



CENTRAL BANK OF CYPRUS  
EUROSYSTEM



# Five Year Account April 2019 - April 2024

Central Bank of Cyprus

10/04/2024

# We have successfully managed consecutive crises without any cost to depositors or to the state (1/3)

We acted under tight timelines, ensuring the avoidance of deposit haircuts and safeguarding the stability of the Cyprus economy



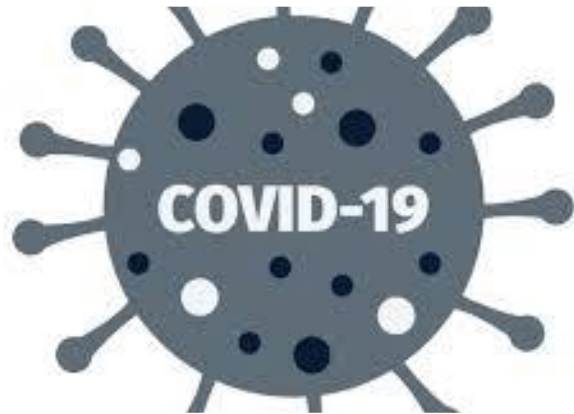
## RCB

The crisis to a systemic bank like RCB, could have easily spread to the rest of the banking system, posing a risk to the country's economy

- ✓ Planning and execution of specific actions to **enable the smooth winding down of RCB Bank** after its viability was affected by the war in Ukraine and the imposition of sanctions on Russia.
- ✓ All depositors were protected **without impact to the State funds or to the deposit guarantee scheme**
- ✓ **Approval and commendation** from the **European Central Bank** for the way this crisis was managed.

# We have successfully managed consecutive crises without any cost to depositors or to the state (2/3)

We implemented unprecedented and innovative measures that protected households and businesses alike



## Pandemic

“Extraordinary times require extraordinary action”

*Christine Lagarde, ECB President*

- ✓ Introduction of a loans **moratorium scheme** used by almost **50%** of borrowers, with the total amount protected by the scheme amounting to **€11bn** loans
- ✓ Temporary relaxation in **bank capital requirements** and **loan origination criteria** to expedite the granting of short-term loans to businesses and households addressing **urgent financial needs in a prompt manner.**

# We have successfully managed consecutive crises without any cost to depositors or to the state (3/3)

We acted promptly and effectively when the crisis in neighboring Lebanon began to unfold, with nine branches of Lebanese banks operating in Cyprus



## Lebanese Economic Crisis

“Lebanon has been facing an unprecedented sovereign-banking-currency crisis, which is ongoing for more than three years”

*International Monetary Fund Report*

- ✓ **Timely intervention** of the Central Bank of Cyprus in the 9 Lebanese branches and **imposition of targeted and escalating measures** to prevent the transmission of the economic crisis of Lebanon to Cyprus.
- ✓ **Full protection of depositors** and the Deposit Guarantee Fund.
- ✓ As a consequence of the **Central Bank of Cyprus’ measures**, the closure of the branches imposed by the Central Bank of Lebanon **did not cause any financial loss to the depositors or the Republic of Cyprus.**

# Our actions had a pivotal role in enhancing the reputation of our country

With regards to anti money laundering threats

42.728

Terminations of  
business relationships  
with shell companies

The **Central Bank** has set **criteria** and **conditions** for **entering into** and/or **continuing** business relationships with shell companies, calling on banks through circulars and instructions to apply due diligence measures based on the risk-based approach

