Annual Report
Public Debt Management

2012

Republic of Cyprus
Ministry of Finance

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PUBLIC DEBT MANAGEMENT ANNUAL REPORT 2012

Ministry of Finance
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List of abbreviations

bln	billion
CBC	Central Bank of Cyprus
CCB	Cooperative Central Bank
CHF	Swiss franc
CoE	Council of Europe Development Bank
CSE	Cyprus Stock Exchange
E	Euribor, Euro Interbank Offered Rate
ECB	European Central Bank
ECP	Euro Commercial Paper
EDP	Excessive Deficit Procedure
EFSF	European Financial Stability Facility
EIB	European Investment Bank
EMTN	Euro Medium Term Note
EUR	Euro
GBP	Sterling
GDP	Gross Domestic Product
GGA	Government General Account
GGD	General Government Debt
GRDS	Government Registered Development Stock
IMF	International Monetary Fund
JPY	Japanese Yen
ISDA	International Swaps and Derivatives Association
MFI	Monetary Financial Institution
mln	million
OMT	Outright Monetary Transactions
PDMO	Public Debt Management Office
SRF	Special Reserve Fund
SSF	Social Security Fund
TB	Treasury Bill
VSFR	Variable-Spread Floating Interest Rate

LEGAL FRAMEWORK OF PUBLIC DEBT

At the end of 2012 the Parliament enacted the Public Debt Management Law of 2012, which for the first time introduces into Cypriot legislation important provisions regarding the public debt with the ultimate aim the protection of the public interest.

With the entering into force of the aforesaid Law, the Treasury Bills Law, the Loan (Development) Law, the Loan (Deposit) Law as well as all regulations issued under the powers of these laws are repealed.

In spite of the above, the powers, rights and obligations of the Republic with regard to the existing debt entered into pursuance to the repealed laws and regulations continue to apply until the final settlement of this debt. Likewise, any government guarantees issued by the Republic prior the coming into force of the Public Debt Management Law continue to apply and represent obligations of the Republic.

A short description of the key provisions of the Public Debt Management Law and Regulations as well as some important provisions of the legal documents of the government securities issued under English Law and relate to the status of the securities is provided below.

- **Status of the Public Debt**

Cypriot legislation ensures the fulfillment of all obligations of the governments towards creditors and provides for the protection of investors.

Article 19(1) of the Debt Management Law states that the public debt constitutes an absolute and unconditional obligation of the Republic. The servicing of public debt, both in capital and interest, constitutes one of the first claims of the Republic and its fulfillment does not depend on any other claim or counterclaim for payment.

- **Public Debt Management Law**

The Public Debt Management Law was prepared with the technical assistance of the World Bank and creates a new modern legal framework for public debt management in Cyprus.

Inter alia, the Law provides for the establishment of a Public Debt Management Office (PDMO). The PDMO is responsible for the formulation and implementation of the public debt management strategy and the annual borrowing plan, the management of the cash reserves of the government and the risk evaluation of government guarantees and borrowing.

The medium term borrowing strategy will cover a horizon of three to five years and will be updated on an annual rolling basis. The strategy will be prepared and implemented by the PDMO and approved by the Council of Ministers. The strategy will include an evaluation of costs and risks as well as the benefits of the various financing options, taking into account the tradeoffs between cost and risks.

The strategy will be implemented through the annual borrowing plan which will be approved by the Minister of Finance.

For the first time in Cypriot legislation there is an explicit provision for what constitutes a purpose for borrowing, the existence of a liquidity buffer for the government and the obligation for the PDMO to submit a proposal to the Minister of Finance for a guarantee fee to be paid by the guaranteed entity to the government.

Moreover, the accountability of the PDMO and the Ministry of Finance towards the Council of Ministers and the Parliament is ensured. Specifically, there is an established process for the submission of the annual debt management report that, among others, will assess the results in relation to the targets and the public debt management strategy, the provision of guarantees and the buffer stock of the previous year.

Regrettably, at this stage the full application of the aforesaid Law is not feasible the reason being that vital provisions of the Law cannot be applied since the financing of the state is not market-based but depends largely on official funding sources and the implementation of the Memorandum of Understanding.

- **Public Debt Management Law: Regulations (Collective Action Clauses)**

Based on article 29(2) of the Law regulations were issued which incorporate Collective Action Clauses; these provide for the mechanism and procedures for the adoption of collective decisions by the holders of government bonds in case of a change in the initial terms of issuance.

With these regulations the Republic is fulfilling its obligation that stems from article 12(3) of the Treaty for the establishment of the European Stability Mechanism. This article states that all government bonds that have maturity of more than one year and are issued from 1/1/2013 onwards from Eurozone member countries must include collective action clauses.

The text of the collective action clauses is harmonized within all Eurozone member countries.

- **Legal documents of government bonds issued under UK Law**

An important facet of the legal framework involves the government's ECP and EMTN programs, which are bound by English Law. Specifically, the EMTN program includes protective clauses for the bond holders:

- Cross default in respect to indebtedness of the Republic
- Negative pledge in respect of any security accounted as indebtedness
- The bonds have direct, unconditional, unsecured and unsubordinated status. The Notes of each series rank pari passu i.e. the payment obligations under the Notes rank at least equally with all its other present and future unsecured and unsubordinated indebtedness.

Pari Passu equivalence with other current or future obligations of the Republic exists also for the Euro Commercial Papers.

Box: Important provisions in the Cypriot legal fiscal framework

The public debt management and fiscal policies are applied separately and independently from each other since otherwise a conflict may arise amongst them. Nevertheless, the Medium Term Budgetary Framework and Budgetary Rules Law includes important provisions that affect the long term course of the public debt. In particular, the Law provides for the following:

1. Mid-term budgetary framework of a horizon of at least 3 fiscal years.

2. Fiscal Rules:
   - The fiscal position of the general government should be balanced or in surplus
   - In case where the ratio of public debt to GDP is over the reference value of 60% then it must be sufficiently reduced and approach the reference value at a satisfactory rate

3. Automatic Correction Mechanism: In case of a defined deviation from the medium term budgetary goal (or from its prescribed course) corrective measures of a structural character are promptly taken mainly on the expenditure side of the budget in order to correct the deviation.

EUROZONE PUBLIC FINANCES AND DEBT MARKETS

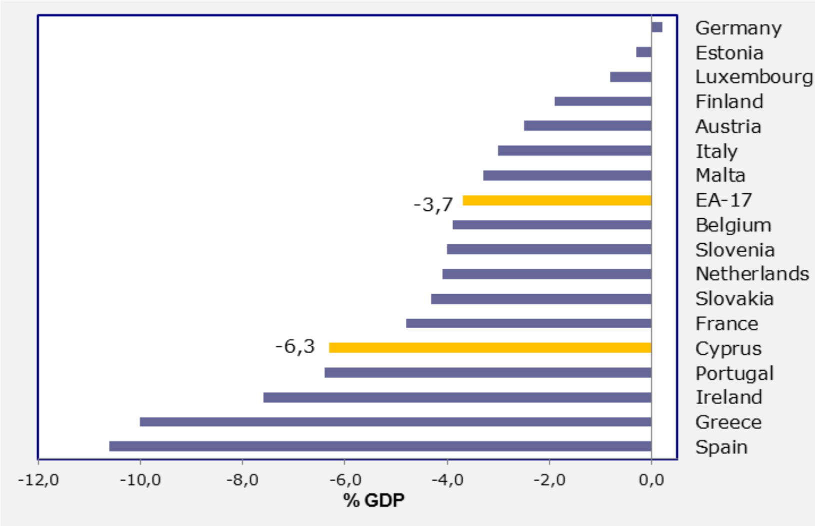
Public finances

The government deficit in the Eurozone countries over 2012 averaged 3,7% of GDP, a further improvement from the previous year, in a continuation of its downward trend after the abrupt increase of 2009. The improvement is the result of the fiscal consolidation in the Member States despite the existence of low or even negative growth rates at the same time. The public debt showed a further increase in 2012, and reached 90,6% of GDP from 88,1% of GDP in 2011.

In Cyprus, the general government deficit to GDP ratio in 2012 stayed stable compared to the previous year at 6,3% of the GDP (the cash deficit was 4,9% of GDP or about €875 million). Due to the difficult macroeconomic environment, revenue exhibited a flat development despite the increase in consumption tax rates and the special contribution for defense. Expenditure exhibited a fall of 2,5 percentage points of GDP in cash terms with small reductions in expenditure for wages and salaries and the purchase of goods and services and a larger reduction in the reduction in expenditure for current transfers.

Economic growth was negative at -2,4% in real terms. Consumption fell due to the fiscal consolidation which started in 2011, the negative economic sentiment and the rise in unemployment. Similarly, investment was negative. A positive movement occurred only in net exports with the tourism sector as the main driver.

Figure 1: General government net lending (+) / net borrowing (-) in 2012

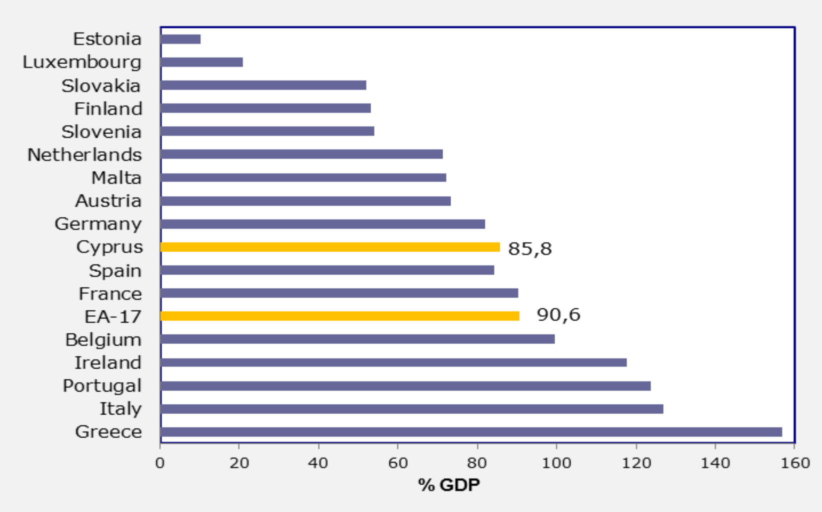


Source: Eurostat

The public debt increased significantly from 71,1% of GDP in 2011 to 85,8% of GDP in 2012. The increase is mainly attributed to the state support towards the Cyprus Popular Bank which added about 10 percentage points of GDP to government debt, in exchange for bank shares at the particular credit institution. Similar to previous year, but to a lesser extent, the fiscal deficit and the negative growth rate contributed to the increase of the debt relative to GDP.

