates, interest rates, prices or spreads of an investment instrument.

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

- *Interest rate risk*: Largely controlled through the imposition of a maximum duration constraint for each portfolio and the implementation of measures that aim at achieving a minimum degree of diversification. Exposure to interest rate risk is also contained by classifying most of the euro-denominated bonds as held-to-maturity positions.

- *Foreign exchange risk*: During 2020, the CBC continued to hold its currency reserves primarily in euro and, to a lesser extent, in US dollars. An open position in US dollars, up to a predefined amount, is mainly maintained for investment purposes and for fulfilling any ad hoc requests for a transfer of that currency to the ECB for foreign exchange intervention purposes by the Eurosystem. Open positions, up to a predefined amount, are also maintained in other major currencies for the settlement of transactions or payments in those currencies. Any amount exceeding the open position that is defined for the particular currency is hedged through the use of one of the approved hedging instruments.

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 refers to the risk of a decline in the value of a security due to a credit rating downgrade.

With the aim of keeping credit risk within acceptable levels, appropriate-minimum acceptable credit rating for each asset class and instrument are defined as eligibility criteria, as well as other credit-related conditions. It also sets the maximum exposure limits that are defined taking into account an entity's creditworthiness and the transaction's or security's underlying risks.

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.

Liquidity risks are considered negligible given the CBC's use of the ESCB TARGET2 system. With regard to liquidity needs in foreign currency, the CBC maintains a predefined amount of open positions in most major currencies, with the larger position being the US dollar. The majority of the open positions in US dollar is in highly marketable and highly-rated (AAA/AA) securities.

4.7.3 Eurosystem Monetary policy risks

The CBC participates in the Risk Management Committee of the ESCB that is responsible for the management of risks stemming from monetary policy operations, including non-standard measures and asset purchase programmes, and from reserve management operations of the ECB. Accordingly, this committee is responsible for the development, review and implementation of the appropriate risk frameworks, methodologies and guidelines as well as for the monitoring, measurement and reporting of financial risks, aimed at ensuring an appropriate level of protection for the Eurosystem.

4.7.4 Annual risk quantification exercise

The financial risks stemming from the CBC's main operations are also assessed on an annual basis in the context of the annual risk quantification exercise for the purpose of determining the appropriate level of CBC's accumulated risk provision and financial buffers.

Compliance

The implementation of the best standards of conduct and professional ethics by the CBC is of par-

ticular importance for safeguarding the credibility and reputation of the CBC as a member of the European System of Central Banks and for ensuring the public's confidence in the integrity, honesty and impartiality of the CBC bodies and staff members in the performance of their duties.

During 2020, the compliance function became a separate Section in the Risk & Compliance Department, with the mission to ensure the compliance of CBC staff with the applicable legal and regulatory framework. In particular, the main functions of the Compliance Section relate to the monitoring and evaluation of the regulatory framework of the CBC, the issuance of recommendations on compliance and ethics policy issues and their implementation, as well as the strengthening of the compliance culture within the organisation. Its responsibilities also include the examination and authorisation of staff applications for private financial transactions as well as the annual monitoring of staff private financial interests.

4.7.5 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 employee misconduct or errors, procedural errors, systems' failures, disruptions of operations, physical security, confidentiality breaches or integrity of information, health and safety and business continuity.

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. CBC aims for the maximum possible mitigation of operational risks by reducing their likelihood of occurrence and/or their potential impact. In this context, cost-benefit considerations regarding risk mitigating actions are taken into account.

The CBC implements the "Three Lines Model" (formerly the "Three Lines of Defence Model") in managing its risks. The business departments, which belong in the first line, are owners of the risks stemming from their activities, and as such are responsible for their management through the formulation and implementation of appropriate policies and procedures. The Risk & Compliance Department is in the second line and, as regards operational risks, is responsible for the maintenance and update of the Operational Risk Management Framework, the methodological support of business areas and the independent critical analysis of identified risks. Lastly, the Internal Audit Department, in the third line, provides independent assurance to the decision-making bodies as regards the satisfactory operation of the previous two lines and the overall risk management adequacy.

As in previous years, systematic monitoring of significant operational risks and of the associated action plans took place. In addition, during 2020, the mandate of the Operational Risk Committee was updated in order to reflect better its responsibilities. The said Committee is responsible for the promotion and oversight of the implementation of the Operational Risk Management Framework, including business continuity management,

with the aim to facilitate the timely identification, mitigation and monitoring of the related risks.

The operational risks stemming from the Covid-19 pandemic, namely, risks to the health and safety of staff and to business continuity, were a cluster of risks that demanded vigorous monitoring and swift response during 2020. Specifically, timely and effective actions were initiated, based on recommendations from a cross-departmental team that reported directly to the Governor. These actions ensured the smooth continuity of business activities, particularly for critical operations, as well as the safety of staff, thus avoiding any serious negative impact.

4.8 Economic Analysis and Research

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

4.8.1 Economic Bulletin

In 2020 the two regular issues of the *Economic Bulletin*[13] (June and December) were published. The Bulletin presents the main domestic and international macroeconomic and financial developments, as well as the CBC forecasts for the Cyprus economy. It also includes analysis on current economic issues. For example, the December 2020 issue included an analysis of the results of the national sampling survey on financial literacy for Cyprus conducted by the CBC in 2018[14].

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

In 2020, 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 and conduct of monetary policy, as well as on issues of the General Council and the European Systemic Risk Board. CBC staff take part in the Monetary Policy Committee of the ESCB and its sub-working groups, which prepare comprehensive reports and/or recommendations that are conveyed to the ECB Governing Council.

The CBC participates in the ESCB's regular forecast exercises, prepared by the Working Group on Forecasting every June and December, involving important macroeconomic aggregates, which are published in the *Economic Bulletin*.

CBC's participation in the Working Group on Econometric Modelling continued by contributing to the analysis of expectations formation on the transmission of monetary policy. Furthermore, the macroeconometric model used by the CBC for forecasting and policy analysis has been re-estimated.

CBC's participation in the Working Group on Public Finance continued. At the same time, it contributed to projects, such as, the analysis of fiscal policy measures to achieve the EU climate goals.

The CBC also participates in the "Macrofinancial workstream" of the NGFS network, which aims at setting up macroeconomic models for analysing the effects of climate change on the economy and the financial system.

Moreover, CBC experts participated in the var-

13. https://www.centralbank.cy/en/publications/economic-bulletin.
14. The analysis of these results was included in December 2020 issue, as, at the end of the aforementioned year, an ad-hoc Committee was set up with the aim of formulating a national strategy for the promotion of financial literacy and financial education in Cyprus.

ious workstreams set up to facilitate the ECB's monetary strategy review, which is expected to be completed by September 2021.

In addition, the CBC is active in a European Commission working group dealing with the prevention, detection and correction of macroeconomic imbalances in EU countries. As regards the forthcoming banking stress test exercise, the CBC was also actively involved in a working group aiming to determine macroeconomic shocks for banks' stress tests. Furthermore, the revision of the models for the assessment of credit risk parameters by the relevant ECB working group continued.

In 2020, credit rating agencies published their annual assessments on the Cyprus economy. In addition, in March and September 2020, and as part of the ongoing post-programme surveillance, staff from the international lenders examined Cyprus progress. The CBC actively participated in the discussions.

4.8.3 Other research and related activities

For internal stress testing purposes, the CBC has prepared various sets of macroeconomic and monetary scenarios over the course of 2020 in order to analyse the capital adequacy of systemic credit institutions under the impact of the pandemic on the Cyprus economy.

Towards the end of 2020, the CBC updated its macroeconomic scenarios for a possible no-deal UK exit from the EU (Brexit) and the potential impact this could have on the Cyprus economy. Also, the CBC has prepared scenarios regarding the effects on the economy of the termination of the Cyprus Investment Programme.

The CBC also participates in the Eurosystem Household Finance and Consumption Survey (HFCS)[15]. In 2020, the statistical analysis of the third wave micro data continued and at the end of March 2020, the results were published by the ECB. At the same time, the CBC continued to publish the quarterly Bank Lending Survey and the Residential Property Price Index. It also began working on producing an internal Residential Property Price Index based on real estate actual transaction price data.

At the end of 2020, following a proposal by the Parliamentary Committee on Educational Affairs and Culture, an ad-hoc Committee was set up, aiming at formulating a national strategy for the promotion of financial literacy and financial education in Cyprus. This Committee consists of members from the CBC, which will have a coordinating role, the Ministry of Finance, the Ministry of Education, Culture, Sports and Youth, the Cyprus University of Technology, the University of Cyprus and the Cyprus Securities and Exchange Commission. The report on the National Strategy is expected to be completed within a year.

In 2020 and in cooperation with the ECB, a working paper on fiscal multipliers with financial fragmentation risk and interactions with monetary policy was published[16]. In addition, two working papers on monetary issues have been published in international academic journals[17,18].

15. For more information on the HFCS survey see https://www.centralbank.cy/el/announcements/23122016
16. Darracq Pariès, M., G. Müller and N. Papadopoulou (2020), Fiscal Multipliers with Financial Fragmentation Risk and Interactions with Monetary Policy, European Central Bank Working Paper No.2418 (June).
17. Darracq Pariès, M. and N. Papadopoulou (2020), On the Credit and Exchange Rate Channels of Central Bank Asset Purchases in a Monetary Union, Economic Modelling, Volume 91, September, Pages 502-533.
18. Darracq Pariès, M. and N. Papadopoulou (2020), Balance Sheet Policies in a Large Currency Union: A Primer on ECB Non-Standard Measures since 2014, *Revue d'économie politique, Special Issue on Unconventional Monetary Policies*, Vol. 130, 2, Pages 171-230.