125.872

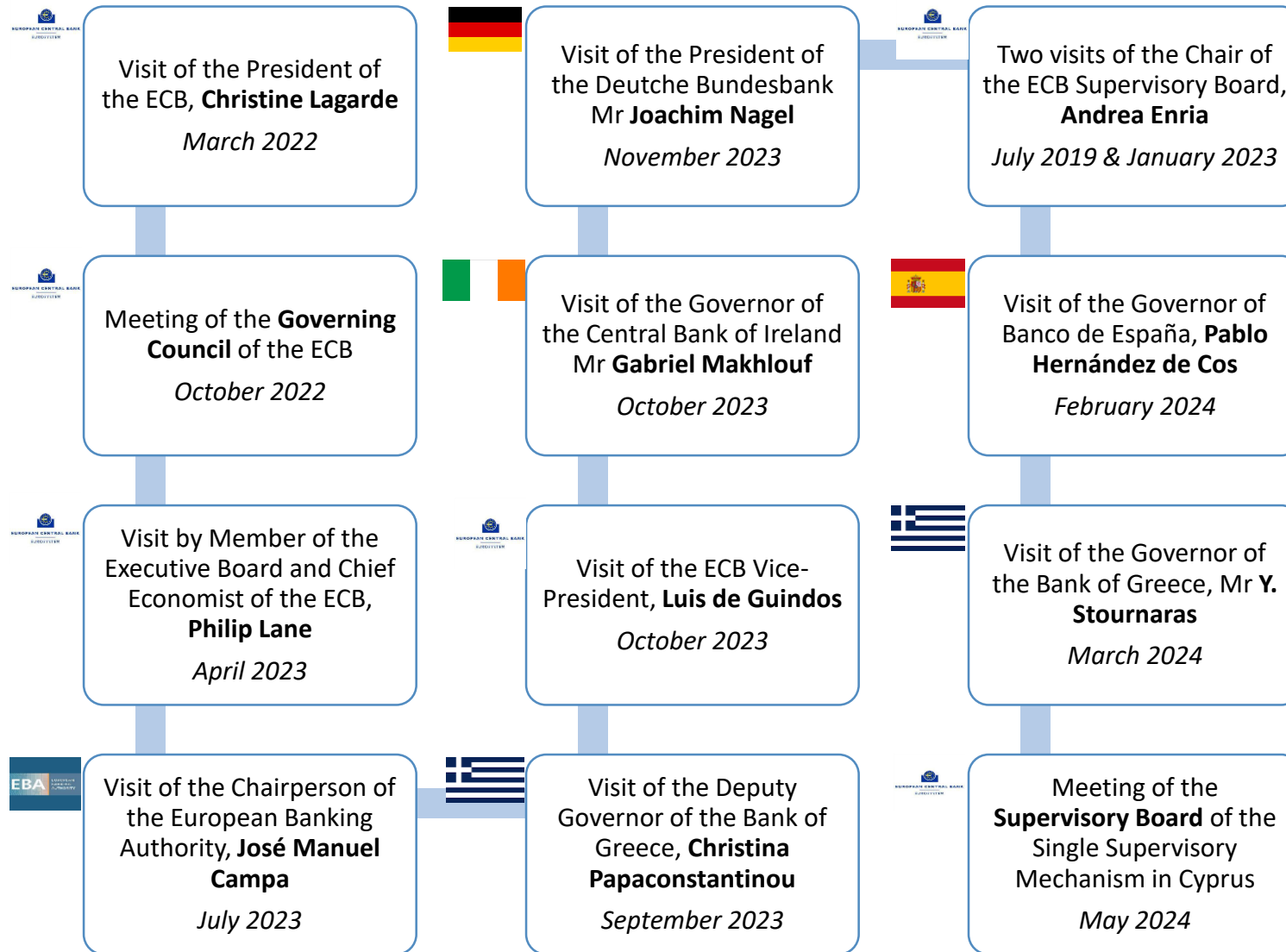
Bank accounts were  
closed

“...In particular, as far as the financial institutions are concerned, the assessors have expressed both orally and in writing the significance of the work performed by the CBC...”

*Moneyval Report*

# We enhanced our participation and influence in the ECB's discussions and decisions

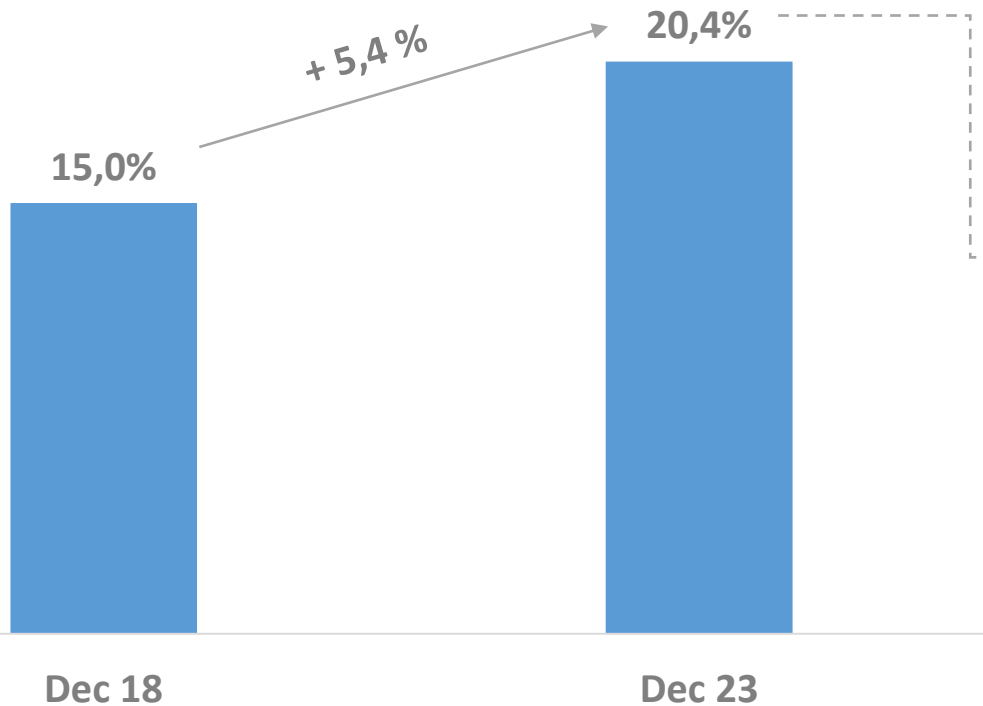
The outcome has been internationally acknowledged, evidenced by esteemed high-ranking officials honoring us with their presence in Cyprus over the past five years