Compared to other Eurozone countries Cyprus ranks better than the average public debt rate among the 17 Member States. However, the Cypriot debt exhibits and is expected to continue on a negative trend with a major deterioration in the past few years and medium term negative prospects.

Figure 2: General government consolidated gross debt in 2012



Source: Eurostat

Sovereign debt markets

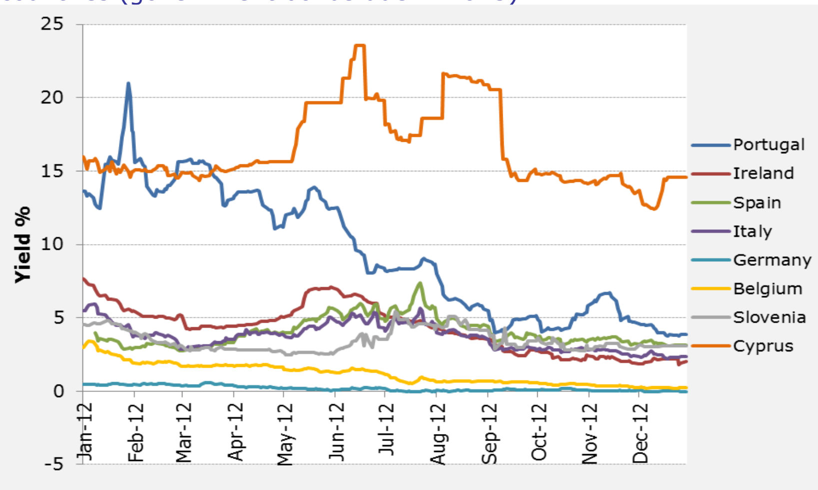
Secondary sovereign debt markets stabilized in the second half of the year although they remained vulnerable to events.

Important policy decisions at the level of the Eurozone helped towards the suppression the financial crisis which affected primary and secondary sovereign debt markets. In September, the European Central Bank announced a number of new measures, the mere existence of which improved the debt markets. Among these, is the OMT programme for unlimited secondary market purchases and the relaxing in the asset eligibility criteria for collateral purposes for example by expanding the currency denomination and removing the credit rating criteria when the country in question is under an adjustment programme.

The Member States continued, at the same time, fiscal consolidation efforts and measures of structural nature. These, in combination with the decision of support for Greece by the extension of its adjustment programme until 2017 and the remoteness of the risk of Greece abandoning the euro increased the trust of the market for the future of the common currency.

A number of important movements in the credit ratings of Eurozone Member States was recorded. In June, Cyprus lost its investment grade, an event which triggered its application for support in the Eurozone support mechanisms. There were a number of downgrades in the credit ratings of Italy, Spain and France. On the other hand, by the year end Greece was upgraded by one credit rating agency and Ireland's outlook was changed from negative to stable.

Figure 3: Secondary yield levels of Cyprus and selected Eurozone countries (government bonds due in 2015)



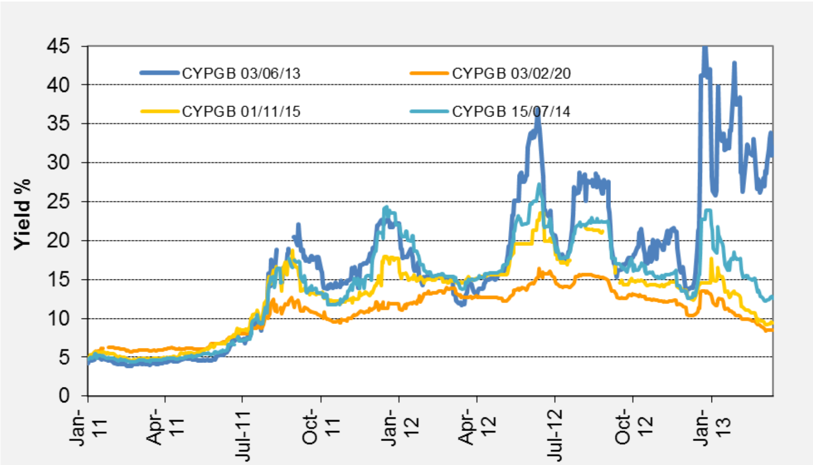
Source: Bloomberg

The small Cyprus debt market in terms of size, liquidity and tradability proved very vulnerable during the crisis. This market dysfunction can be shown by a number of indicators for example by the bid-ask spread, the intraday volatility and small outstanding volume.

The secondary bond yields increased further during 2012. Especially during the second half of the year, even after the application for support in the Eurozone mechanisms, the Cyprus government bonds continued to be regarded as very risky. This may be explained due to the fears for a new sovereign debt restructuring, concerns over the overall debt sustainability and the continuous credit rating downgrades.

In spite of the low functionality of the secondary market of Cyprus debt, this market is indicative of the investors' risk perception. The bond due in 2013 is traded at a higher yield than the comparable bond due in 2020. The inverse shape of the benchmark curve, whereby short term risks are considered to be higher than long term risks reflects the risk of default on the side of the debt issuer.

Figure 4: Secondary yield levels for Cyprus international bonds in 2012



Source: Bloomberg

The above diagram shows the transaction on the Republic's four international bonds, all launched under its EMTN Programme, which are listed in the London Stock Exchange.

Liquidity for the domestic bonds listed in the Cyprus Stock Exchange remained extremely low with only a few transactions in the secondary market recorded during the year.

The primary market can be a better indicator in the case of Cyprus for the assessment of its domestic cost of funding. The latter is further analysed in the chapter "Financing of the state in 2012".

FINANCING OF THE STATE IN 2012

The public debt exhibited a net increase during the year due to the simultaneous existence of a negative fiscal balance and a negative growth rate of the economy. The primary source of increase however stemmed from the government capital support towards Cyprus Popular Bank, which took the form of an exchange of government bonds for bank shares. As far as the financing instruments are concerned, there is a significant change within the stock of debt by the increase of debt in the form of loans. The current chapter focuses on the presentation and analysis of the flows of government financing that is new issuances and repayments.

(i) Financing of the borrowing needs of 2012

The total borrowing needs for 2012 rose to €7261 million, out of which €4115 million were directed towards the repayment of loans issued and matured within 2012. The remaining debt redemptions as well as the new fiscal needs were financed via new borrowing and the use of cash reserves.

The net annual financing, i.e. excluding short term funding of €4115 million issued and matured within 2012, was €3146 million. Including the change in liquid assets during the year, which corresponds to €604 million, the annual financing needs were €3750 million.

Table 1: Summary of annual borrowing

	€ mln	%
Net annual borrowing	3146	43
Short term borrowing issued and matured within 2012	4115	57
Gross annual borrowing	**7261**	**100**

Table 2: Summary of financing by source

	€ mln	%
Change in cash	604	16
Net annual borrowing	3146	
Of which:		
Government securities – Domestic investors	*1036*	*28*
Loans from the EIB	*200*	*5*
Bilateral loans	*1910*	*51*
Total annual financing	**3750**	**100**

Note: The figure of €3750 million does not include debt issued and redeemed within 2012

Table 3: Summary of financing by maturity

	€ mln	%
Change in cash	604	16
Short term borrowing (up to 12 months)	1036	28
Medium term borrowing (1-5 years)	1910	51
Long term borrowing (over 10 years)	200	5
Total annual financing	**3750**	**100**

Note: The figure of €3750 million does not include debt issued and redeemed within 2012

A further breakdown and analysis of the government financing by tenor and instrument is provided below.

Short term borrowing:

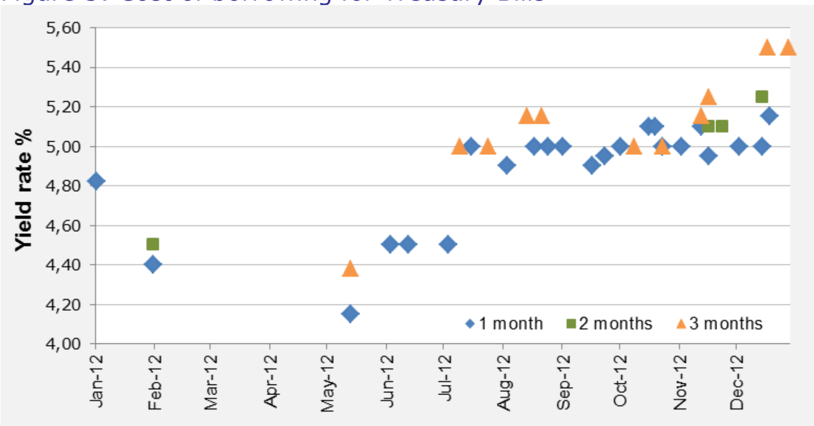
Treasury Bills: Similar to the previous year, Treasury Bills represented the greater part of borrowing transactions. Bills amounting to €4872 million were issued out of which €3836 million matured within the same calendar year. The remaining €1036 million will mature within the first four months of 2013.