In the context of corporate social responsibility, the CBC participated in a summer internship program in collaboration with the University of Cyprus.

Expert staff in the Department continued to brief the CBC Board of Directors on various issues. Staff also delivered presentations at various economic conferences.

4.9 Statistics

The CBC was confronted with significant challenges in 2020 as the Covid-19 pandemic impacted the statistical reporting units in various ways while the resulting uncertainty necessitated additional data collection to monitor economic activity. In this context, and in order to maintain operational continuity, the SD, in consultation with the ECB and Eurostat, adopted pragmatic solutions to ensure the continuation of sending the necessary information by the reporting units, ensuring at the same time, that the data remains valid and fit for purpose.

In an effort to alleviate the consequences of the Covid-19 pandemic, a decree imposing a moratorium on MFIs regarding the suspension of loan re-payments until the end of the year, for a certain category of borrowers, was issued in March 2020. For the better monitoring of the implementation of the decree and following an official request by the ECB, the SD has established the collection from MFIs of a table with the outstanding balances of such loans by counterparty sector, which are submitted to the ECB, in an aggregated form. The relevant data will continue to be submitted during 2021, following the issue of a new decree.

In the context of the withdrawal of the United Kingdom (UK) from the EU, all necessary adjustments to the statistics produced were performed. Moreover, relevant tables and explanations were prepared regarding the UK – Cyprus relations which were used by the specialized CBC working group in order to assess the impact of Brexit on the Cypriot economy.

Moreover, work regarding the new ECB project which envisages the development of an Integrated Reporting Framework (IREF) was continued. IREF aims to reduce the reporting burden on MFIs by integrating in one reporting framework the existing statistical obligations related to the monthly balance sheet, interest rates, securities holdings and issues, as well as the AnaCredit.

Finally, with a view to further strengthen the cooperation with public departments including the Departments of Tax, Registrar of Companies and Official Receiver as well as Lands and Surveys, the SD continued and intensified its efforts to exploit synergies and obtain data, which are deemed necessary to fulfil CBC's statistical obligations.

4.9.1 Monetary and financial statistics

During 2020, in the context of the new project of AnaCredit, the CBC continued the effective collection, processing and dissemination to the ECB of analytical credit data by loan/borrower. In addition, revised data for the period September 2018 – October 2020 were submitted to the ECB, aiming to improve the data quality. All the data quality criteria set by the ECB were successfully met by the CBC and it is expected that, during the first quarter of 2021, access to the AnaCredit data will be provided to all ESCB qualified users.

With reference to the IREF project, the entity relationship model, which will be the basis of the data reporting under this framework, was developed during 2020. In addition, preparatory work was undertaken concerning the Cost Benefit Analysis that it is expected to be carried out by the ECB during the first quarter of 2021 in collaboration with the NCBs.

Work on the revision of existing ECB regulations on monetary and financial sector was also continued. In particular, in December 2020, the Governing Council of the ECB has approved the revised regulation on Payment Statistics, whereas the regulation on the Balance Sheet Items of MFIs and the Minimum Reserve regulation were approved in the course of January 2021. In addition, during 2020, the legal framework governing non-compliance cases by the reporting agents was developed.

4.9.2 Securities statistics

During 2020, the CBC system for Securities was upgraded in order to incorporate two new releases of the ECB's Central Securities Database (CSDB). In addition, the successful establishment of connectivity between CSDB and RIAD, was an important development. This was achieved through the provision of new information by the CBC on the identification of Cyprus' data.

In addition to the regular compilation and transmission of the monthly securities issues statistics, significant progress has been achieved on the methodological and technical side regarding the production of this data directly from the CSDB database at ESCB level.

As far as Securities Holdings Statistics are concerned, the CBC has effectively responded to the ECB request for transmitting the data with a shorter timeliness, in order to better facilitate the users.

4.9.3 Financial Accounts

In the context of data quality improvement of the quarterly financial accounts, a new project has been launched, aiming to cover a wider range of entities classified under the non-financial and the captive financial institutions sectors, which have mainly domestic transactions. In parallel, colleagues from the SD participate in a relevant ECB expert group, which aims to create a reporting framework for captive financial institutions.

4.9.4 External statistics

External statistics faced significant challenges in 2020 due to the consequences of the pandemic on the majority of data providers. Under this situation, several measures to assist them were immediately taken, such as extending the deadline for data submission and changing the frequency of submission from quarterly to annual.

At the same time, the SD took part in the joint effort of the ECB and Eurostat to identify, record and address the main issues posed by the pandemic in external statistics. To this end and in order to ensure the validity and quality of the data, common mitigation approaches with respect to data sources and estimation methods were developed and adopted, with the aim of minimizing information loss.

Furthermore, in the context of the Macroeconomic Imbalances Procedure, the production of the main variables of the balance of payments and the international investment position on a quar-

terly basis for the period 2004-2007 was achieved, so as to meet the increased needs for the production of external statistics according to the BPM6 methodology.

During 2020, actions for the collection of all the additional analysis under the provisions of the revised ECB External Statistics Guideline (to be implemented in March 2021), were initiated. Moreover, representatives of the SD joined the ECB's newly established online working group on the revisions BPM & SNA, the two basic manuals in the field of statistics.

In addition, in September 2020, in the context of routine revisions, it was deemed necessary to adopt a new administrative source of information on the purchase of real estate between residents and non-residents, in order to reflect the dynamics recorded in recent years in the Cypriot real estate market. At the same time, the quality of foreign direct investment data was enhanced further, as the geographical distribution and the breakdown by economic activity of these data was improved.

In the context of its membership of the ESCB and Eurostat specialized task force on foreign direct investment, the SD took all actions necessary for the voluntary participation of Cyprus in sending foreign direct investment data by country based on the country of the ultimate investor, in March 2021.

Finally, in 2020, the statistical information disseminated to users was enriched, with the introduction of a detailed explanatory note which now accompanies the release of quarterly statistical data.

4.9.5 General economic and government finance statistics

During 2020, the timely and smooth collection, verification, compilation and submission of various data to the ECB continued effectively, despite the many difficulties caused by the pandemic. In addition, the CBC successfully participated in the voluntary pilot submission of data through the revised template for general government loans, deposits and debt by financial instrument and counterparty for the period 2015-2019. Moreover, the CBC actively participated in the debate on the emerging requirements for pandemic-related data as well as in pilot exercises launched jointly by the ECB with Eurostat to avoid duplication of data.

With regard to general economic statistics, apart from the usual data transmission and in an attempt to mitigate the consequences of the pandemic, the ECB initiated the investigation of alternative sources for data collection and continued the discussions for the possible inclusion of owner-occupied housing (OOH) in the Harmonized Index of Consumer Prices (HICP). Regarding the data of the real estate sector, the SD, in collaboration with Economic Analysis and Research Department, agreed on coordinated efforts and joint actions with Cystat.

4.9.6 Registers

In 2020, the SD strengthened the RIAD quality controls for Cypriot entities not only through standardised audits, but also through the "RIAD Data Quality Report" produced on a monthly basis by the ECB. At the same time, Cypriot entities submitted to the RIAD by other NCBs were identified in order to enrich the data of counterparties related to AnaCredit. This identification was achieved by using information from the register of legal / institutional units maintained by the SD.

4.9.7 Statistical publications

During 2020, the Investment Funds Statistics publication was enriched with 11 charts, aiming at an improved presentation of the data. Additionally, the publication on Foreign Direct Investment was extended, to include, in a separate section, information on the impact of SPEs when these are treated as non-residents. Finally, the publication for Portfolio Investment was upgraded, after being discontinued for three years, and is expected to be released in February 2021.

4.10 Information Technology

During 2020, the CBC continued the development of new systems and the upgrade of existing ones, based on the priorities agreed with the business section of the Bank. Priority was given on the ad-hoc measures adopted and solutions were provided for the continuation of the Bank operations via remote access (teleworking), during the lock down period imposed due to the Covid-19 pandemic. In addition, a study was compiled from external consultants identifying the areas to restructure/reforme, in the next few years, for the transformation of the information technology service within the Bank.

Within the CBC information systems infrastructure management, projects focused on enhancing the availability and efficiency of the operating systems; components have been implemented, computer equipment and software applications have been upgraded. Operations were focused on the availability and accessibility of the bank's systems and infrastructure via remote access.

At the same time, the information systems security continued to be strengthened through systematic checks of the IT infrastructure and risk assessment in applications and systems. Particular attention was paid to dealing with the risks of remote access and the increasing cyber-attacks and continued the actions for the implementation of the CBC 3-year cyber security enhancement programme.

Finally, CBC participated in the ESCB Information Technology Committee and its working groups as well as in the IT-related working groups of the ESCB Statistics Committee, the EBA and the SRB and proceeded with the local implementation of these institutions' directives and guidelines. Most of the meetings were performed on-line via teleworking due to the travel restrictions imposed as a result of the pandemic outbreak.