# Despite the crises we encountered, we successfully transformed the banking system into a more robust, a more solvent, and a more resilient one

Solvency ratio increased by 5,4% from 2018: Among the highest ratios in the European Union

## Solvency Ratio of the Cyprus Banking System

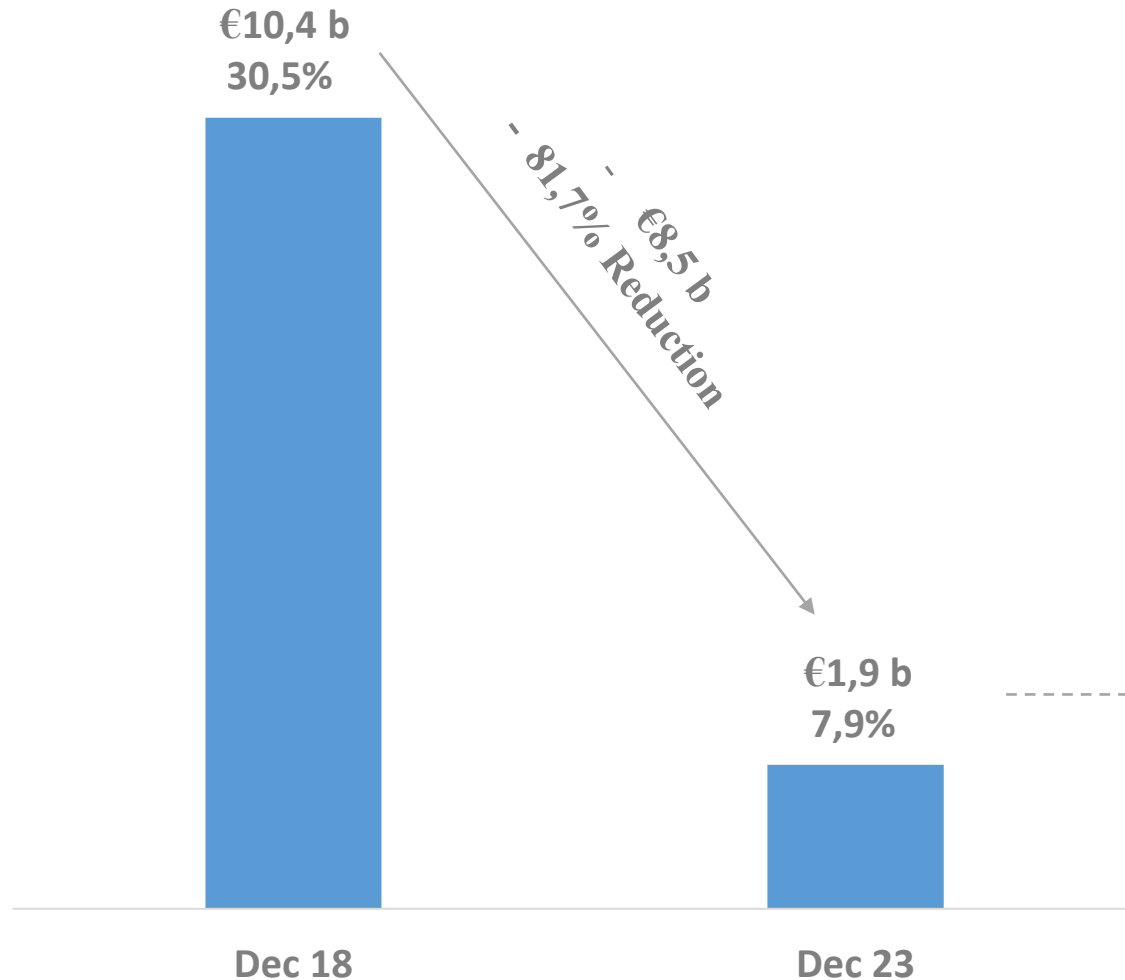


- ✓ **Highest** level ever recorded in Cyprus.
- ✓ Among the **highest ratios in the European Union (European ratio amounts to 16,0%)**.
- ✓ It enhances the **resilience** of banks, thereby safeguarding the country's **financial stability**.
- ✓ It enables banks to **extend more loans** to both businesses and households.
- ✓ **It boosts confidence** in the banking system and the country's economy overall. One of the key factors contributing to the credit rating upgrade of Cyprus.