Table 4: Summary results of Treasury Bill issuances

Tenor	Amount € mln	Weighted average yield (%)
7 days	400	4,68
4 weeks	2963	4,79
8 weeks	250	4,77
13 weeks	1208	5,01
52 weeks	51	5,00
Total	**4872**	**4,85**

The weighted average yield of all Treasury Bills issued was 4,85%.

Figure 5: Cost of borrowing for Treasury Bills



The cost of short term borrowing has been exceptionally high and has exhibited an increasing trend throughout the year. The largest increase took place between June and July, with the downgrade to non-investment grade by all three major Credit Rating Agencies resulting in Cyprus Government bonds becoming non eligible as collateral for ECB funding.

Treasury Bills are issued by auction via an electronic auction system or by private placement. Especially after the loss of the investment grade rating status the issuances of Treasury Bills have been executed by private placements. The investors during the year were domestic banking institutions, public sector legal entities and pension and provident funds.

Euro Commercial Paper (ECP): During 2012 the ECPs issued were of the order of €429 million, which all matured within the year. The issues were denominated in US Dollar and were fully hedged with foreign exchange swaps.

Table 5: Summary results of ECP issuances

Tenor	Amount € mln	Weighted average yield (%)
1 month	229	4,70
2 months	140	4,56
3 months	60	4,61
Total	**429**	**4,64**

Medium and long term borrowing

Due to the prolonged exclusion from the capital markets there were only two small issues in the domestic market for tenors up to three years. The only long term funding concluded was in the form of off-market loans from supranational organizations and governments.

Government securities:

At the beginning of the year a 3-year domestic bond attracted a number of domestic investors, including natural persons. The issuance volume was €82,7 million. The yield reached 6,89% while the bond carried a coupon rate of 6,00%.

In June 2012 the Ministry of Finance, at the investor's initiative, came to an agreement with a domestic investor to exchange part of the investor's holding of the Republic of Cyprus EMTN due in 2013 with a new 2-year EMTN maturing in 2014. The exchange transaction was for an amount of €85 million. The new bond has a 6% coupon and its sale was concluded at par resulting in an identical yield of 6%.

Loans:

In January and March 2012 the second and third tranche of the loan from the Russian Federation were disbursed amounting to

€1320 million and 590 million respectively. The first tranche had been disbursed at the end of 2011. The loan amounts to €2,5 billion in total, carries an interest rate of 4,50% and will be repaid in a single amortization in July 2016.

Furthermore the government concluded loans with the European Investment Bank amounting to €200 million for the co-financing of works and projects that are financed by the EU Cohesion and Structural Funds.

Review of the annual financing profile

The financing of the year reflects the exclusion from the capital markets, with the exception of the domestic money market at the very short term tenors.

The largest part of the short term debt was issued at the first months of the year and was constantly rolled over, since this borrowing never exceeded the 3-month horizon. Due to liquidity constraints in the domestic banking sector in the second half of the year Treasury Bills were purchased by state-owned enterprises and their pension funds instead of credit institutions, the natural investors of such short term products.

The majority of financing came from official sources, mainly the loan of the Russian Federation and the project financing of the European Investment Bank.

Undoubtedly, the financing from official sources cannot be considered either stable or sustainable. For the covering of financing needs of the state the only viable solution within the Eurozone is the gradual return to the private capital markets.

Box: The state support for the recapitalization the Cyprus Popular Bank

According to the decision of the Council of Ministers dated 17 May 2012, the Ministerial Decree no. 182/2012 was issued regarding the underwriting of the rights issue of capital of the Cyprus Popular Bank. The Decree has an effect as of 18 May 2012, as published in the Official Government Gazette.

The non-subscribed rights were allotted to the Republic in consideration of the provision of zero coupon government bonds of one year maturity, which are automatically renewed upon maturity.

The rights were issued at a price of €0,10. In total, the shares allotted to the Republic were of the order of €1.796.059.000, for which the Republic issued a bond of nominal value of €1.888.562.000. The difference of €92,5 million represents a yield of 5,15%, which stands for the cost of 12-month borrowing in the domestic market at the time of the bond issuance. The security maturity date is 29 June 2013.

The bank paid to the Republic an underwriting fee of 2% on the total amount of issue of share capital, which corresponded to about €36 million.

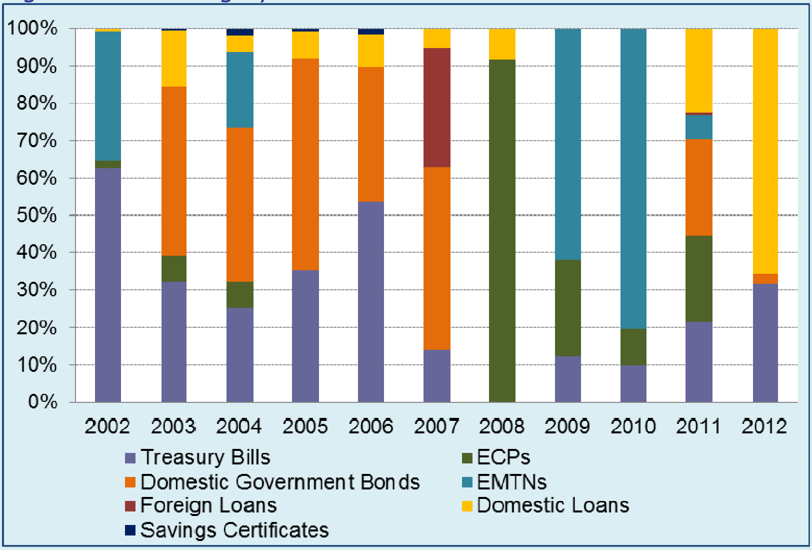
According to the Ministerial Decree the support period lasts up to five years.

Box: Financing between 2002-2012

A review of the state financing of the last decade makes the diversification of the financing profile in the last two years apparent.

Figure 6 shows a synopsis of the financing sources by instrument[1] since 2002. These data refers to net annual financing, i.e. excluding any borrowing concluded and redeemed within the same year.

Figure 6: Financing by instrument between 2002-2012



Traditionally, and especially until 2008, the state financing was undertaken in the domestic market in the form of Treasury Bills or domestic bonds. It is noteworthy that in 2002 and 2004 the Republic issued two foreign-law 10-year EMTN bonds, for the amounts of €550 million and €500 million respectively, further to some issuances in the end 1990's.

The year 2008 was a surplus year for the budget and with the use of available Sinking Funds the remaining refinancing needs were

[1] Cash reserves, which are also a source of funding, are excluded.

covered almost completely by Euro Commercial Paper.

With the entry into the Eurozone the Republic could access investors from within the Eurozone or third countries in its own domestic currency (as previously noted, debt issuances in the Euro as a foreign currency were made in the late 1990s). Hence, a few comparatively large debt issuances were made in 2009 (€1,5 billion) and twice in 2010 (€1 billion each) of English-law EMTN bonds listed in the London Stock Exchange.

A steady financing source stems from the European Investment Bank and the Council of Europe Development Bank, albeit in small volumes, and has been directed to a large number of infrastructure projects.

The change of strategy which came with the entry into the Eurozone was interrupted before further development, since between December 2010 and May 2011 the Republic preferred short term instead of long term borrowing; shortly afterwards the Republic lost access to the capital markets. Hence in 2011, Cyprus secured a bilateral loan from the government of the Russian Federation, with the first tranche being disbursed in late 2011 for the needs of the first weeks of 2012. The largest component of market borrowing of 2011 was for short term tenors in the form of Treasury Bills or Commercial Paper, since longer dated securities were not in demand.

The main funding of 2012 were the proceeds of the Russian bilateral loan, and, similarly to the year before, the only market source of financing were the Treasury Bills.

(ii) Debt redemptions

Debt redemptions for debt issued prior to 1 January 2012 were €2,7 billion. The bulk of this stock of maturities was concentrated in the first three months of the year. In particular, until March foreign and local bond redemptions amounted to €1,1 billion, whilst payments for short term debt were further €576 million. The rest of the short term debt, of the order of €935 million, was repaid in the second half of the year. Finally, the year comprised loan redemptions of €80 million. The full list of debt redemptions of the year is shown in Tables 13-15 of the Statistical Appendix.

THE SIZE AND COMPOSITION OF GOVERNMENT DEBT

The Maastricht criterion for public debt is defined as the gross debt of the general government at nominal value, consolidated over the sectors of the general government. In the case of Cyprus the relevant subsectors are the central government, the local authorities and the Social Security Fund. According to this definition, the liabilities accounted as debt are currency and deposits, loans and securities other than shares. The Maastricht debt excludes financial derivatives. Cyprus' debt is composed of loans and securities only, and does not include any obligations in the form of currency and deposits. The latter is the smallest component of debt in all EMU countries.

Sections (i) and (ii) show the size, historical evolution and structure of the consolidated general government debt, whereas section (iii) deals separately with the unconsolidated general government debt. Valuation and methodology is according to the Maastricht definition of public debt ("EDP debt").

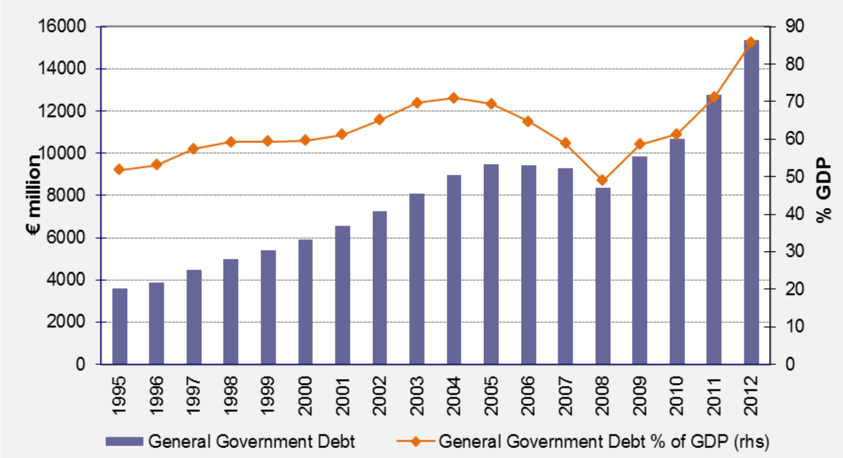
(i) Size and evolution of general government debt

Evolution of government debt
In the decade between 1995 and 2004 the general government debt followed an increasing path from 52% of GDP to 71% of GDP. Following years of fiscal consolidation, the debt-to-GDP ratio reached a low of 48,9% of GDP in 2008. Since then, fiscal slippage and low to negative growth rates and, most recently, capital injections into the banking sector, contributed to a considerable increase in the debt relative to GDP.