4.10.1 IT systems implementation and maintenance projects

During 2020, the Systems Development Section main implementations is summarised as follows:

A. The development of regulatory and compliance systems, such as the consolidated supervisory reporting of Payment and Electronic Money Institutions, the enhancement of monitoring indicators (KRIs), the monitoring of the banking institutions on the ad-hoc measures adopted due to Covid-19, i.e. the postponement of loan installments, the submission of the relevant data to the ECB and the adoption of the EBA revisions of the ITS supervisory reporting framework.
B. At the same time, the required development was initiated to connect the banks' systems to the ECB platform via ESMIG and adopt the

changes required for the T2/T2S Consolidation system; automated data collection and processing of information from and to government agencies, like the VAT agency and the adoption of changes to comply with BREXIT requirements. Both the local solutions for the Collateral and Counterparty Database (C2D) as well as the Consolidated Banking Data (CBD), were upgraded.

C. A study was conducted and a proof of concept model was implemented for the replacement of old-technology tools, like the structured reporting tool and the extension of the new XBRL technology to improve the quality of the data sent to the EU supervisory authorities, such as the Single Resolution Board (SRB). Moreover, a tendering process was compiled and run for the purchase of a Decision and Actions Management System for the Board and the Bank's committees.

D. The implementation of the Banks' Electronic Records Management Information System (ERMIS), the installation and integration of a new Reserves Management System (MAPS) as well as the development of an Electronic Shareholders' Register.

E. Conducted a study for the adoption of improved practises, along with the review of the departmental strategic goals and staff planning, studies and proof-of-concept projects for the introduction of new technology and offered extensive support and maintenance to existing solutions.

4.10.2 Information systems infrastructure management

During 2020 projects were implemented for the:

A. Maintenance and enhancement of the availability and performance of the existing IT systems and services provided by the CBC, which included the replacement of the internal network infrastructure, the relocation and rearrangement of equipment to new racks and server rooms, an upgrade to the connection speeds between the CBC main building and the Disaster Recovery site, the upgrade of the File Transfer System between CBC and external sources (FTP Server) and an upgrade of the File Shares infrastructure.

B. Extension of the existing systems and services in order to meet new business requirements, which included the expansion of the capacity of disk array systems and the increase of the processing capabilities of the CBC's systems and services.

C. Introduction of new technologies which included the introduction of a Network Access Control (NAC) system, a web-based ticketing system for automating the process of handling service requests and incident reports (Helpdesk System), the introduction of a new Web Browser (Microsoft Chromium Edge) as well as the implementation of the infrastructure for the Records Management System (ERMIS).

4.10.3 Information systems security

Both the systematic implementation of risk assessments and the reinforcement of information security measures, continued in 2020. Specifically, assessments regarding threats to the confidentiality, integrity and availability of the information held in the IT systems of the CBC were performed, new security measures were introduced and changes to

the IT infrastructure were applied. Information risk assessments were performed as part of the Information Risk Management (IRM), by priority on critical systems of the CBC and new policies were drafted to support the Information Systems Security Policy.

4.11 Human Resources and Organisational Development

During 2020, the Human Resources, Organisation & Planning Department contributed to the better management and utilisation of the Bank's human resources as well as to the improvement of the existing internal procedures and practices in order to adapt to the newly set working environment due to the Covid-19 pandemic.

4.11.1 Human Resources

The Bank introduced a work-from-home policy aiming to limit the number of staff working onsite with the exception of staff allocated to critical operations departments. With respect to staff physically present at the Bank, we adopted a split team model in order to ensure the implementation of measures of physical protection, based onthe Decrees of the Minister of Health.

In the area of Training and Development, the Bank's training strategy shifted to webinars, virtual classroom sessions with the use of WEBEX meetings and other online training events. Moreover, managers were encouraged to participate in online training programmes for remote leadership skills.

In order to address matters relating to the effective staffing and efficient operation of the Bank, promotions took place, to the ranks of Senior Officer and Assistant Directors. In addition, the organisational chart of the Bank was readjusted.

As regards the employee mobility policy, the Bank continued with the secondment of employees to the ECB, the Single Supervisory Mechanism and the Permanent Representation of Cyprus to the EU. In this way, the presence of the CBC in international organisations and in the ESCB was further strengthened. Moreover, the active involvement of employees in Eurosystem and ESCB committees and working groups continued.

In the field of labour relations, the department facilitated the collective bargaining procedure between the CBC and the Cyprus Union for Banking Employees (ETYK).

4.11.2 Organisational Development

The Strategic Planning & Organisation Section provided support to other Departments on organisational and planning issues. More specifically, it contributed to the introduction of new or the adjustment of existing procedures like, for example, the new procedures at the Legal Services Department and the implementation of the operational and staff planning frameworks. The Section also provided project management services for large projects like the TARGET-2(T2) – TARGET-2 SECURITIES(T2S) consolidation as well as the new Records Management system, and participated actively in the work programme of the ESCB's Organisational Development Committee.

From the early stages of the Covid-19 pandemic, the Section had an active contribution in organisational matters, in designing procedures, in the Bank's action plan and also in the Bank's Crisis Management Team.

4.11.3 Health and Safety

The CBC pays particular attention to maintaining a safe and healthy environment at work. As a result, the Department proceeded with all necessary actions in order to achieve the highest possible level of Health and Safety for the CBC's staff and its visitors.

The CBC successfully implemented all necessary measures as regards the Minister of Health Decrees in relation to the pandemic and in some cases introduced additional measures for the benefit of its personnel.

4.11.4 Corporate Social Responsibility

Due to the pandemic, only a small number of CSR activities was implemented aiming to enhance the Bank's contribution to the society, the environment, art and culture. More specifically, the following activities took place:

- Continuation of internship programmes as well as graduate training programmes in collaboration with all Universities operating in Cyprus, recognised by KYSATS. The aim of the programme is to assist graduates with their career development by providing work experience and the opportunity to explore their interests and to enhance their professional skills and competencies.
- Financial support provided for a number of charitable institutions.
- Participation in the School-Job Connection Plan for high school students in order to assist with their development in acquiring professional skills.

4.12 Legal Issues

4.12.1 Investigation Team for the economy

Since August 2013, the CBC has been receiving a number of requests from the Cyprus Police Investigation Team. The team was appointed, initially in July 2013, to investigate possible criminal offences in connection with the state of the Cypriot banking system and, more generally, the economy. These requests concern the disclosure of documents and provision of information with regard to the operations of the CBC. The requests are being submitted to the CBC pursuant to relevant criminal procedure rules. During 2020 the CBC continued disclosing documents to the Investigation Team.

4.12.2 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 2020, the CBC continued contributing, through the Law Office of the Republic of Cyprus, to the Republic's response insofar as it concerns the CBC's operations.

4.12.3 Pending litigation

With the help of its external legal counsels and with the contribution of its competent departments, the CBC continued handling the litigation pending against it in connection with its operations. This litigation comprises lawsuits relating to the 2012 and 2013 financial crisis. In the context of these lawsuits, the CBC continued making discovery of related documents and applying a process for the production of these documents for inspection and the taking of copies by the claimants under the applicable procedure rules. The judgments

issued so far have rejected the claims that the applicants had lodged against the CBC.

4.12.4 CBC's compliance with the legal framework for data protection

The CBC drafted and put into effect an internal framework for the purposes of its on-going compliance with the General Data Protection Regulation. This framework comprises stock-taking of processing operations and classifying them into processing activities, allocating roles to the CBC's organisational units, assessing or reassessing the risks in relation to all processing activities, endorsing a list of minimum technical and organisational measures for data protection and developing a methodology for carrying out data protection impact assessment. In this connection, for every processing activity that has been registered a member of staff was designated to support the CBC's compliance with the General Data Protection Regulation. This group of employees had received training on carrying out risk assessment and data protection impact assessment and on data breach notification.

4.13 General Administration Services

The year of 2020 was a reference year for the General Administration Services Department (GASD), as new systems and procedures were launched, expected to bring immediate benefits in terms of efficiency and effectiveness in the organisation, despite the adverse conditions that prevailed due to the pandemic.

4.13.1.1 New records management system (RMS)

The infrastructure for the integration of all redesigned CBC processes into a modern information system was accomplished during the year under review, enabling the minimisation of manual processes, the optimisation of production and the better utilisation of human resources.

In particular, the infrastructure of the electronic records management information system (ERMIS) has been completed and the relevant software was adapted to the operational needs of the Bank. The pilot test and the forthcoming full operation of the system by all CBC organisational units, is scheduled for 2021. The implementation of ERMIS, will contribute to the uniform management of documents in printed and electronic form and the upgrading/improvement of the security measures for the protection and integrity of records. At the same time, operating costs will be reduced from the saving of intangible resources (reduction of consumables' consumption, wear and tear of printers and photocopiers) and will contribute towards the complete relief from the burden of trivial daily tasks with low added value.

Upon completion of all project work, the Bank will be able to implement upgraded technology services, such as interfaces with current and future electronic systems and the introduction of digital signature and marking of electronic documents and automated workflows.

4.13.1.2 Right of access to the Public sector documents

The CBC took all necessary actions to be in full compliance with the Law of 2017 on the *Right of Access to the Public Sector Information Law* (Law 184 (I) / 2017), which entered into force on 22 December

2020. The said Law aims at the strengthening of transparency and accountability principles in the public and wider public sector. It also establishes the right of natural and legal persons to request and receive, under certain conditions, information held by public authorities. At the same time and on the basis of specific guidelines, it creates the obligation for the public authorities to publish information on their websites, so that the submission of requests by citizens for their receipt, becomes unnecessary.