# Non-Performing Loans have decreased to their lowest level since 2014

Especially in the last 2 years, this reduction primarily stems from repayments and restructuring solutions prompted by Central Bank's repeated and stringent recommendations

## Cyprus Banking Sector Non-Performing Loans\* (volume and %)



- ✓ **Lowest** level of non-performing loans since 2014.
- ✓ The **potentially most significant burden** for Cyprus banks appears to be moving towards its **ultimate resolution**.
- ✓ Over the past two years, adherence to the **Central Bank's repeated and stringent recommendations** led to reductions of non-performing loans through repayments and restructurings, **ultimately benefiting the borrowers as well**.
- ✓ Consequently, loans categorized as "**Stage 2**", representing the transitional phase before being classified as non-performing, **have also exhibited a decline**.
- ✓ **Lower level of non-performing loans** makes banks **healthier** and with **fewer risks**. This enables them to focus on their core business of **extending loans to businesses and households**, stimulating **economic activity** and enhancing **the image of our country**.

\*In 2014, a common definition of non-performing loans was adopted throughout the European Union



# We enforced a monthly total charges limit of €3 on basic payment accounts, effectively restraining bank charges and ensuring consumer protection

Over 93,000 consumers have taken advantage from this opportunity

## Services covered by the monthly cap of €3

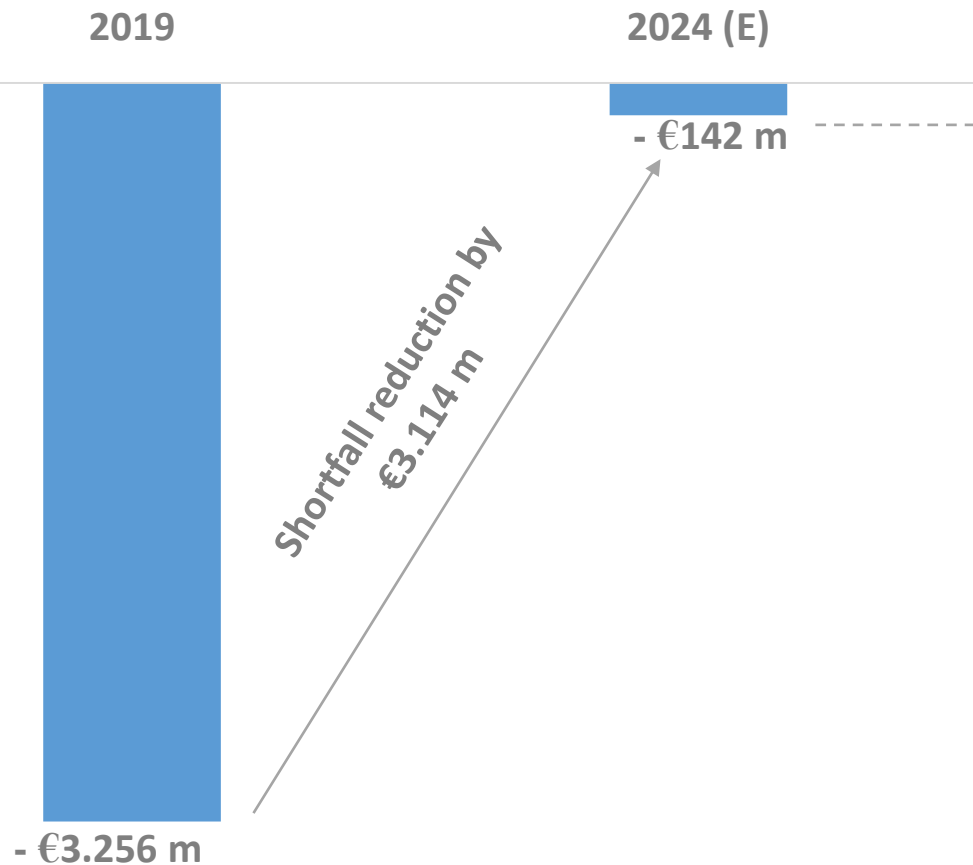
3 Euro per month	Opening of an account	✓
	Maintenance of an account	✓
	Closure of an account	✓
	Deposits of cash	✓
	Cash withdrawals from bank teller	✓
	Cash withdrawals from ATM	✓
	Direct Debits	✓
	Payments via debit card	✓
	Standing orders	✓
	SEPA Transfers	✓

- ✓ Following the initiative of the Central Bank, a **monthly cap of €3** has been enforced on the fees that banks can charge to **payment accounts with basic features**.
- ✓ Special provision of **zero charge** for **vulnerable groups**.
- ✓ More than **93.000** consumers have taken advantage of the opportunity given to them by the Central Bank and enjoy **basic services at reduced fees**.