Thus in 2012 the debt level reached 85,8% of GDP from 71,1% of GDP the year before. The main contributor to this development was the state support of the Cyprus Popular Bank of the order of 10,6% of GDP. Similarly to the previous years, both the fiscal deficit at 6,3% GDP and negative growth rate at 2,4% in real terms, contributed to the accumulation of stock compared to the GDP.

Excluding the recapitalization of the Cyprus Popular Bank the residual increase of debt is about 4 percentage points of the GDP.

Figure 7: Trend in the consolidated general government debt

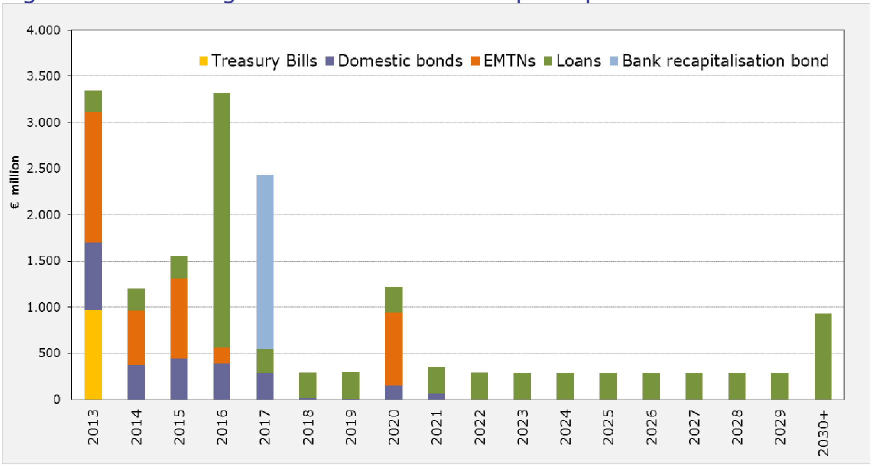


<u>Maturity profile</u>
Similar to the year before, a large share of the immediate debt obligations in 2013 are attributed to short term borrowing. Overall, the year is characterized by a heavy stock of redemptions, exceeding €3 billion.

The year 2016 has considerable debt maturities mainly due to the Russian loan, and 2014, 2015 and 2020 also stand beyond the €1 billion redemption mark each. There is a low schedule of maturities beyond 2020 as these correspond to long term loans with smooth amortization profiles, and also due to the absence of significant long term debt issuances in the past two years.

The longest debt redemption point is the year 2039, whilst the weighted average maturity of the general government debt is 4,6 years.

Figure 8: General government debt redemption profile



Note: the government bond for the recapitalization of Cyprus Popular Bank is due in 2013 with the possibility of extension up to 2017. In this figure it is indicatively shown to mature in 2017.

(ii) Composition of the General Government Debt

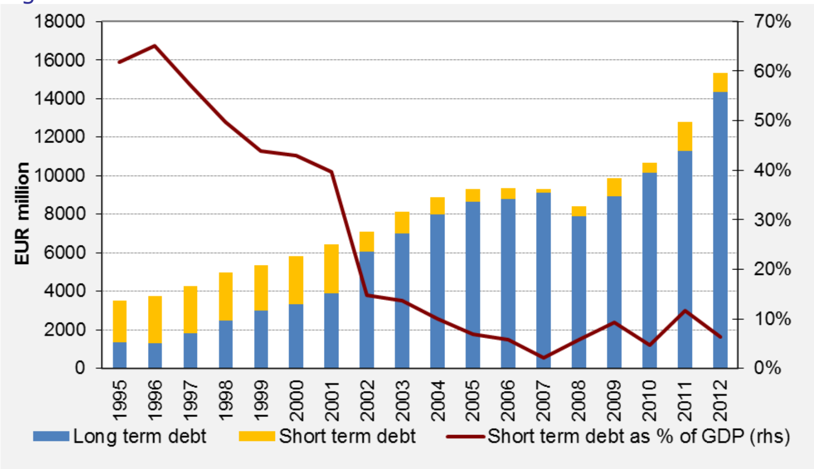
<u>Short term and long term debt</u>

Short term debt, i.e. debt with an original maturity of up to 12 months, has experienced a sharp decline since the mid 1990's. The bulk of this type of borrowing by the government was undertaken from the Central Bank of Cyprus which, in contrary to market-based financing, entailed no refinancing risk. In 2002, with the abandonment of Central Bank financing all pending obligations of the government with the Central Bank of Cyprus were converted into a 30-year loan, thus immediately reducing the short term debt balance from 40% of outstanding debt in 2001 to just 5% in 2002. After 2005 short term debt remained below the threshold of 10% of outstanding debt. In 2012 short term debt had a share of 6% of total debt[2].

[2] For indicators an all debt due within 12 months, please refer to Chapter "Risk Management".

It is noteworthy that the Cyprus Popular Bank state support was in the form of a one year zero coupon government bond, with the possibility of extension for up to further 4 years. Thus, the bond can be considered as a medium-term obligation and is not included in this Report in the short term debt.

Figure 9: Evolution of short term debt



<u>Breakdown by financing instrument</u>

According to the type of financial instrument, the Cyprus' debt is composed of loans and securities; there is no debt in the form of currency and deposits (Figure 10).

During the year the share of loans increased in the total of debt due to the maturity of a number of securities and their replacement by the bilateral loan from the Russian Federation.

Figure 11 shows the breakdown of the category of loans. Foreign loans are almost double the volume of local loans and are composed by the bilateral Russian loan and long term loans from the EIB and the Council of Europe Development Bank. Finally, the loans granted via the EFSF to Greece, Ireland and Portugal, attributed to the creditor countries including Cyprus, form the smallest but not negligible component of foreign loans[3].

The long term loan from the Central Bank of Cyprus signed in 2002 with the abandoning of state financing from the Central Bank forms the largest component of domestic loans. Another sizeable loan was concluded with the Cooperative Central Bank from 2007 and relates to school committees, which are part of the central government. A further component is formed by the bank loans of the state owned enterprises categorized within the central government. Finally, there is a large number of outstanding bank loans of local authorities from domestic credit institutions mainly granted for infrustructre projects.

Within the category of government securities the domestic bonds exceeded at year end the stock of foreign bonds due to the bond issuance of €1,889 billion for bank recapitalization purposes (the redemptions of foreign and domestic bonds during the year was almost equal).

Excluding the bond for recapitalization purposes, that is, for actual borrowing needs of the state, the international EMTN bonds remained, with a share of about 50%, the largest component of debt within the government securities.

Short term financing instruments, i.e. Treasury Bills only, accounted for about 6% of outstanding debt, while for the first time in the past 5 years, there were no outstanding Euro Commercial Papers.

[3] The creditor countries have an equal amount of assets, as loans granted, in their balance sheet corresponding to the share of liabilities, i.e. the accumulated debt by the EFSF. However, any assets which can count towards the reduction of debt are not included in the general government debt, as this is reported on a gross basis.

Figure 10: General government debt by instrument, 31st Dec. 2012

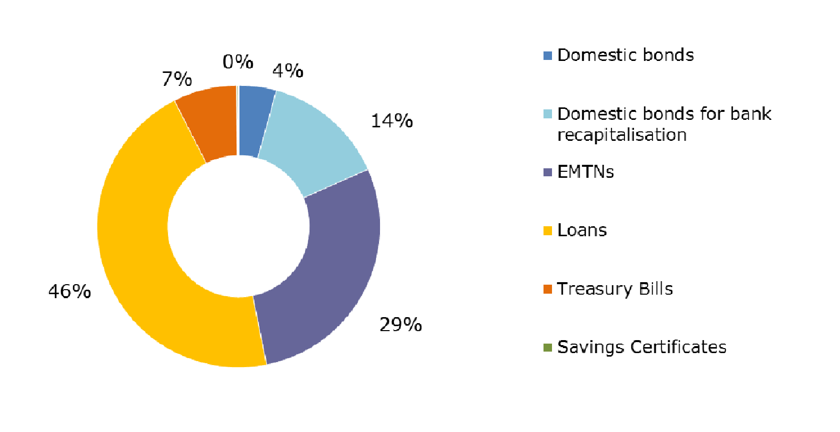
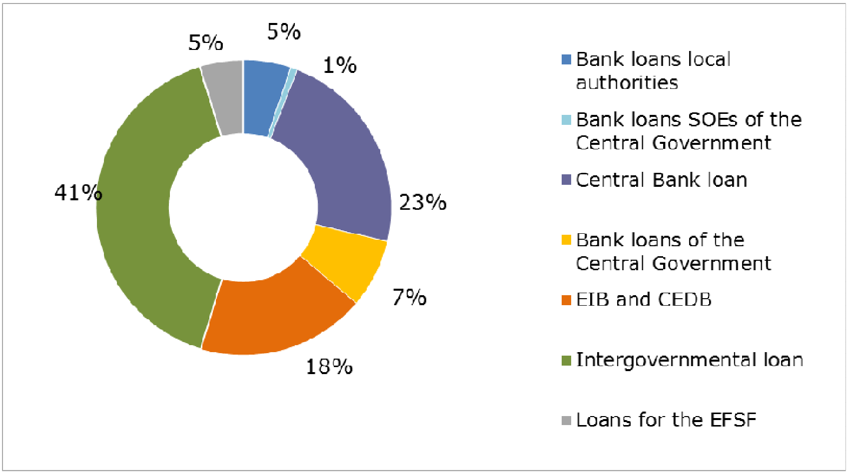