In the context of the aforementioned Law, the Publication Plan approved by the Information Commissioner can be found on the CBC website. The Bank has also launched its internal procedures for the handling of incoming requests which fall within the framework of the said Law and has planned the automation of the relevant system for 2021.

4.13.2 Security and Premises

During the year under review and in order to ensure the protection of the Bank's building / facilities, staff and visitors, a relevant action plan was prepared and launched for the maintenance and upgrade of the building facilities and the mechanical/electrical equipment. At the same time, the security measures were further strengthened, the training of the competent personnel has continued in cooperation with the police and the internal security instructions were further improved.

The upgrade of the mechanical and electrical equipment of the Bank brought substantial benefits in terms of efficiency and energy consumption. The actions for the improvement of the Bank's building and facilities focused on ensuring the safety and health of its staff and visitors.

Finally, 2020 marked the beginning of the procedures for the replacement of the building management system, aiming at the installation of a new, latest technology, system, to meet the needs of the Bank.

CENTRAL BANK OF CYPRUS
EUROSYSTEM

5. AUDITED FINANCIAL STATEMENTS FOR THE YEAR 2020

Central Bank of Cyprus
Eurosystem

BALANCE SHEET AS AT 31 DECEMBER 2020

ASSETS		31 Dec. 2020 €'000	31 Dec. 2020 €'000	31 Dec. 2019 €'000
1	**Gold and gold receivables**		689.779	605.658
2	**Claims on non−euro area residents denominated in foreign currency**		627.028	714.758
	2.1 Receivables from the IMF	*172.841*		*192.459*
	2.2 Balances with banks and security investments, external loans and other external assets	*454.187*		*522.299*
3	**Claims on euro area residents denominated in foreign currency**		27.299	33.177
4	**Claims on non-euro area residents denominated in euro**		-	-
	4.1 Balances with banks, security investments and loans	-		-
	4.2 Claims arising from the credit facility under ERM II	-		-
5	**Lending to euro area credit institutions related to monetary policy operations denominated in euro**		2.053.000	9.300
	5.1 Main refinancing operations	-		-
	5.2 Longer term refinancing operations	*2.053.000*		*9.300*
	5.3 Fine tuning reverse operations	-		-
	5.4 Structural reverse operations	-		-
	5.5 Marginal lending facility	-		-
	5.6 Credits related to margin calls	-		-
6	**Other claims on euro area credit institutions denominated in euro**		11	34
7	**Securities of euro area residents denominated in euro**		7.954.174	6.131.700
	7.1 Securities of euro area residents held for monetary policy purposes	*7.638.575*		*5.657.861*
	7.2 Other securities	*315.599*		*473.839*
8	**General Government debt denominated in euro**		-	-
9	**Intra-Eurosystem claims**		10.388.455	10.733.188
	9.1 Participating interest in ECB	*39.439*		*39.673*
	9.2 Claims equivalent to the transfer of foreign reserves	*86.811*		*87.100*
	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	*1.858.026*		*2.142.105*
	9.5 Other claims within the Eurosystem (net)	*8.404.179*		*8.464.310*
10	**Items in course of settlement**		8.721	49.775
11	**Other assets**		101.941	107.371
	11.1 Coins of euro area	-		-
	11.2 Tangible and intangible fixed assets	*5.053*		*5.501*
	11.3 Other financial assets	-		-
	11.4 Off balance sheet instruments revaluation differences	-		-
	11.5 Accruals and prepaid expenses	*79.339*		*81.028*
	11.6 Sundry	*17.549*		*20.842*
	Total assets		21.850.408	18.384.961

The "Notes to the Financial Statements" on pages 63 to 88 form part of these accounts.

Central Bank of Cyprus
Eurosystem

BALANCE SHEET AS AT 31 DECEMBER 2020

LIABILITIES	31 Dec. 2020 €'000	31 Dec. 2020 €'000	31 Dec. 2019 €'000
1 Banknotes in circulation		**2.840.334**	**2.566.093**
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro		**12.665.156**	**12.429.844**
2.1 Current accounts (covering the minimum reserve system)	*12.665.156*		*8.729.844*
2.2 Deposit facility	*-*		*3.700.000*
2.3 Fixed term deposit	*-*		*-*
2.4 Fine tuning reverse operations	*-*		*-*
2.5 Deposits related to margin calls	*-*		*-*
3 Other liabilities to euro area credit institutions denominated in euro		**213.314**	**50.000**
4 Debt certificates issued		**-**	**-**
5 Liabilities to other euro area residents denominated in euro		**4.082.757**	**1.264.795**
5.1 General go vernment	*3.839.242*		*1.013.243*
5.2 Other liabilities	*243.515*		*251.552*
6 Liabilities to non-euro area residents denominated in euro		**4.823**	**4.921**
7 Liabilities to euro area residents denominated in foreign currency		**310.094**	**403.443**
8 Liabilities to non-euro area residents denominated in foreign currency		**-**	**-**
8.1 Deposits, balances and other liabilities	*-*		*-*
8.2 Liabilities arising from the credit facility under ERM II	*-*		*-*
9 Counterpart of special drawing rights allocated by the IMF		**156.521**	**163.865**
10 Intra-Eurosystem liabilities		**-**	**-**
10.1 Liabilities equivalent to the transfer of foreign reserves	*-*		*-*
10.2 Liabilities related to promissory notes backing the issuance of ECB debt certificates	*-*		*-*
10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem	*-*		*-*
10.4 Other liabilities within the Eurosystem (net)	*-*		*-*
11 Items in course of settlement		**8.862**	**49.855**
12 Other liabilities		**229.735**	**210.832**
12.1 Off balance sheet instruments revaluation differences	*-*		*-*
12.2 Accruals and income collected in advance	*3.834*		*3.898*
12.3 Sundry	*225.901*		*206.934*
13 Provisions		**405.102**	**353.663**
14 Revaluation accounts		**614.890**	**568.830**
15 Capital and reserves		**318.820**	**318.820**
15.1 Capital	*150.000*		*150.000*
15.2 General Reserve Fund	*168.820*		*168.820*
16 Profit for the year		**-**	**-**
Total liabilities		**21.850.408**	**18.384.961**

The "Notes to the Financial Statements" on pages 63 to 88 form part of these accounts.

Central Bank of Cyprus
Eurosystem

PROFIT AND LOSS ACCOUNT, 2020

		2020		2019	
		€'000	€'000	€'000	€'000
1.1	Interest income	112.172		101.564	
1.2	Interest expense	(10.061)		(1.638)	
1	**Net interest income**		**102.111**		**99.926**
2.1	Realised gains arising from financial operations	1.403		344	
2.2	Writedowns on financial assets and positions	(4.495)		(147)	
2.3	Transfer to provisions for foreign exchange and price risks	(51.631)		(53.471)	
2	**Net result of financial operations, writedowns and risk provisions**		**(54.723)**		**(53.274)**
3.1	Income from fees and commission	14.556		16.563	
3.2	Fees and commissions expense	-		-	
3	**Net income from fees and commissions**		**14.556**		**16.563**
4	Income from equity shares and participating interests		3.536		5.107
5	Net result from the pooling and redistribution of monetary income		(33.719)		(36.456)
6	Other income		6.455		9.076
	Total net income		**38.216**		**40.942**
7	Staff costs	(25.732)		(26.613)	
8	Administrative expenses	(7.928)		(7.927)	
9	Depreciation of tangible fixed assets	(752)		(1.491)	
10	Banknote acquisition cost	(2.474)		(2.498)	
11	Other expenses	(1.330)		(2.413)	
	Total expenses		**(38.216)**		**(40.942)**
	Profit for the year for allocation		**-**		**-**

22 March 2021

Constantinos Herodotou
Governor

The "Notes to the Financial Statements" on pages 63 to 88 form part of these accounts.

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING POLICIES

General principles for the preparation of the financial statements

The financial statements of the Central Bank of Cyprus (CBC) are prepared in accordance with the article 57(2) of the *Central Bank of Cyprus Law, 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 readjustment 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 readjustment 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

- **Portfolio of debt securities**
  - *Securities held for monetary policy purposes* - are valued at amortised cost subject to impairment tests.
  - *Marketable securities, other than those held to maturity* - are valued at the mid–market price prevailing at the balance sheet date, on a security by security basis by ISIN (International Securities Identification Number).
  - *Other securities classified as held to maturity* - are valued at amortised cost subject to impairment tests.

- **Tangible and intangible fixed assets**

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

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

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

- **Banknotes in circulation**

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

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

- **Post-retirement benefits**

The CBC provides defined post retirement benefits to its employees. The liability of the CBC is recognised in the liability item "L12.3 Sundry" and

represents the present value that arises from retirement benefits schemes at the balance sheet date. The liability is calculated annually by independent actuaries and is estimated using the Projected Unit Method. The present value is calculated by applying a discount rate determined in accordance with the yields of high quality bonds in euro at the balance sheet date and a time horizon representing the duration of scheme's projected liability. Actuarial gains and / or losses arising from empirical adjustments, as well as changes in actuarial assumptions, are recognized 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.