# We mandated banks to allocate part of their profits towards covering the shortfall in their MREL capital requirement.

Resulting in their MREL shortfall being reduced to the lowest level ever recorded since it was initially imposed

## Cyprus Banks MREL capital shortfall\*

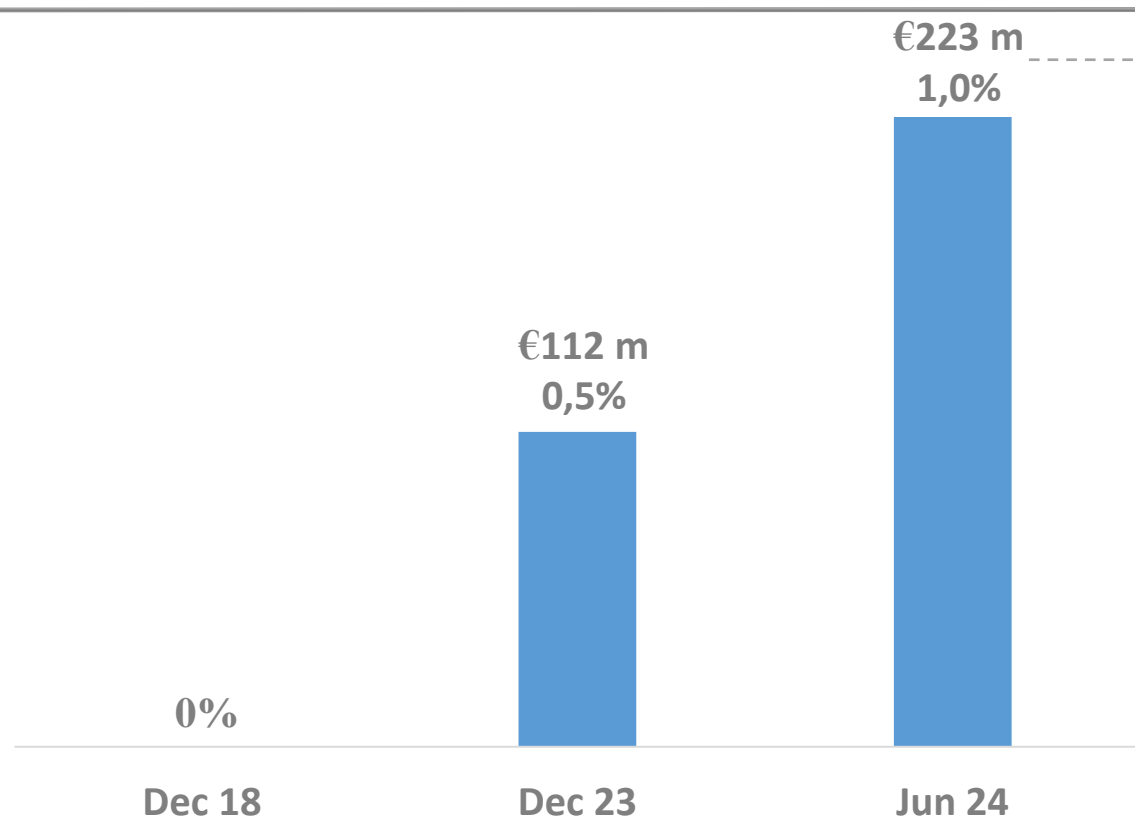


- ✓ The MREL requirement is a relatively new **type of capital** required by European banks and is **intended to safeguard their essential functions for the economy** in times of crisis.
- ✓ Banks were **forced to use part of their profitability** to meet this capital requirement.
- ✓ **Lowest** deficit ever recorded in Cyprus. This further ensures the smooth functioning of the economy, even in times of crisis.
- ✓ A low shortfall **reduces** the necessity for banks to seek **costly borrowing** from the markets. Such high costs would have inevitably been transferred to **consumers and borrowers**.

# We mandated banks to allocate for the first time ever, part of their profits towards building specialised capital reserves, aiming to support the economy during periods of recession or crisis

Through the countercyclical buffer that can be released in times of recession or crisis to facilitate new lending and to cover losses

## Banks' countercyclical buffer rate\*



- ✓ **Cyprus is among only five countries in the Eurozone that require banks to retain these funds in the absence of specific risks so that they can be released in times of recession or crisis.**
- ✓ **The highest buffer ever recorded in Cyprus - It has consistently remained at 0% until 2023.**
- ✓ **Banks are forced to allocate a portion of their profitability to meet this requirement.**
- ✓ **Acts as a shield for the economy, as banks can utilize these funds during crises to extend loans to businesses and households.**

\*The absolute requirement has been approximated as the product of the countercyclical buffer rate and risk-weighted assets

# We implemented innovative and effective measures and initiatives aimed at facilitating and safeguarding consumers

## Design and implementation of Electronic Platform

### PHASE A

- ✓ **Remote digital submission and automated verification of new customer information**, as well as updating existing customer details for easy and quick verification.