Figure 11: Breakdown of loans by government sector and source, 31 Dec. 2012

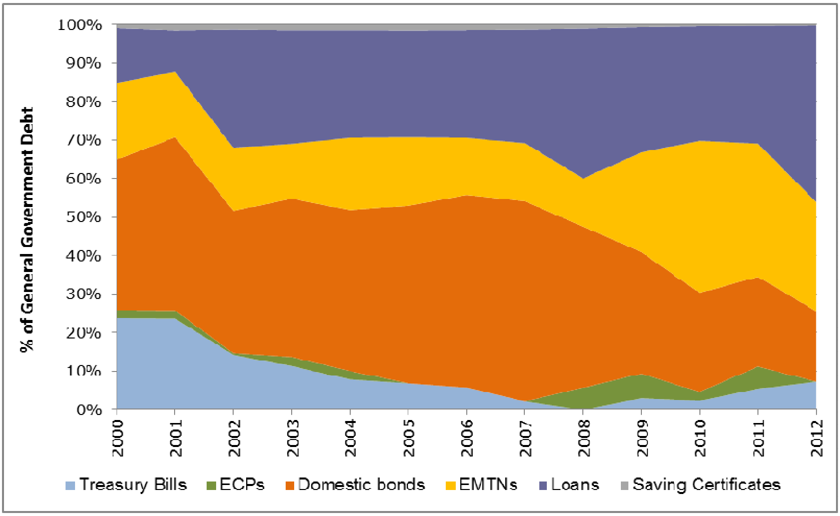


In a historical comparison, Figure 12 shows the breakdown of debt stock by financing instrument.

It is apparent that the contribution of loans to the total of debt has gradually increased over time. The sharp increase of 2002 relates to the conversion of outstanding central bank financing into a long-term loan for the amount of €1,64 billion. In 2012 the proportion of loans increased due to the replacement of debt as securities by the bilateral Russian loan and the net increase in the financing by the European Investment Bank by €180 million.

The financing from the Eurozone capital markets during 2009-2010, under the then existing normal market access, is furthermore notable in the historical financing pattern; in fact, during this period the EMTN securities replaced the state traditional borrowing from the domestic market.

Figure 12: Historical breakdown of general government debt by instrument, 31 Dec. 2012



<u>Breakdown by interest type</u>

All debt securities carry fixed interest rate, although bonds issuance at other coupon types is feasible. The variable interest rates in the debt portfolio stem exclusively from loans.

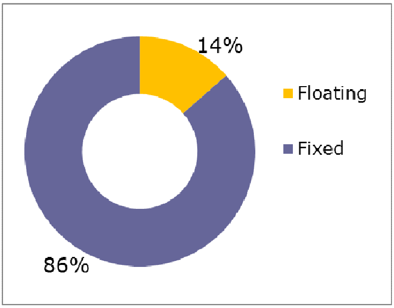
The largest component of this are formed by loans from the European Investment Bank and the Council of Europe Development Bank which carry typically floating rates with low margins over the Euribor. Furthermore, a €463 million loan from a local bank for School Committees is indexed to floating rate.

Finally, nearly all loans of the local authorities and state owned enterprises from domestic credit institutions carry floating interest rates.

In total, the proportion of floating interest debt stands at 12% of the general government debt or at €1813 million.

The Republic has never issued any currency or inflation indexed securities. Hence market risk is related only to the fluctuation of base interest rates. Considering the share of floating rate to the total debt, interest rate risk may be regarded as low.

Figure 13: Debt by interest type 31 Dec. 2012



Breakdown by currency

Cyprus follows a policy of issuing preferably only in euros. However, securities can be issued in foreign currency when opportunities arise. Such issuances are simultaneously fully hedged via swap agreements.

Since the entrance to the Eurozone, there has been no long term debt issuance in foreign currency. Moreover, with the adoption of the common currency the exchange rate risk for that part of debt denominated in euros, was diminished. Today virtually 100% of the outstanding debt is denominated in the domestic currency.

Breakdown by government sector

The three subsectors of the general government in Cyprus are the central government, which includes all activities under the state Budget and some state-owned enterprises[4], the local authorities and the Social Security Fund.

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[4] The state owned enterprises categorised within the central government and which have an outstanding debt balance are the Cyprus Broadcasting Corporation, the Cyprus Sports Authority and the Bank of Cyprus Oncology Centre.

According to the EDP definition of debt ("Maastricht debt") the public debt is reported in consolidated form, i.e. any obligations among the general government subsectors are not shown explicitly.

The vast majority of the consolidated General Government debt, in gross terms, is made up by the central government debt, which is analysed in detail in the whole of this Report. At 31 December 2012, the outstanding central government debt accounted for 98% of the general government debt. This share has historically remained fairly stable.

In absolute terms, the local authorities' debt increased steadily over the years, albeit at low growth rates, until the year 2011 where the first absolute level reduction took place. During 2012, the local authorities' loans reduced further by €16 million and reached the balance of €321 million, or about 2% of the outstanding general government debt. The borrowing of local authorities relates normally to infrastructure projects and typically the creditors are local credit and cooperative institutions. Borrowing is thus in the form of long term bank loans with a floating interest rate.

The third subsector of the general government, the Social Security Fund, does not have an outstanding debt balance. On the contrary, the Fund records an annual surplus which is invested with the central government, the total balance of which constitutes intragovermental borrowing. This intragovermental asset-liability relation is presented in section (iii) of this Chapter.

Breakdown by investor origin

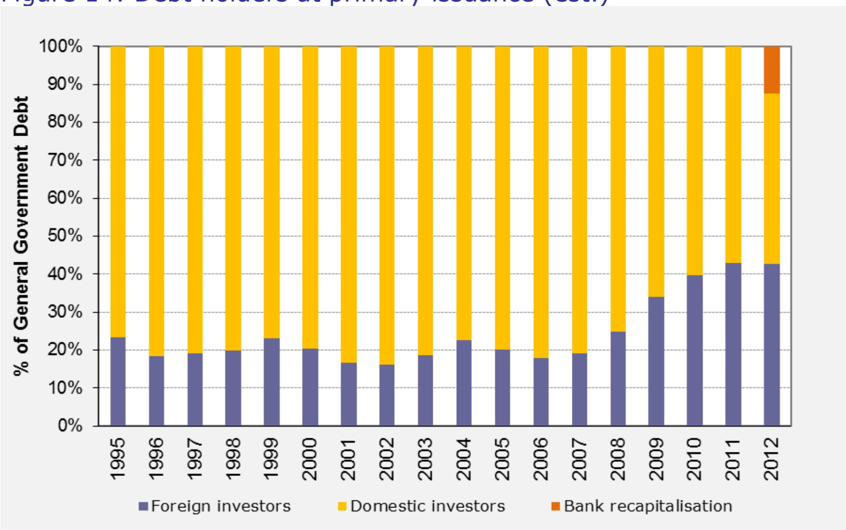
Historically, foreign capital inflows related to debt purchases were recorded either via supranational organisations, such as the EIB, or via the short term ECP securities. Long term securities were issued for the first time in 1997 for €300 million US Dollar. Further issuances followed during 1998-1999 and 2002-2004 in euro as a foreign currency. These issuances naturally increased the share of foreign investors in the total debt.

During 2009 and 2010 foreign issued debt increased considerably with the placement of three securities for €1 – 1,5 billion each. The majority of investors at these issuances were non-residents.

Finally, during 2012 foreign creditor share increased further through the Russian loan. The state recapitalization of the Cyprus Popular Bank during the same year affected the resident ownership of debt. Hence in relative terms the foreign and domestic ownership share over the past year remained stable.

The Public Debt Management Office as the debt issuer has full investor records at the primary market. Given that domestic securities listed in the Cyprus Stock Exchange have extremely low tradability the issuance records can be considered representative of the current investor profile. This conclusion can not be made with safety with regards to the foreign-issued EMTN bonds. Secondary market records are available only to international depositories (Euroclear and Clearstream).

Figure 14: Debt holders at primary issuance (est.)



Note: Excluding debt for EFSF

(iii) Investments of the Social Security Fund and Administered Funds

Investments between the government subsectors, that is between the central government, the local authorities and the Social

Security Fund, are not considered public debt according to the methodology followed by the Eurostat.

For Cyprus, the Social Security Fund due to its historical annual surpluses has a very large stock of investments with the central government. Investments of the Social Security Fund in the form of deposits with the government or by ownership of government securities, at the year end 2012, amounted to €8013 million. The Fund, which is reported as a single account is, in fact, composed of five different accounts:

1. The Social Security Fund;
2. The Unemployment Benefits Account;
3. The Central Holiday Fund;
4. The Termination of Employment Fund; and
5. The Insolvency Fund

- Intragovernmental deposits

The majority of assets of the Social Security Fund are in the form of deposits. Annually, the surplus of the SSF is invested within the government, earning an interest rate of the ECB Marginal Lending Facility Rate minus 0,25%. At the year end, the balance of the SSF in the form of deposits stood at €7591 million.

- Intragovernmental investments in government bonds

Following the decision of the Council of Ministers for the creation of a reserve, the Fund has invested in government EMTN bonds and domestic bonds of tenors between 3 and 10 years. The Fund also invested in 52-week Treasury Bills due in November 2013, with a yield of 5,00% for the nominal amount of €51 million. The investments in government paper totals €422 million and is presented in further detail in Table 8 of the Statistical Appendix.

It is noted that the SSF maintains also deposits with credit institutions amounting to a total of €79 million at the end of 2012. These funds do not constitute part of the general government debt.