BALANCE SHEET

ASSETS

A1. Gold and gold receivables

This item comprises of the CBC's gold holdings as at 31 December 2020 which amounted to 446.975,66 fine ounces (31 December 2019: 446.975,66 fine ounces). The CBC's gold holdings are valued at market prices which at the end of the year were €1.543,88 per fine ounce (31 December 2019: €1.354,10 per fine ounce) amounting to €689,8 million (31 December 2019: €605,7 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 2020 resulted in an unrealised gain of €84,1 million (31 December 2019: €104,6 million unrealised gain).The increase in the CBC's gold holdings, which represents the difference between the value as at 31 December 2020 and the average acquisition cost, amounted to €675,7 million (31 December 2019: €591,6 million) and is accounted for as an unrealised gain. It is included in the balance sheet under liability item "L14 Revaluation accounts".

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. 67).

The claims on the IMF were valued at the SDR rate prevailing on 31 December 2020 as reported by the ECB in its Exchange Rates Circular, i.e. SDR1= €1,1786 (31 December 2019: SDR1= €1,2339).

Table 1 **Receivables from the IMF**

	31 Dec. 2020 €'000	31 Dec. 2019 €'000	Change €'000
Quota in IMF (equivalent to SDR303,8 million as at 31 December 2020 and SDR303,8 as at 31 December 2019)	358.059	374.859	(16.800)
IMF deposits	(258.967)	(270.351)	11.384
Reserve Tranch Position	99.092	104.508	(5.416)
SDR holdings	73.749	87.951	(14.202)
Total claims on the IMF	**172.841**	**192.459**	**(19.618)**

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

	31 Dec. 2020 €'000	31 Dec. 2019 €'000	Change €'000
Balances with credit institutions	319.087	407.934	(88.847)
Marketable securities	134.912	114.185	20.727
Other claims	188	180	8
Total	**454.187**	**522.299**	**(68.112)**

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

	31 Dec. 2020 €'000	31 Dec. 2019 €'000	Change €'000
Balances with credit institutions	8.312	12.042	(3.730)
Marketable securities	18.987	21.135	(2.148)
Total	**27.299**	**33.177**	**(5.878)**

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

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

A3. Claims on euro area residents denominated in foreign currency

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

A5. Lending to euro area credit institutions related to monetary policy operations denominated in euro (Table 4, p. 68**)**

This item consists of 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

Table 4 **Lending to euro area credit institutions related to monetary policy operations denominated in euro**

	31 Dec. 2020 €΄000	31 Dec. 2019 €΄000	Change €΄000
5.2 Longer term refinancing operations	2.053.000	9.300	2.043.700
Total	**2.053.000**	**9.300**	**2.043.700**

reporting year, the outstanding Eurosystem monetary policy operations amounted to €1.793,2 billion (2019: €624,2 billion), of which €2.053,0 million (2019: €9,3 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

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 the year under review, were carried out, long–term refinancing operations with 3–month maturity, and operations with 36–month maturity under the third series of Targeted Longer–Term Refinancing Operations (TLTRO III).

On 12 March 2020, the Governing Council of the ECB decided to carry out additional temporary Longer–Term Refinancing Operations (LTROs). These operations were carried out on a weekly basis from March 2020 until 24 June 2020, at an interest rate equal to the average interest rate of the deposit facility during the respective LTRO.

On 30 April 2020, the Governing Council of the ECB decided to carry out seven non–targeted Pandemic Emergency Longer–Term Refinancing Operations (PELTROs). These operations have been announced on a monthly basis since May 2020 with consecutive maturities between July and September 2021. PELTROs are carried out at an interest rate of 25 basis points below the average rate applied in the Eurosystem's main refinancing operations over the life of the respective PELTRO.

The Governing Council of the ECB decided to ease the conditions of the TLTRO III by the decisions in March (ECB/2020/13), April (ECB/2020/25) and December 2020 (ECB/2021/3), respectively. According to the latest modifications, the interest rate applied on all TLTRO III, outstanding over the period from 24 June 2020 to 23 June 2022 – referred as the special interest period, can be as low as 50 basis points below the average deposit facility rate prevailing over the same period and equal to the average deposit facility rate over the remaining life of the respective TLTRO III.

Given that the actual interest rate will be known at the maturity of each operation, for the purposes of calculating the accrued interest for TLTRO III, the interest rate of –1% was applied (50 basis points

Table 5 **Securities of euro area residents held for monetary policy purposes**

	31 Dec. 2020 Amortised Cost €'000	31 Dec. 2019 Amortised Cost €'000	Change Amortised Cost €'000
Securities markets programme (SMP)	74.854	119.416	(44.562)
Third covered bond purchase programme (CBPP3)	132.863	228.410	(95.547)
Public sector purchase programme (PSPP)	5.992.476	5.310.035	682.441
Pandemic emergency purchase programme (PEPP)	1.438.382	-	1.438.382
Total	**7.638.575**	**5.657.861**	**1.980.714**

Table 6 **Market value of securities**

	31 Dec. 2020 Market Value €'000	31 Dec. 2019 Market Value €'000	Change Market Value €'000
Securities markets programme (SMP)	76.615	125.698	(49.083)
Third covered bond purchase programme (CBPP3)	134.339	231.168	(96.829)
Public sector purchase programme (PSPP)	6.400.457	5.522.892	877.565
Pandemic emergency purchase programme (PEPP)	1.548.096	-	1.548.096
Total	**8.159.507**	**5.879.758**	**2.279.749**

below the deposit facility rate) over the special interest period, and, the deposit facility rate is used for calculating the accrued TLTRO III interest over the rest of the life of the operation, as this was deemed a prudent approach.

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 of euro area residents held for monetary policy purposes (**Table 5**)

The **Table 6** refers to the market value of securities, not recorded in the balance sheet, but provided for comparison purposes only.

This item consists of securities acquired by the CBC for single monetary policy purposes under the securities markets programme (SMP), the scope of the covered bond purchase programme (CBPP3), the public sector purchase programme (PSPP) and the pandemic emergency purchase programme (PEPP). Securities purchased under these programmes are valued at amortised cost adjusted for amortisation of premiums or discounts and 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 €28,7 billion (2019: €47,9 billion), of which €74,9 million (2019: €119,4 million) were purchased by the CBC.

On 2 October 2014, the Governing Council of the ECB announced CBPP3 and on 22 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 €287,5 billion (2019: €263,6 billion) and €2.341,6 billion (2019: €2.102,9 billion) respectively, of which €132,9 million (2019: €228,4 million) and €6,0 billion (2019: €5,3 billion) respectively were purchased by the CBC.

In 2020 the Eurosystem continued its net purchases under the asset purchase programme (APP) at a monthly pace of €20,0 billion on average. In March 2020 a temporary envelope of additional net asset purchases of €120,0 billion was added until the end of the year. The Governing Council of the ECB expects net purchases to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates. The Governing Council also intends to continue the reinvestments for an extended period of time past the date when the Governing Council starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Additionally, in March 2020 the Eurosystem launched a temporary pandemic emergency purchase programme (PEPP), with an envelope of €750,0 billion, 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. Purchases include all the asset categories eligible under the APP and were initially foreseen until the end of 2020. In June 2020 the Governing Council of the ECB increased the envelope for the PEPP by €600,0 billion, and in December 2020 by an additional €500,0 billion, bringing it to a total of €1.850,0 billion. The horizon for net purchases was also extended to at least the end of March 2022 and in any case, until the Governing Council judges that the coronavirus crisis phase is over. Furthermore, the Governing Council intends to reinvest the principal payments from maturing securities purchased under the PEPP until at least the end of 2023. The future roll–off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance. At the end of the reference year, the amount of assets of the PEPP programme in the whole Eurosystem amounted to €659,6 billion (2019: €0), of which €1,4 billion (2019: €0) were purchased by the CBC.

On 31 December 2020, the total balance of securities held for monetary policy purposes in the Eurosystem amounted to €3.694,6 billion (2019: €2.632,1 billion), and according to the Eurosystem capital key, the total investments corresponding to the CBC amount to €7,6 billion (2019: €5,7 billion).

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

Table 7 **Other securities of euro area residents**

	31 Dec. 2020 €'000	31 Dec. 2019 €'000	Change €'000
Marketable securities other than held to maturity	3.063	3.078	(15)
Other securities classified as held to maturity	312.536	470.761	(158.225)
Total	**315.599**	**473.839**	**(158.240)**

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 for 2020 the Eurosystem did not record any impairment losses in monetary policy portfolio securities.

As a result of the impairment tests conducted at the end of 2020, the Governing Council of the ECB considered appropriate to release the provision recognized on 31 December 2019 concerning the impairment in the value of a security portfolio under the corporate sector purchase programme (CSPP). The provision concerns monetary policy operations losses which were distributed to the NCBs according to the Eurosystem capital key (see note "L13. Provisions").

A7.2 Other securities (**Table 7**)

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

Marketable securities other than held to maturity

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

Other 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 subjected to impairment.

The market value of the fixed investment securities portfolio, which is reported for comparability purposes only, amounted to €320,6 million (2019: €480,3 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.

On 1 February 2020, as a result of the withdrawal of the Bank of England and the subsequent adjustment of the weightings assigned to the remaining NCBs in the ECB's capital, the CBC's share in the key for subscription of the ECB capital increased from 0,1503% to 0,1750%. On 1 January 2019, as a result of the revision of the capital key of the NCBs, the CBC's share in the ECB capital decreased from 0,1513% to 0,1503% (see note "P12. Key for subscription to the ECB's capital (ESCB capital key)").

The subscribed capital of the ECB remained unchanged at €10.825,0 million after the withdrawal of the Bank of England from the ESCB. The share of the Bank of England in the ECB's subscribed capital, which stood at 14,3%, was reallocated among both the euro area NCBs and the remaining non–euro area NCBs. As a result, the CBC's share in the ECB's capital increased by 0,0247%.