### PHASE B

- ✓ Integration with government services
- ✓ **Expedited service** through accessing information used for customer identification directly from government databases.

### PHASE C

- ✓ **Transfer of customer information between banks** upon the customer's request for an account transfer.

## Establishment of Financial Conduct Section

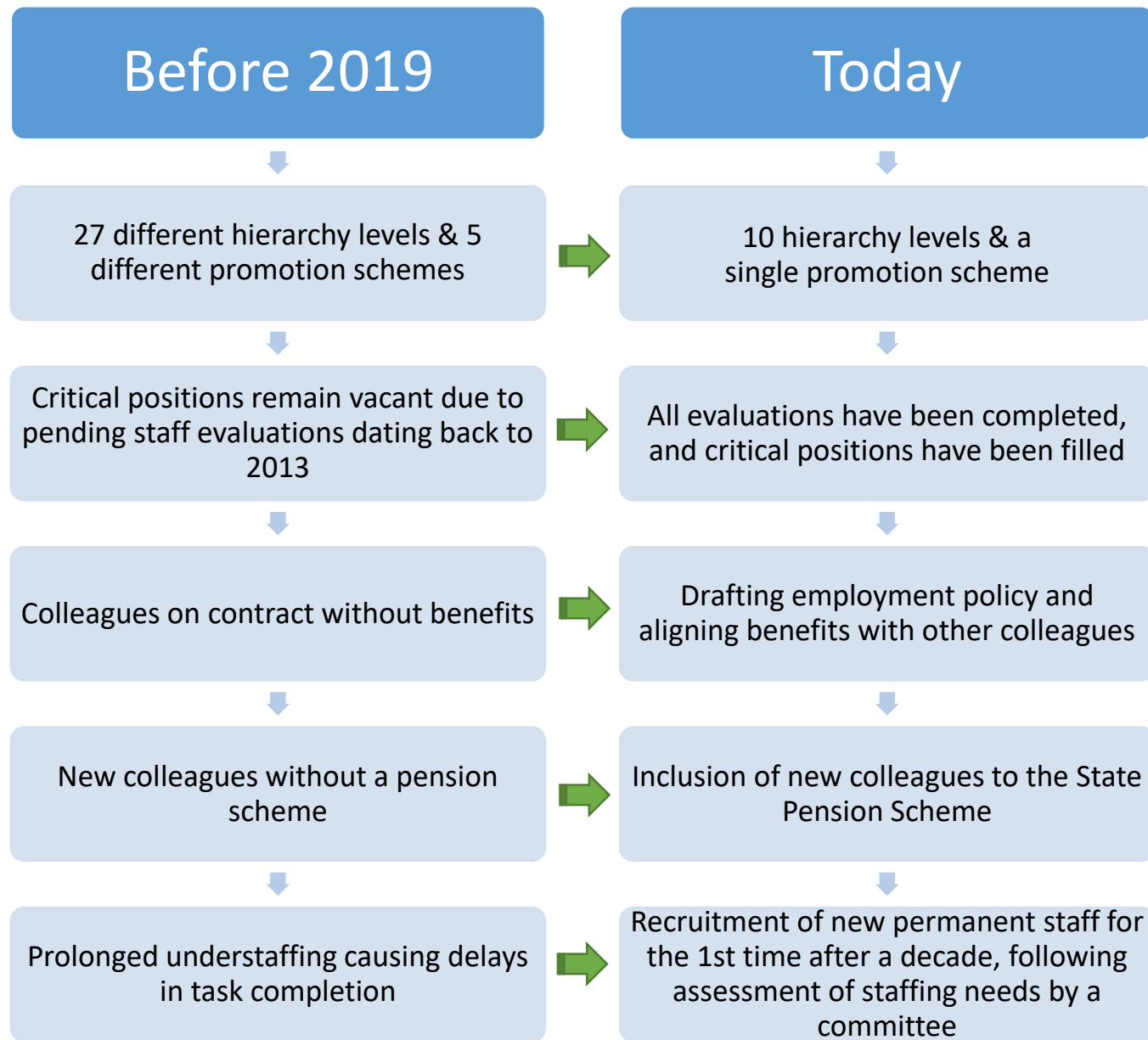
- ✓ **Receiving and investigating complaints** lodged against banks, loan acquisition companies, etc.,
- ✓ **Robust enforcement powers** including on site audits, imposition of fines and sanctions.
- ✓ **Upholding public protection** by ensuring adherence to laws and codes of conduct.
- ✓ **A substantial reinforcement of the Section occurred in 2022** through the recruitment of additional highly trained personnel.