- Intragovernmental investments of the Administered Funds

There are five Administered Funds of the central government with an outstanding balance at the year end of €135,5 million. These are:

1. The Government Hourly Employees Provident Fund

2. The Human Resources Development Authority Fund
3. The Turkish Cypriot Properties Fund
4. The Agricultural Insurance Organisation Fund
5. The Hunting Fund

The surpluses of these Funds are invested in 13-week Treasury Bills at an interest rate equal to the ECB Main Refinancing Operations Rate minus 0,50%.

Finally, one loan is the only intragovernmental debt existing between the local authorities and the central government. During 2011, a €10 million loan was granted by the Municipality of Nicosia to the central government at a variable interest rate extending to 2035, with a 5-year grace period.

COST OF PUBLIC DEBT

The cost of the public debt is expressed mainly via the interest payments to service the debt[5]. At the year end 2012, interest payments relative to the GDP of Cyprus ranked average compared to the Eurozone-17 Member States. However, debt servicing has been following an increasing trend and is expected to continue its increasing rate in the medium term.

Between 2005 and 2010 interest payments followed a declining path as a direct result of the reduction in public debt achieved between 2005 and 2008 and due to the use of available sinking funds, which reduced financing needs. Furthermore, with the entry into the Eurozone new borrowing was possible at lower interest rates while the redemption of high-yield debt continued.

An increase in the interest payments was first marked in 2011 and continued over 2012. Similar to the previous year, the increase in the stock of public debt and the rise in the borrowing cost itself, caused an immediate increase of interest expenditure. The cost of public debt as a share of the GDP became more important in 2012 with the reduction in economic activity. Nevertheless, the share of debt carrying floating interest rates benefited from the reduction in the base Euribor rates. In aggregate terms, interest payments as a % of GDP increased from 2,4% in 2011 to 3,15% in 2012[6].

The weighted average interest rate increased from 4,12% at end 2011 to 4,20% at end 2012. This increase was kept within sustained levels due to the fact that during 2012 a considerable high-yield stock of debt matured. The marginal borrowing rate of the year was 4,66% while the marginal short term borrowing rate was 5,16%. The latter can not be considered sustainable over the medium term horizon and represents for Cyprus the highest short term cost of borrowing since its entry into the Eurozone.

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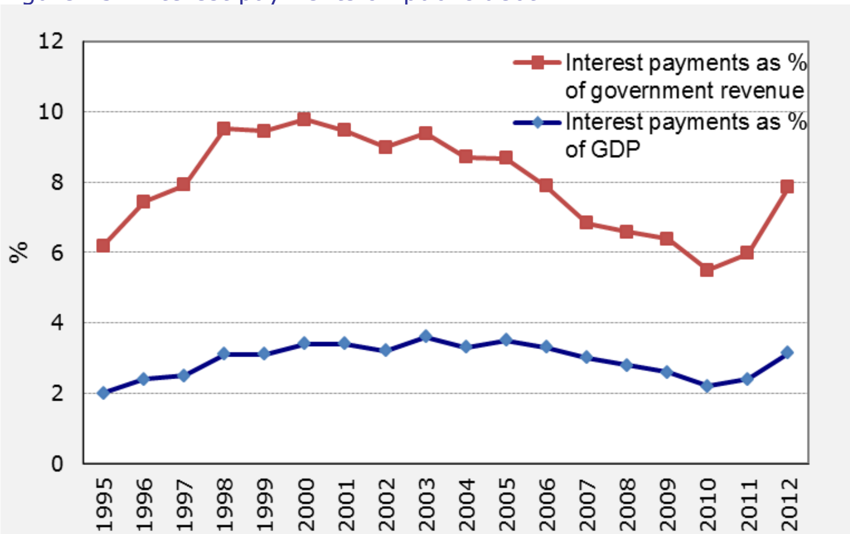
[5] The cost of public debt to the society can be analysed from various aspects. For example, to the extent that borrowed funds are directed towards current expenditure instead of infrastructure or sustainable development expenditure, the state borrowing allows for the current generation to benefit on the cost of the next generation.

[6] Provisional estimate

The outlook as regards future borrowing is mixed. While the marginal borrowing rate will decline due to the official borrowing from the European Stability Mechanism and the International Monetary Fund, which in turn will drive the weighted average borrowing cost down, the total interest payments will increase. This is due to the expected considerable fiscal deficit balances and any further state support for bank recapitalization purposes. These factors are exacerbated by the negative growth rates forecasted over the next two years at least.

Figure 15: Interest payments on public debt



CONTINGENT LIABILITIES

Contingent liabilites are not part of public debt and thus have no direct impact on the government accounts. However, for the assessment of the long term sustainability of public finances and their risks, it is important to examine the contingent or off-balance sheet liabilities, i.e. those liabilities whose realization depends on future events.

This Chapter describes the main developments as regards existing, new and old guarantee schemes. The full list of guarantees by entity is found in Table 9 of the Statistical Appendix.

Evolution of outstanding guarantees

<u>Government Guarantees</u>
Government guarantees are granted to municipalities and community boards, sewerage boards, public and other organizations, and enterprises. Government guarantees at the year end 2012 increased to €2975 million from €1776 million the year before. The reason for this substantial change is due to the provision of guarantees towards a domestic credit institution; this is described further in the next section of this Chapter.

Excluding guarantees granted to entities of the general government, i.e. borrowing of which is already part of the general government debt, the figure reduces to €2711 million. This net guarantee balance accounts for 15% of the GDP and is almost double the relevant indicator of the previous year.

The total amount of guarantees for capital and interest for the European Financial Stability Facility increased considerably from €26 million to €265 million, due to the volume of debt issuances carried out by the EFSF for Greece, Ireland and Portugal. The contribution key of Cyprus in the EFSF pool according to the last Framework Agreement is 0.21%.

<u>Deposit Protection Scheme</u>
There are two deposit protection schemes, for commercial banks and the cooperative credit institutions respectively. Under these schemes the government guarantees deposits of maximum of €100.000 per depositor per institution. Deposits in all currencies

are insured. The amount of this contingent liability is estimated to be €35 billion in net terms i.e. accounting for customer loans. There is currently a low balance of €148 million for own resources of the deposit protection fund. Although the government may provide loans to the fund this is in practice impossible due to potentially large amount needed.

New Guarantee Schemes: Guarantee scheme to credit institutions

The scope of the scheme is the granting of government guarantees for the conclusion of loans or the issue of bonds by credit institutions, over an appropriate a fee, for enhancing their access to liquidity to overcome the impact of the economic crisis. The government guarantees may be granted for a term of no less than 3 months and no more than 5 years.

Eligible institutions will be credit institutions incorporated in the Republic of Cyprus, including subsidiaries of foreign financial institutions, licensed by the Central Bank of Cyprus or the Commissioner of the Authority for the Supervision and Development of Cooperative Societies.

The credit institutions should, as a general rule, provide to the Government adequate eligible collateral which covers the amount of government guarantees allocated to them. The collateral is subject to significant haircuts, with a view to eliminating the Government's credit risk. In exceptional cases, and based on reasoned opinion of the Central Bank of Cyprus, collateral may not be required.

For the allocation of government guarantees bilateral agreements are concluded between the Government and the eligible credit institution at the expiry of which the government guarantees are cancelled.

The Scheme was approved by the European Commission on 6 November 2012 for the period up to 31/12/2012, and after a request, the approval was extended up to 30/6/2013. On 9 and 23 November 2012 the relevant Laws and Decrees by the Minister of Finance regarding the guarantee scheme to credit institutions were published in the Government Official Gazette.

During the year 2012 government guarantees were granted to the Cyprus Popular Bank for two bond issuances of the bank for the amount of €500 million each, and a tenor of 364 days.

Termination of guarantee schemes: Special Government Bonds

In 2009 Special Government bonds of €3 billion were issued to domestic banking institutions to be used by the latter as collateral for liquidity extraction at the European Central Bank. The bonds had a maturity of 3 years and were due on 30.11.2012. The Law and Ministerial Decree were issued in the Government Official Gazette of 6 and 20 November 2009, respectively.

During 2009 and 2010 a portion of the allocated bonds was returned by the credit institutions to the state. During 2012 all remaining outstanding Special Government Bonds of €2769 million were returned and cancelled without the use of pool of asset collateral which was made available to the state. The Scheme was hence thereby ended on 9 November 2012.

CASH MANAGEMENT

As cash balances in the General Government Account at the Central Bank of Cyprus remain unremunerated the PDMO occasionally deposits extra cash with credit institutions via auctions.

Eligible for participation at auctions are all credit institutions that operate in Cyprus under the permission of the Central Bank of Cyprus as well as those institutions that operate in the EU under the supervision of an EU member state.

Beyond the interest gained, each institution's Capital Adequacy and Liquidity Ratios, and –where available- its credit rating are taken into account for the assessment of offer rates. There is furthermore a uniform deposit limit set for each institution.

During the year a number of auctions were organised for deposits. The interest gained was €0,8 million at an average interest rate of 2,59%. Over the year, the daily outstanding amount deposited averaged €45 million.

At the end 2012, the balance of the Government General Account at the Central Bank was €93,3 million, of which €30 million had been withdrawn from the Special Reserve Fund[7], for liquidity management purposes. Thus the balance of the Special Reserve Fund closed at €55 million. Finally, an amount of €69,5 million was deposited with the domestic banking sector. Table 16 of the Appendix shows the cash balances at monetary financial institutions during the year.

[7] The Special Reserve Fund of €85 million was created in 2002 with the abandonment of the government financing from the Central Bank. The Fund is used for intraday liquidity management at the Government General Account. During the current adverse market conditions the SRF can be insufficient, especially at the year end when new borrowing from capital markets is usually restricted. The Public Debt Management Law includes a provision for the creation of a cash buffer stock with a regular update of its level.