The ECB's paid–up capital also remained unchanged at €7.659,0 million in 2020, as the remaining NCBs were required to cover the withdrawn Bank of England's paid–up capital of €58,0 million. As a result, the CBC paid €48,2 thousand to the ECB on 1 February 2020, which represents its share of 0,2152% of the €58,0 million. Furthermore, the CBC will be required to pay up in full its increased subscription to the ECB capital in two annual instalments in 2021 and 2022 amounting to €1,3 million per annum.

The CBC's share in the ECB's capital on 31 December 2020 amounts to €39,4 million while on 31 December 2019 amounted to €39,7 million. The decrease of €283,0 thousand in 2020 is due to the reduction of the CBC's share in the net equity value of the ECB as a result of the decrease in the CBC's Eurosystem capital key from 0,2159% to 0,2152%.

A9.2 Claims equivalent to the transfer of foreign reserves to the ECB

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

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

	31 Dec. 2020 €΄000	31 Dec. 2019 €΄000	Change €΄000
Claim related to TARGET2	8.434.554	8.495.813	(61.259)
Liability related to the reallocation of monetary income	(33.911)	(36.610)	2.699
Claim related to ECB's profits	3.536	5.107	(1.571)
Total	**8.404.179**	**8.464.310**	**(60.131)**

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. On 1 February 2020, the ECB paid to the CBC the amount of €289,8 thousand resulting from the minor decrease.

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 during 2020 and 2019 remained at 0%.

A9.5 Other claims within the Eurosystem (net)

Intra-Eurosystem balances (Table 8)

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 for 2020, note "P5 Net result from the pooling and redistribution of monetary income"). The claim related to the interim distribution of the ECB's profits is also included (see Profit and Loss Account for 2020, note "P4 Income from equity shares and participating interests").

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**, p. 74).

A11.5 Accruals and prepaid expenses

This item mainly includes the accrued interest on monetary policy securities amounting to €72,5 million (2019: €48,3 million).

Table 9 **Tangible and intangible fixed assets**

	31 Dec. 2020 €'000	31 Dec. 2019 €'000	Change €'000
Cost			
Land and buildings	23.052	23.052	-
Furniture, building and other equipment	13.727	13.724	3
Computer software and hardware	10.565	10.288	277
Motor vehicles	448	693	(245)
Total cost	**47.792**	**47.757**	**35**
Accumulated depreciation			
Land and buildings	19.903	19.811	92
Furniture, building and other equipment	12.382	12.258	124
Computer software and hardware	10.006	9.494	512
Motor vehicles	448	693	(245)
Total accumulated depreciation	**42.739**	**42.256**	**483**
Net book value	**5.053**	**5.501**	**(448)**

Table 10 **Banknotes in circulation**

	31 Dec. 2020 €'000	31 Dec. 2019 €'000	Change €'000
Net value of euro banknotes in circulation by the CBC	**982.308**	**423.988**	**558.320**
Liability arising from the share of banknotes issued on behalf of the ECB[(i)]	(246.939)	(223.276)	(23.663)
Claim (Liability) arising from the allocation of euro banknotes within the Eurosystem	2.104.965	2.365.381	(260.416)
Net claim related to the allocation of euro banknotes within the Eurosystem (A9.4)	**1.858.026**	**2.142.105**	**(284.079)**
Total value of euro banknotes in circulation by the CBC on the basis of the banknote allocation key	**2.840.334**	**2.566.093**	**274.241**

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

A11.6 Sundry

This item mainly consists of the loans to CBC's employees.

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

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

	31 Dec. 2020 €´000	31 Dec. 2019 €´000	Change €´000
2.1 - Current accounts (covering the minimum reserve system)			
Current Accounts	12.189.412	8.244.719	3.944.693
Minimum Reserves	475.744	485.125	(9.381)
2.2 - Deposit facility	-	3.700.000	(3.700.000)
Total	**12.665.156**	**12.429.844**	**235.312**

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.

As from 1 February 2020, the CBC's banknote allocation key is 0,1980% (see note "P12. Key for subscription to the ECB's capital (ESCB capital key)").

During 2020, the total value of banknotes in circulation within the Eurosystem increased by 11%. According to the allocation key, the CBC's total value of euro banknotes in circulation amounted to €2,8 billion compared with €2,6 billion in 2019.

This change is due to the increase in euro banknotes put into circulation by all NCBs of the euro area, which amounted to €1.434,5 billion as at 31 December 2020 compared with €1.292,7 billion as at 31 December 2019.

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 2020, amounted to €475,7 million (2019: €485,1 million).

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 €3.839,2 million (2019: €1.013,2 million).

L5.2 Other liabilities

This item mainly includes the balances of the deposits of the institutions under resolution amounting to €242,8 million (2019: €250,8 million).

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 2020 €156,5 million (2019: €163,9 million) of special drawing rights SDR132,8 million (31 December 2019: SDR132,8 million). The decrease of €7,4 million is due to changes in the exchange rate.

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 €8,7 million (2019: €49,7 million).

L12. Other liabilities

L12.3 Sundry

This item mainly represents the CBC's net liability for the retirement benefits of its employees amounting to €217,6 million (31 December 2019: €190,7 million) as well as the CBC's net liability for the pensioners healthcare scheme which amounted to €1,9 million (31 December 2019: €7,7 million).

Retirement benefits

The CBC provides to its employees, who held a permanent and pensionable post 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 2020 revealed net actuarial deficit of €27,7 million compared with the net actuarial deficit of €30,5 million, as at 31 December 2019. The main reason for this deficit is the decrease of the discount rate from 1,06% to 0,48%.

The actuarial valuation with reference date 31 December 2020 for the healthcare scheme for pensioners, was carried out 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 €1,9 million (2019: €7,7 million, an amount that had been determined taking into account the benefits not covered by the General Health System with a possible scenario representing the best estimate

Table 12 **Actuarial assumptions used for the actuarial valuation of the pension scheme**

	2020	2019
Actuarial assumptions for pension scheme		
Discount rate	0,48%	1,06%
Inflation rate	1,50%	1,50%
General salary increases	0,50%	0,50%
Total salary increases	1,25%	1,25%
Increases in social insurance pensions	1,50%	1,50%
Rate of increase in pensions	1,00%	1,00%
Rate of increase in the basic insurable earnings	2,00%	2,00%
Mortality table	60% of PA90 (Males) and 65% of PA90 (Females)	60% of PA90
Actuarial assumptions for pensioners' healthcare scheme		
Discount rate	0,59%	1,28%
Inflation rate for medical expenses	0,00%	0,00%
Rate of increase in pensions	1,00%	1,00%
Mortality table	60% of PA90 (Males) and 65% of PA90 (Females)	60% of PA90

for the development of the scheme). The cost covering the revised scheme was estimated at 0,8% of pensions. The amount of the liability reduction was recorded under Other Income (see Profit and Loss Account for 2020, note "P6 Other income").

The actuarial assumptions used for the actuarial valuation of the pension scheme are as stated in **Table 12**.

The movement in net retirement benefits liability are analysed in **Table 13** (p. 78).

L13. Provisions (Table 14, p. 78**)**

Provision against risks arising from the main activities of the CBC

The CBC forms and maintains a general forecast against the risks arising from its activities, applying appropriate assumptions, valuation principles and rules governed by the principle of prudence, while their measurement is based on the Expected Shortfall tool of a 99% confidence level and one year time horizon.

The provision is focused on the following risks:

- **Market risk**
  Market risk is the risk of a decrease in the market value of financial instruments due to adverse changes in the foreign exchange rates (foreign currency risk), interest rates (interest rate risk) and in the prevailing conditions in capital and money markets.
- **Credit risk**
  Credit risk refers to the risk of loss stemming

Table 13 **Movement in net retirement benefits liability**

	2020 €'000	2019 €'000	Change €'000
Liability related to the pension scheme			
Net Liability as at 1 January	190.664	159.059	31.605
Employees			
Provision for the year	2.183	2.334	(151)
Net actuarial (gain)/loss of the actuarial liability	27.487	29.422	(1.935)
Executives			
Provision for the year	62	57	5
Net actuarial (gain)/loss of the actuarial liability	213	1.110	(897)
Capitalisation of interest	2.010	3.102	(1.092)
Contribution of employees and executives	683	695	(12)
Benefits paid	(5.705)	(5.115)	(590)
	217.597	**190.664**	**26.933**
Liability related to the pensioners' healthcare scheme			
Net Liability as at 1 January	7.711	15.209	(7.498)
Provision for the year	226	226	-
Net actuarial (gain)/loss of the actuarial liability	272	1.119	(847)
Capitalisation of interest	99	313	(214)
Benefits paid	(74)	(186)	112
Profit due to scheme amendment	(6.302)	(8.970)	2.668
	1.932	**7.711**	**(5.779)**
Total liability as at 31 December	**219.529**	**198.375**	**21.154**

Table 14 **Provisions**

	31 Dec. 2020 €'000	31 Dec. 2019 €'000	Change €'000
Provision against risks arising from CBC's main activities	405.102	353.471	51.631
Provision for losses arising from monetary policy operations	-	192	(192)
Total	**405.102**	**353.663**	**51.439**

from the failure of a CBC's counterparty, or an issuer of a security in the possession of the CBC, to meet its contractual obligations in a complete and timely manner.