## Promoting & Cultivating Financial Literacy

- ✓ The Central Bank embarked the initiative aimed at **fostering financial literacy**
- ✓ Diverse, EU funded endeavors such as research and education were undertaken, alongside with **coordinating the Global Money Week in Cyprus**.
- ✓ Financial literacy serves as a crucial tool for individuals to **comprehend and proficiently manage their finances, enabling responsible saving, investing and borrowing**.
- ✓ Moreover, it bears a pivotal role in **fostering stability and sustainable development of Cyprus** by establishing robust fundamentals and cultivating increased adaptability, thus empowering innovation and entrepreneurship.

# We are delivering a restructured, more efficient and modern Central Bank

Addressing long-standing structural issues and executing plans and actions that have remained pending for years



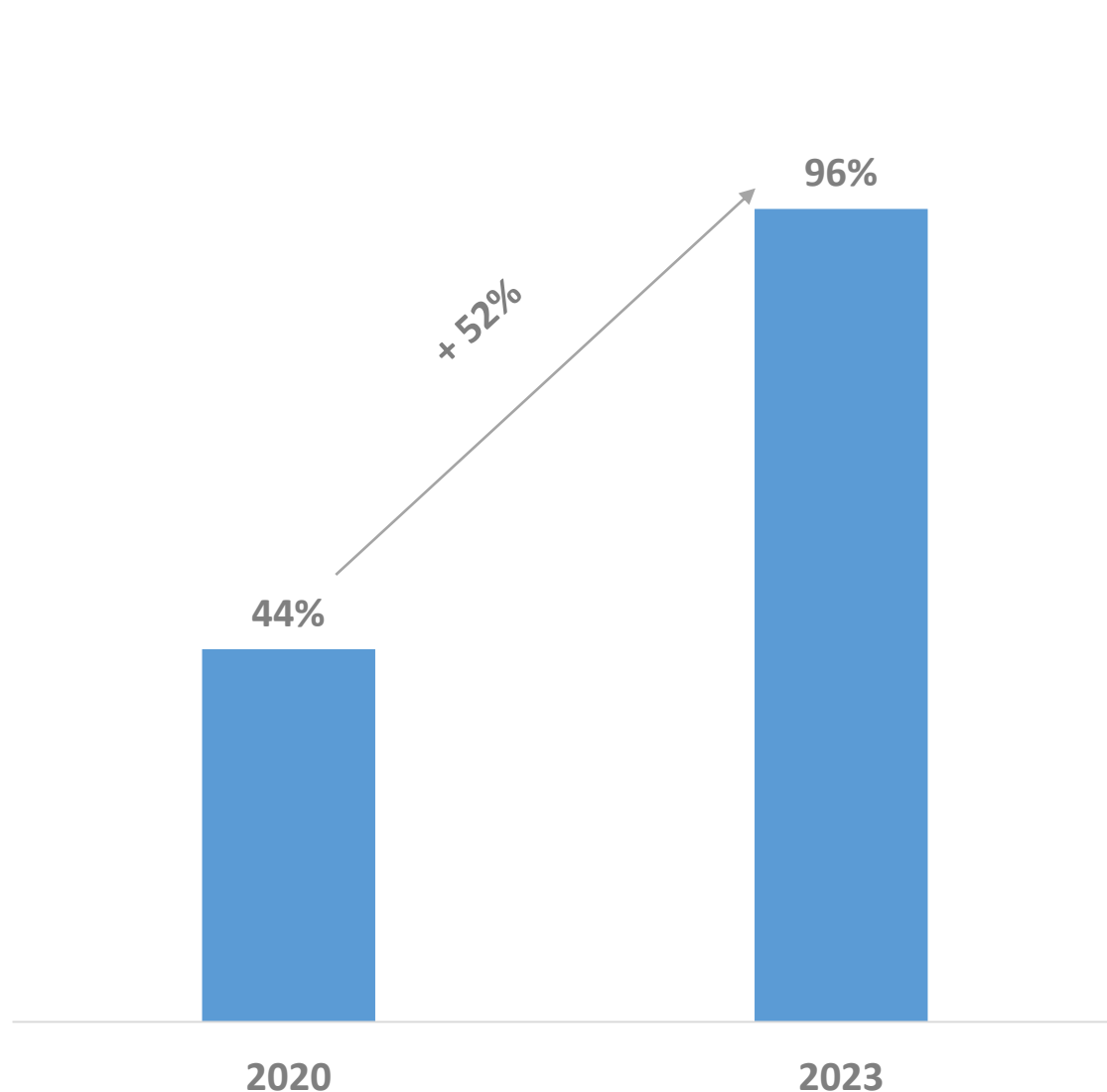
## Additional Actions

- ✓ **Digital transformation and upgrading of IT systems** in collaboration with external consultants.
- ✓ Establishment and management of an **Innovation Hub**: A communication platform facilitating interaction between the **Supervisory Authority** and **Fintech businesses or startups**.
- ✓ **Signing of the Equality, Diversity and Inclusion Charter** of the **European System of Central Banks** by the Governor of the Central Bank in order to strengthen **integration in the work culture**.
- ✓ **Strengthening the cooperation** with other national central banks and supervisory authorities (Germany, Ireland, Greece, Netherlands, Belgium, Portugal, England, etc.).

# We strengthened the financial independence of the Central Bank

Increasing its balance sheet risk coverage from 44% in 2020 to 96% in 2023

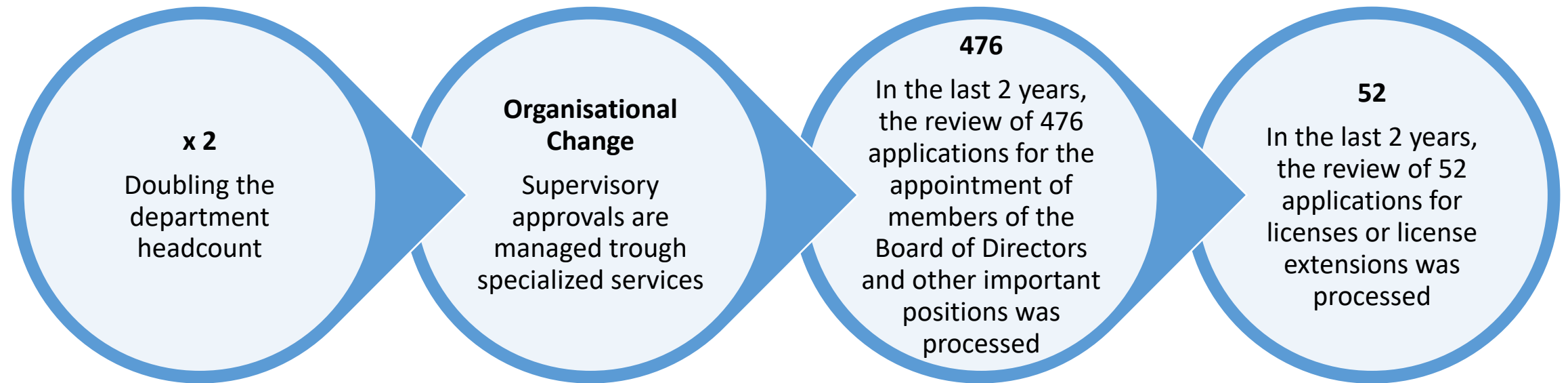
## Provisions Coverage of Central Bank Risks



- ✓ We prevented the possibility of needing a financial injection from the State, **safeguarding both public finances and the independence of the Central Bank.**