RISK MANAGEMENT

The covering of the government financing needs implies risks for the state which can not be avoided. Risk minimization however, generally takes priority over cost minimization.

Beyond the general financing risks affecting both the debt sustainability and the potential of capital market re-entry for the Cyprus sovereign, the largest source of risks for the sovereign debt stems from the large share of short term debt, i.e. debt due within 12 months, and also from the old long term debt due within 24 months. The obligation to refinance this debt affects the state liquidity and the refixing of interest rates.

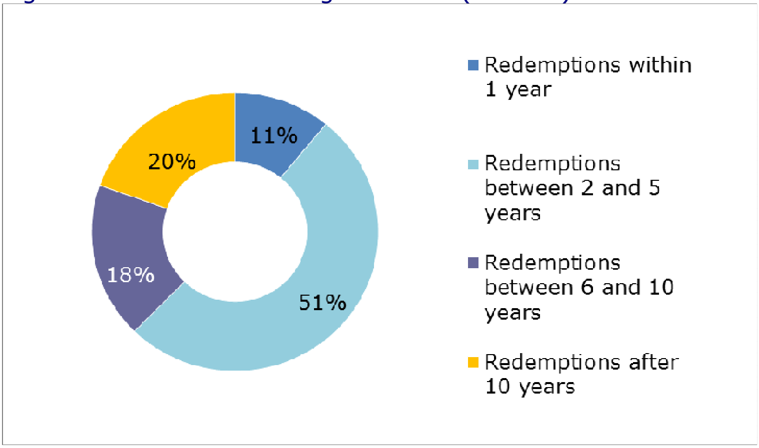
The short term debt outstanding at 31st December 2012 was €976 million. Furthermore, with older debt redemptions of medium to long term debt due within 2012, the total debt with a residual maturity of 1 year at 31st December 2012, amounted to €3,3 billion or about 22% of the general government debt (excluding the debt for the recapitalisation of the banking sector) and 19% of the GDP.

Moreover, the bilateral loan from the Russian Federation shifted the bulk of debt redemptions of 2012 to 2016, when the Russian loan falls due in one installment. The result is that 22% of the debt matures within 12 months, and 67% of the debt matures within 5 years, as shown in Figure 16. Overall, the financing of the year 2012 affected the maturity profile of the debt in the years 2013 and 2016[8].

An indicator frequently used to show the refinancing profile of debt is the weighted average maturity of debt. At the year end, the Cyprus weighted average maturity of debt was 4,6 years, as in the year before.

[8] The full debt maturity profile is presented in the chapter "the size and composition of government debt".

Figure 16: Debt refinancing structure (% GGD) at 31st Dec. 2012



Market risk

Market factors result in risks for the existing or expected debt portfolio, via the fluctuations in the markets of interest and exchange rates.

(i) Interest rate risk

This risk aspect refers to the change or refixing of interest rates at the state of refinancing of fixed-rate debt and at the fluctuation of interest rates at the specific payment dates for debt carrying floating rate debt.

Hence, low duration[9] debt, i.e. short term and floating rate debt, is considered to be a higher risk obligation.

The interest rate risk from the upcoming debt redemptions is significant, as over one fifth of the outstanding debt, as mentioned above, falls due within 12 months. On the other hand, market risk from floating rate debt can be considered to be low. The Republic has about 12% of its debt in floating rates for loans of the central government or local authorities. Most of the central government loans are from supranational organisations with low margins over

[9] The duration is a method for the measurement of market risk via the observance of the sensitivity of the debt portfolio to a certain change in interest rates. Duration is a different indicator than similar measurements of risk such as maturity and average life of a debt portfolio.

the Euribor rates. As these loans are very long term in tenor, they almost naturally carry floating interest rates.

(ii) Foreign exchange risk
Debt dominated or linked to foreign currency increases instability in the servicing of debt or interest.

Since its entry into the Eurozone, borrowing in foreign currency has been kept into a minimum. During the year there was occasional short term investor-driven borrowing in US Dollar. Any such exposure was hedged with forex swaps.

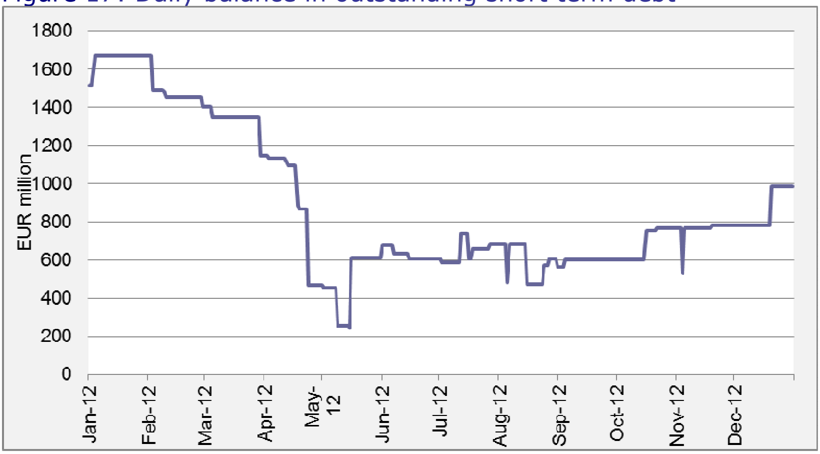
At the year end, the foreign exchange exposure stemmed only from long term loans from the EIB, which both in absolute and relative numbers are negligible.

Refinancing and liquidity risk

Refinancing risk was particularly high throughout the year due to the high stock of short term debt, its very short tenors and the limited alternative financing sources.

The weighted amount of outstanding short term debt, at original maturity, was €886 million (2011: €1080 million). By the year end short term debt reached €1036 million or about 28% of the annual financing (end 2011: €1515 million or 46% of annual financing)

Figure 17: Daily balance in outstanding short term debt



Due to the funds of the Russian loan, during the first half of the year liquidity pressures were relatively low. Thus, during this period a number of deposit auctions in the domestic banking system was carried out.

Liquidity risk increased with the loss of investment-grade sovereign credit rating in June 2012, due to which domestic credit institutions lost access to liquidity at the ECB by pledging government securities as collateral.

The outlook of liquidity risk remains difficult given the stock of outstanding short term debt.

Finally, the uncertainty stemming from debt stock carrying floating interest rate or denominated in foreign currency did not influence significantly cash management and liquidity indicators.

Credit risk

Credit risk for the government as a borrower results when entering into derivative transactions and money market (deposit) operations with market counterparties.

There are two ISDA contracts signed with local credit institutions with no Credit Support Annex for collateralization of derivative transactions. There is no quantified credit risk limit set, however every effort has been put to enter into derivative transactions in limited levels.

The credit risk from the deposit distribution is managed by assigned maximum limit for exposure to each institution.

CREDIT RATING DEVELOPMENTS

As in the year before, during 2012 there was a significant deterioration of the sovereign credit rating. The long term credit rating was downgraded by 4 notches by Fitch Ratings, 6 notches by Moody's and 8 notches by Standard and Poor's. This meant that the rating changed on average every 3 to 6 months during the year.

This quick gradual development reflected, according to the agencies' reports, their assessment of increasing banking capital needs. In fact, the capital requirements of credit institutions and their potential impact on government finances dominates among the drivers for the downgrade. Other factors are the budget deficit and the weak macroeconomic environment and outlook.

A negative determinant was furthermore the delay in a full agreement with the troika. Finally, a factor of concern and downgrade especially in the first half of the year was the institutional ineffectiveness of governance at the level of the Eurozone.

Certain driving factors such as the risk of a Greek exit from the Eurozone (Moody's June 2012) and the concern of governance ineffectiveness of the Eurozone (Standard and Poor's January 2012, Moody's March 2012) that were later ameliorated or improved, were assessed by the agencies as insufficient to change or revert the overall negative rating path.

The credit ratings of the Republic of Cyprus at 31st December 2012 are shown below[10]:

Agency	Long term debt	Short term debt	Last change
Fitch	BB-	B	21 November
Moody's	B3	Not-Prime	8 October
Standard and Poor's	CCC+	C	20 December

[10] For recent developments in the sovereign credit rating of the Republic of Cyprus please refer to the website of the Public Debt Management Office, www.mof.gov.cy/pdmo

Whereby:

‘BB’ rating (Fitch Ratings) indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists which supports the servicing of financial commitments.

Obligations rated B (Moody’s) are considered speculative and are subject to high credit risk.

An obligation rated 'CCC' (Standard & Poor’s) is vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.

The signs (+) and (-) indicate the relative standings within each category.

STATISTICAL ANNEX

Data for 2012 is provisional. Reference date for all data in the Statistical Annex is the 31st Dec. 2012, unless otherwise stated

Table 1: Historical evolution of government debt

	Consolidated gross general government debt (€ mln)	Consolidated gross general government debt (% GDP)
1990	2.217,5	50,8
1991	2.583,7	56,5
1992	2.974,2	56,1
1993	3.277,6	58,6
1994	3.345,4	53,6
1995	3.589,5	51,8
1996	3.896,2	53,1
1997	4.478,1	57,4
1998	4.981,6	59,2
1999	5.416,8	59,3
2000	5.930,9	59,6
2001	6.567,5	61,2
2002	7.246,2	65,1
2003	8.093,3	69,7
2004	8.963,3	70,9
2005	9.490,7	69,4
2006	9.445,0	64,7
2007	9.307,3	58,8
2008	8.388,1	48,9
2009	9.864,5	58,8
2010	10.676,6	61,3
2011	12.777,5	71,1
2012	15.349,3	85,8

Table 2: Government debt by instrument and lender (€ mln)

A. DOMESTIC			**7.597,12**
I. LONG TERM		**4.732,52**	
1. Development Stocks	**2.470,09**		
- Monetary Financial Institutions	1.806,65		
- Private Sector	663,35		
2. Savings Certificates	**32,13**		
- Private Sector	32,13		
3. Loans	**2.230,35**		
- Central Bank of Cyprus	1.402,97		
- Local Authorities	320,95		
- Loan for School Committees	463,03		
- Other	43,55		
II. SHORT TERM		**2.864,6**	
1. Treasury Bills	**9.76,04**		
- Monetary Financial Institutions	600,87		
- Private Sector	375,17		
2. Development Stocks	**1.888,56**		
Banking sector capitalisation	1.888,56		
B. FOREIGN			**7.752,22**
LONG TERM			
1. Long term loans	**3.638,39**		
Bilateral governments	2.500,00		
EIB and CoE	1.138,39		
2. Euro Medium Term Notes	**3.818,73**		
3. EFSF	**295,10**		
C. GROSS GENERAL GOVERNMENT DEBT			**15.349,34**

Note:
Consolidated figures, i.e. obligations among subsectors of the general government are omitted.