- **Operational risk**
  Operational risk is the risk of losses stemming, among others, from inadequate internal processes and control systems, people or the inability to deal with exceptional circumstances or crises.

In particular, the CBC's estimates for the purpose of determining the amount of risk provisions mainly relate to the following risks:

– Market risk and credit risk inherent in the management of own funds and other significant amounts in the CBC balance sheet.
– Credit risk inherent in the implementation of the Eurosystem single monetary policy, such as open market operations (liquidity providing operations) and Eurosystem securities purchasing programmes.
– Operational risk.
  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 €51,6 million to €405,1 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 in the economy of the euro area.

It is noted that the risk assessment and the establishment of provisions requires the management and the Board of Directors 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, such as the security offered by the collateral, the quality of the collateral and the evolution of specific macroeconomic indicators.

Provision for losses arising from monetary policy operations

With respect to the provisions initially established in 2018 and adjusted in 2019 by all the Eurosystem NCBs with regard to credit risks in monetary policy operations, an amount of €64,0 million was used to cover the loss realised after the disposal in 2020 of the impaired securities held by one of the Eurosystem NCBs under the CSPP. Out of this amount, €136,7 thousand were covered by the provision established in 2019 by the CBC.

The residual amount of the provisions established by the NCBs after the coverage of the realised loss resulted in a cumulative unused balance of €26,0 million which is reflected in the profit and loss accounts of the NCBs in proportion to their subscribed capital key shares in the ECB prevailing in 2018. For CBC, this amount was €55,4 thousand.

Table 15 **Revaluation accounts**

	31 Dec. 2020 €'000	31 Dec. 2019 €'000	Change €'000
Pre-stage III revaluations			
- *Gold*	*240.030*	*240.030*	*-*
- *Foreign currency*	*977*	*977*	*-*
	241.007	**241.007**	**-**
Other revaluations			
- *Gold*	*435.670*	*351.550*	*84.120*
- *Foreign currency*	*-*	*12.967*	*(12.967)*
- *Prices of debt instruments*	*4.967*	*2.087*	*2.880*
	440.637	**366.604**	**74.033**
	681.644	**607.611**	**74.033**
Remeasurement of the pension scheme liability	(66.255)	(38.554)	(27.701)
Remeasurement of healthcare scheme for pensioners liability	(499)	(227)	(272)
Total	**614.890**	**568.830**	**46.060**

L14. Revaluation accounts (Table 15)

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 €74,0 million (2019: €108,4 million increase) 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 €614,9 million (2019: €568,8 million), showing an increase of €46,1 million.

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

On 31 December 2020, 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 recognized 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 2020 are the following: Sterling €0,8990 (31 December 2019: €0,8508) and US dollar €1,2271 (31 December 2019: €1,1234).

Table 16 **Capital and reserves**

	31 Dec. 2020 €΄000	31 Dec. 2019 €΄000	Change €΄000
Capital	150.000	150.000	-
General Reserve Fund	168.820	168.820	-
Total	**318.820**	**318.820**	**-**

L15. Capital and reserves (Table 16)

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

The CBC has a reserve fund, named the General Reserve Fund, where CBC's net profits are transfered 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 2020, 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.

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.

PROFIT AND LOSS ACCOUNT

P1. Net interest income

This item comprises interest income less interest expense. Net interest income increased by €2,2 million and amounted to €102,1 million compared with €99,9 million in the previous year.

P1.1 Interest income **(Table 17,** p. 83**)**

Increased by €10,6 million and amounted to €112,2 million compared with €101,6 million in the previous year.

- **Securities for monetary policy purposes**
  This item consists of interest arising from the purchase of debt securities by the CBC in the context of the covered bonds purchase programme (CBPP3), of public debt securities in the context of the securities markets programme (SMP), the secondary market public sector purchase programme (PSPP) and the pandemic emergency purchase programme (PEPP) (see note "A7.1 Securities held for monetary policy purposes").
- **Securities for investment policy purposes**
  The interest generated from these securities decreased by €0,6 million to €3,2 million in 2020, compared with €3,8 million in 2019. A decrease of €0,7 million was also reported in the interest income from foreign securities.
- **Negative interest**
  Following the decision of the ECB, as from 11 June 2014, negative interest was imposed on certain deposits. The negative interest on banks deposits is considered as a negative expense for the purposes of the monetary income.
- **Other interest**
  Includes interest income in foreign currency mainly from investment in US Treasury bills amounting to €1,0 million (2019: €7,6 million). Also included in this item is the CBC's remuneration on the Reserve Tranche Position with the IMF which is part of the asset item "A2.1 Receivables from the IMF". The Reserve Tranche Position is a claim against IMF and arises from the excess of Cyprus' quota with IMF over the IMF's deposits in euro.

P1.2 Interest expense **(Table 18,** p. 83**)**

- **Interest expense in euro**
  Interest expense in euro refers mainly to accrued interest on TLTRO III, which was calculated at the interest rate of –1% (50 basis points below the deposit facility rate) over the special interest period. For the rest of the life of the operation, the deposit facility rate is used for calculating the accrued TLTRO III interest, as this was deemed a prudent approach (see note "A5.2 Longer-term refinancing operations").
- **Interest expense in foreign currency**
  Interest expense in foreign currency mainly refers to interest of €0,3 million (2019: €1,6 million) paid by the CBC for its liabilities on special drawing rights as a result of Cyprus's counterparty in the IMF (see note "L9 Counterpart of special drawing rights allocated by the IMF").

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

P2.1 Realised gains arising from financial operations

This amount includes foreign exchange gains of €1,4 million (2019: €0,3 million).

Table 17 **Interest income**

Interest income in euro	2020 €'000	2019 €'000	Change €'000
On monetary policy operations			
Securities	47.610	31.300	16.310
	47.610	**31.300**	**16.310**
Other interest income			
Securities for investment policy purposes	3.158	3.759	(601)
Staff loans	78	80	(2)
Negative Interest	56.820	53.431	3.389
Other interest	115	13	102
	60.171	**57.283**	**2.888**
Total interest income in euro	**107.781**	**88.583**	**19.198**
Interest income in foreign currency			
Securities	2.827	3.511	(684)
Other interest income	1.564	9.470	(7.906)
Total interest income in foreign currency	**4.391**	**12.981**	**(8.590)**
Total interest income	**112.172**	**101.564**	**10.608**

Table 18 **Interest expense**

	2020 €'000	2019 €'000	Change €'000
Interest expense in euro	**9.724**	**7**	**9.717**
Interest expense in foreign currency	**337**	**1.631**	**(1.294)**
Total interest expense	**10.061**	**1.638**	**8.423**

P2.2 Writedowns on financial assets and positions

Writedowns 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.

P3.1 Income from fees and commission

This item mainly includes the recovery of costs relating to supervision which for 2020 amounted to €10,5 million (2019: €11,1 million).

P4. Income from equity shares and participating interests

ECB profit distribution

The Governing Council of the ECB decided the initial distribution of €1.260,2 million from the ECB's profits for 2020. The income was distributed on 29 January 2021 and the CBC's share amounted to €2,7 million (2019: €3,1 million).

After the approval of the ECB's annual accounts on 17 February 2021, the Governing Council decided the final distribution of the remaining net profit for 2020 amounting to €383,1 million. The CBC's share amounts to €0,8 million (2019: €2,0 million).

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 €33,8 million (2019: €36,6 million) between monetary income of €43,1 million (2019: €61,0 million), which the CBC earned in 2020, and its reallocated monetary income of €9,3 million (2019: €24,4 million), based on its Eurosystem key share on the total monetary income pooled, was paid on 29 January 2021.

In addition, the CBC paid €132,3 thousand due to revisions of the monetary income for the year 2018.

Table 19 **Staff costs**

	2020 €´000	2019 €´000	Change €´000
Employees' benefits			
Remuneration (basic salary, wage indexation, allowances, overtime payments)	17.068	16.713	355
Pension benefits – provision for current service cost	2.183	2.334	(151)
Employer's social insurance and other contributions	3.449	3.237	212
Total	**22.700**	**22.284**	**416**
Governor's and Board's benefits			
Remuneration (basic salary, wage indexation, allowances)	351	343	8
Pension benefits – provision for current service cost	62	57	5
Employer's social insurance and other contributions	52	42	10
Remuneration of non–executive directors	145	129	16
Total	**610**	**571**	**39**
Interest expense on pension scheme	**2.010**	**3.102**	**(1.092)**
Healthcare scheme for pensioners			
Current service cost	226	226	-
Interest expense	99	313	(214)
Total	**325**	**539**	**(214)**
Cost of leaves not taken	**87**	**117**	**(30)**
Total Staff Costs	**25.732**	**26.613**	**(881)**

This item also contains the CBC's share of the realised loss in relation to the disposal in 2020 of the securities held by an NCB of the Eurosystem in its CSPP portfolio as well as the release of the provision established in 2019 against losses in monetary policy operations portfolio. The total amount released in 2020 was €192,0 thousand (2019: €154,0 thousand) (see note "L13. Provisions").

P6. Other income

Other income mainly consists of €6,3 million, being the amount released during 2020, from CBC's liability for healthcare scheme for pensioners due to the amendment of the scheme after the implementation of General Health System (2019: €9,0 million). In addition, this item includes income from numismatic collection of coins issue amounting to €154,0 thousand (2019: €104,0 thousand).