- ✓ In 2020, the Central Bank of Cyprus had **much lower risk coverage compared to most European Central Banks and the Eurosystem average.** This **endangered both the State public funds,** since it increased the possibility of State support, **and the very independence of the Central Bank of Cyprus.**
- ✓ In a period where most European Central Banks are recording losses due to interest rates, **we proceeded to increase provisions against our balance sheet risks.**
- ✓ **An independent Central Bank radiates trust and credibility on an international level and it is of fundamental importance for the financial stability of the country.**

# We strengthened the Department of Supervisory Approvals, with tangible and measurable results that affect the operation of our economy

## STRENGTHENING THE FUNCTIONING OF OUR FINANCIAL SECTOR AND ECONOMY



**In conclusion, for the first time in our Central Bank's history, we successfully hosted the President of the ECB twice, the second time together with the entire Governing Council of the ECB, confirming the strengthened position we achieved for the CBC within the ECB.**



Visit of the President of the ECB, **Christine Lagarde**  
*March 2022*



Meeting of the **Governing Council** of the ECB  
*October 2022*



A strong and reliable Central Bank, and a resilient banking sector capable of fostering economic growth. This is the Central Bank we deliver today.

*Special appreciation goes out to everyone who played a part in our emergence stronger through challenging and unprecedented circumstances. This includes the last two governments and House of Representatives, various public and private sector organizations, the media, and particularly the staff of the CBC, whose dedication and professionalism have been indispensable.*

A handwritten signature in blue ink, appearing to be 'R. Smith', located in the bottom right quadrant of the slide.