P7. Staff costs (Table 19)

Executives and employees' remuneration is subject to the deductions applied to the general public sector either by applying the relevant law or by following the decisions of the CBC's Board

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

	2020 €΄000	2019 €΄000
Governor		
Constantinos Herodotou (Governor from 11 April 2019)	137	113
Chrystalla Georghadji (Governor from 11 April 2014 to 10 April 2019)	-	43
Executive Directors		
Stavros Agrotis (Executive Director from 15 May 2019)	107	77
Maria Heracleous (Executive Director from 15 May 2019)	107	77
Constantinos Herodotou (Executive Director from 1 March 2017 to 10 April 2019)	-	33
Total	**351**	**343**
Non-Executive Directors		
Angelos Gregoriades (from 1 July 2019)	29	14
Stavros Evagorou (from 1 March 2017)	29	28
Makis Keravnos (from 24 October 2018)	29	28
Andreas Persianis (from 5 February 2014 to 4 February 2019)	-	3
Yiannis Savvides (from 24 October 2018)	29	28
Ioannis Charilaou (from 18 October 2016)	29	28
Total	**145**	**129**

of Directors, where the provisions of the law are not applied.

Remuneration of Governor and Board of Directors **(Table 20)**

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.

P8. Administrative expenses (Table 21, p. 87**)**

During the reference year, administrative expenses remained at €7,9 million, approximately at the same level as in 2019.

P9. Depreciation of tangible fixed assets

Depreciation of tangible fixed assets for the year 2020 is €0,8 million (2019: €1,5 million).

P10. Banknote acquisition cost

Expenses related to acquisition and handling of banknotes and coins for 2020 is €2,5 million (2019: €2,5 million).

P11. Other expenses

This item relates to the CBC's various operating expenses for the year 2020 of €1,3 million (2019: €2,4 million).

Table 21 **Administrative expenses**

	2020 €´000	2019 €´000	Change €´000
Consultancy services	128	84	44
Legal expenses	2.244	1.886	358
Maintenance, repairs, cleaning	1.881	1.628	253
Travel and subsistence expenses	200	861	(661)
Communications	278	243	35
Electricity, heating and water costs	499	583	(84)
Hospitality and conferences in Cyprus	9	59	(50)
Buildings, equipment and vehicle insurance	92	56	36
Miscellaneous	2.597	2.527	70
Total	**7.928**	**7.927**	**1**

P12. Key for subscription to the ECB's capital (ESCB capital key) (Table 22, p. 88**)**

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).

As a result of the departure of the United Kingdom from the European Union and consequent withdrawal of the Bank of England from the ESCB, the weightings assigned to the remaining NCBs in the key for subscription to the ECB's capital were adjusted with effect from 1 February 2020, as shown in **Table 22** (p. 88).

The ECB kept its subscribed capital unchanged at €10,825,0 million after Bank of England's withdrawal from the ESCB. The share of the Bank of England in the ECB's subscribed capital, which stood at 14.3%, was reallocated among both the euro area NCBs and the remaining non–euro area NCBs. As a result, the CBC share in the ECB's subscribed capital increased by 0,0247%.

The ECB's paid–up capital also remained unchanged at €7.659,0 million in 2020, as the remaining NCBs were required to cover the withdrawn Bank of England's paid–up capital of €58,0 million. As a result, the CBC paid €48,2 thousand to the ECB on 1 February 2020, which represents its share of 0,2152% of the €58,0 million. Furthermore, the CBC will be required to pay up in full its increased subscription to the ECB capital in two annual instalments in 2021 and 2022 amounting to €1,3 million per annum.

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

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

Table 22 **Key for subscription to the ECB's capital (ESCB capital key)**

	31/12/2020 %	31/12/2019 %
Nationale Bank van Belgie/Banque Nationale de Belgique	2,9630	2,5280
Deutsche Bundesbank	21,4394	18,3670
Eesti Pank	0,2291	0,1968
Bank of Greece	2,0117	1,7292
Banco de Espana	9,6981	8,3391
Banque de France	16,6108	14,2061
Central Bank and Financial Services Authority of Ireland	1,3772	1,1754
Banca d'Italia	13,8165	11,8023
Banque centrale du Luxembourg	0,2679	0,2270
De Nederlandsche Bank	4,7662	4,0677
Oesterreichische Nationalbank	2,3804	2,0325
Banco de Portugal	1,9035	1,6367
Suomen Pankki–Finlands Bank	1,4939	1,2708
Banka Slovenije	0,3916	0,3361
Latvijas Banka	0,3169	0,2731
Central Bank of Malta/ Bank Centrali ta' Malta	0,0853	0,0732
Central Bank of Cyprus	0,1750	0,1503
Narodna banka Slovenska	0,9314	0,8004
Lietuvos bankas	0,4707	0,4059
Total amount for euro area NCBs	**81,3286**	**69,6176**
Ceska narodni banka	1,8794	1,6172
Danmarks Nationalbank	1,7591	1,4986
Magyar Nemzeti Bank	1,5488	1,3348
Narodowy Bank Polski	6,0335	5,2068
Sveriges Riksbank	2,9790	2,5222
Bank of England	-	14,3374
Bulgarian National Bank	0,9832	0,8511
Banca Nationala a Romaniei	2,8289	2,4470
Hrvatska Narodna Banka	0,6595	0,5673
Total amount for non-euro area NCBs	**18,6714**	**30,3824**
Total amount for NCBs that are members of the ESCB	**100,00**	**100,00**
Central Bank of Cyprus		
Eurosystem Capital Key	**0,2152**	**0,2159**
Banknote Allocation Key	**0,1980**	**0,1985**

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 in pages 60 to 88 and comprise the balance sheet as at 31 December 2020 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 Central Bank of Cyprus as at 31 December 2020, and of its financial performance for the year then ended in accordance with Article 57(2) of the *Central Bank of Cyprus Law, 2002 –2017*, in conformity with the accounting principles applicable in the European System of Central Banks (ESCB) as these are determined by the European Central Bank (ECB) in the Accounting Guideline ECB/2016/34, as amended.

Basis for opinion

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

Other information

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

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

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

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

Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with Article 57(2) of the

Central Bank of Cyprus Law, 2002–2017, in conformity with the accounting principles applicable in the European System of Central Banks (ESCB) as these are determined by the European Central Bank (ECB) in the Accounting Guideline ECB/2016/34, as amended, and for such internal control as the Board of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 matters

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 Street, CY-3032 Limassol, Cyprus

Nicosia, 22 March 2021

CENTRAL BANK OF CYPRUS
EUROSYSTEM

6. ANNEX:
COMMITTEES OF THE CBC

Audit Committee

Established under section 60A of the *Central Bank of Cyprus Law, 2002*, as subsequently amended. Its tasks include the monitoring of the implementation of the code of corporate governance, the internal management audit and the submission of reports to the Board.

Members	Position	
Ioannis Charilaou[(1)]	Non-Executive Director	Chairman
Yiannis Savvides[(2)]	Non-Executive Director	Member
Makis Keravnos[(2)]	Non-Executive Director	Member

(1) Appointed as Chairman of the Audit Committee on 21 January 2019.
(2) Appointed as member of the Audit Committee on 21 January 2019.

Personnel Committee

Established under section 22 of the *Central Bank of Cyprus Law, 2002*, as subsequently amended. It opines to the Governor in relation to appointments and emoluments. It also addresses procedures concerning disciplinary offenses and bankruptcies of employees. It has decisive competence on the suitability of qualifications and experience in relation to each specific position, the restoration of employees whose promotion was annulled, and disciplinary action.

Members	Position	
Constantinos Herodotou	Governor	Chairman
-----	Deputy Governor[(1)]	Member
Stavros Agrotis[(2)]	Executive Director	Member
Maria Heracleous[(2)]	Executive Director	Member
Ioannis Charilaou	Non-Executive Director	Member
Stavros Evagorou	Non-Executive Director	Member

(1) The position of the Deputy Governor is provided by the Constitution and is currently vacant.
(2) Ex-officio member of the Personnel Committee as from 15 May 2019.

Investments Committee

Established by the Board of Directors in order to provide advisory support to the Board, including the submission of proposals related to the Investment Policy of the CBC.

Members	Position	
Angelos Gregoriades[1]	Non-Executive Director	Chairman
Yiannis Savvides[2]	Non-Executive Director	Member/Alternate Chairman
Makis Keravnos[2]	Non-Executive Director	Member

(1) Appointed as Chairman of the Investments Committee on 22 July 2019.
(2) Appointed as member of the Investments Committee on 30 May 2019.

Budget Committee

Established by the Board of Directors and caters for the preliminary budgetary draft prior to its final submission to the Board for approval.

Members	Position	
Constantinos Herodotou	Governor	Chairman
Stavros Agrotis[1]	Executive Director	Member
Maria Heracleous[1]	Executive Director	Member
Yiannis Savvides[1]	Non-Executive Director	Member
Stavros Evagorou	Non-Executive Director	Member

(1) Appointed as member of the Budget Committee on 30 May 2019.

Risk Committee

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

Members	Position	
Makis Keravnos[1]	Non-Executive Director	
Angelos Gregoriades[2]	Non-Executive Director	Chairman
Yiannos Charilaou[1]	Non-Executive Director	Member/Alternate Chairman

(1) Appointed as member of the Risks Committee on 30 May 2019.
(2) Appointed as member of the Risks Committee on 22 July 2019.