Table 3: Outstanding securities in the foreign market

EURO COMMERCIAL PAPERS

Issue	Tenor	Yield %	Maturity	ISIN	€ mln
Total outstanding ECPs					**0**

EURO MEDIUM TERM NOTES

Issue	Tenor (years)	Coupon %	Maturity	ISIN	€ mln
03-06-2009	4	3,750	03-06-2013	XS0432083227	1.415
07-06-2012	2	6,000	07-06-2014	XS0789055810	85
15-07-2004	10	4,375	15-07-2014	XS0196506694	500
01-11-2010	5	3,750	01-11-2015	XS0554655505	863
25-02-2011	5	4,750	25-02-2016	XS0596907104	170
03-02-2010	10	4,625	03-02-2020	XS0483954144	786
Total outstanding EMTNs					3.819

Total outstanding securities in the foreign market	**3.819**

Note:
The nominal amount of issue of EMTN due in Nov. 2015 and Feb. 2020 is €1.000 million respectively; the balance to the figures shown above relates to the ownership by the Social Security Fund or other government entities.

Table 4: Outstanding securities in the foreign market

TREASURY BILLS

Issue	Yield %	Maturity	ISIN	€ mln
05-12-2012	5,00	04-01-2013	CY0143270813	240
11-10-2012	5,00	10-01-2013	CY0143000814	152
17-12-2012	5,00	16-01-2013	CY0143360812	20
26-11-2012	5,10	21-01-2013	CY0143220818	33
21-12-2012	5,15	21-01-2013	CY0143400816	100
19-11-2012	5,10	21-01-2013	CY0143200810	17
26-10-2012	5,00	25-01-2013	CY0143050819	24
15-11-2012	5,15	14-02-2013	CY0143170815	100
19-11-2012	5,25	18-02-2013	CY0143180814	45
17-12-2012	5,25	18-02-2013	CY0143370811	50
20-12-2012	5,50	21-03-2013	CY0143390819	204
31-12-2012	5,50	01-04-2013	Not listed	1
Total outstanding Treasury Bills[11]				**985**

GOVERNMENT REGISTERED DEVELOPMENT STOCK

Issue	Yield %	Maturity	ISIN	€ mln
29-01-2003	5,00	29-01-2013	CY0048450817	7,7
23-04-2003	4,60	23-04-2013	CY0048580811	1,9
04-07-2011	4,50	04-07-2013	CY0142040811	714,6
23-10-2003	4,50	23-10-2013	CY0048880815	1,0
09-01-2009	5,00	09-01-2014	CY0140870813	150,0
15-01-2009	5,00	15-01-2014	CY0140890811	165,2
26-02-2004	4,50	26-02-2014	CY0049060813	3,8
24-06-2004	6,00	24-06-2014	CY0049240811	5,0
18-11-2004	6,00	18-11-2014	CY0049360817	34,2
09-12-2004	6,00	09-12-2014	CY0049390814	21,1
03-01-2005	6,00	03-01-2015	CY0049420819	27,6
20-01-2005	6,00	20-01-2015	CY0049450816	51,2
28-02-2005	6,00	28-02-2015	CY0049510817	68,3
20-04-2005	6,00	20-04-2015	CY0049560812	59,4
09-06-2005	5,25	09-06-2015	CY0049620814	66,9
30-09-2005	4,75	30-09-2015	CY0049710813	85,4
02-12-2005	4,75	02-12-2015	CY0049770817	23,7
02-01-2006	4,50	02-01-2016	CY0049790815	102,6
30-03-2006	4,50	30-03-2016	CY0049880814	85,4
02-06-2006	4,50	02-06-2016	CY0049930817	14,0
09-06-2011	5,00	09-06-2016	CY0141980819	25,2
11-07-2006	4,50	11-07-2016	CY0049990811	102,5
09-10-2006	4,50	09-10-2016	CY0140090818	49,5

[11] Treasury Bills shown at nominal value

26-10-2001	6,60	26-10-2016	CY0047860818	6,9
04-01-2007	4,50	04-01-2017	CY0140160819	85,4
15-02-2007	4,50	15-02-2017	CY0140190816	82,0
02-04-2007	4,50	02-04-2017	CY0140330818	85,4
28-09-2007	4,50	28-09-2017	CY0140500816	17,8
15-04-2002	5,60	15-04-2017	CY0048900811	13,3
29-01-2003	5,10	29-01-2018	CY0048440818	13,7
23-04-2003	4,60	23-04-2018	CY0048610816	5,1
23-10-2003	4,60	23-10-2018	CY0048870816	0,8
26-02-2004	4,60	26-02-2019	CY0049070812	3,8
24-06-2004	6,10	24-06-2019	CY0049250810	7,2
20-04-2005	6,10	20-04-2020	CY0049570811	85,4
09-06-2005	5,35	09-06-2020	CY0049630813	68,3
09-06-2011	6,00	09-06-2021	CY0141990818	43,6
25-08-2011	6,50	23-08-2021	CY0142120811	23,1
Banking sector capitalisation				
29-06-2012	0,00	29-06-2013	CY0142650817	1.888,6
Total outstanding GRDS[12]				**4.359,2**
SAVINGS CERTIFICATES				**32,1**
Total outstanding securities in the domestic market				**5.376,3**

[12] Outstanding volumes may differ from listed volumes at the CSE due to debt buybacks

Table 5: Outstanding loans

Creditor	Interest rate %	Currency	Maturity	Balance € mln
Central government				
Foreign Loans				
CoE Development Bank	5,63	JPY	2013	8,8
Europ. Investment Bank	3,62	CHF	2014	0,5
Europ. Investment Bank	5,95	GBP	2014	1,5
Europ. Investment Bank	3,62	EUR	2014	1,3
French Treasury	2,00	EUR	2015	0,0
Russian Federation	4,50	EUR	2016	2.500,0
Europ. Investment Bank	3,62	EUR	2016	3,0
French Treasury	2,00	EUR	2017	0,7
CoE Development Bank	E+0,28	EUR	2018	7,3
Europ. Investment Bank	5,35	EUR	2019	49,8
Europ. Investment Bank	1,00	EUR	2022	0,4
Europ. Investment Bank	1,00	EUR	2022	1,1
CoE Development Bank	E+0,30	EUR	2023	16,0
CoE Development Bank	E+0,30	EUR	2023	36,7
Europ. Investment Bank	3,62	EUR	2025	1,7
CoE Development Bank	E+0,60	EUR	2025	47,5
Europ. Investment Bank	3,62	EUR	2026	0,6
CoE Development Bank	E+0,15	EUR	2026	80,0
CoE Development Bank	E+0,09	EUR	2027	16,5
Europ. Investment Bank	3,62	EUR	2029	41,1
CoE Development Bank	3,70	EUR	2028	44,0
CoE Development Bank	E+0,48	EUR	2029	17,3
CoE Development Bank	E+0,48	EUR	2029	10,6
Europ. Investment Bank	3,62	EUR	2035	58,1
CoE Development Bank	E+0,55	EUR	2030	6,5
Europ. Investment Bank	VSFR	EUR	2035	78,4
Europ. Investment Bank	E+0,01	EUR	2035	90,0
Europ. Investment Bank	VSFR	EUR	2033	183,4
Europ. Investment Bank	E+0,27	EUR	2035	40,0
Europ. Investment Bank	E+0,31	EUR	2036	40,0
Europ. Investment Bank	E+1,37	EUR	2037	200,0
Europ. Investment Bank	E+0,33	EUR	2038	56,0
Domestic loans				
Central Bank	3,00	EUR	2032	1.403,0
Coop. Central Bank	E+1,50	EUR	2032	463,0
Total				**5.504,4**

<u>**Central government entities**</u>		
Cyprus Broadcasting Corporation	EUR	12,2
Cyprus Oncology Centre	EUR	9,2
Cyprus Sports Organisation	EUR	22,2
Total		**43,6**
Total central government outstanding loans		**5.548**

Table 6: General government debt maturity profile (€ mln)

	Domestic securities		Foreign securities		Domestic loans	Foreign loans	Total
	TBs	GRDS	ECPs	EMTNs			
2013	976	725	0	1.415	96	45	**3.257**
2014	0	379	0	585	98	46	**1.108**
2015	0	445	0	863	99	47	**1.454**
2016	0	386	0	170	101	2.554	**3.211**
2017	0	2.173	0	0	103	56	**2.332**
2018	0	20	0	0	104	62	**186**
2019	0	11	0	0	106	72	**189**
2020	0	154	0	786	108	64	**1.112**
2021	0	67	0	0	110	64	**241**
2022	0	0	0	0	112	64	**176**
2023	0	0	0	0	109	64	**173**
2024	0	0	0	0	111	59	**170**
2025	0	0	0	0	114	59	**173**
2026	0	0	0	0	116	55	**171**
2027	0	0	0	0	118	49	**167**
2028	0	0	0	0	121	46	**167**
2029	0	0	0	0	123	38	**161**
2030	0	0	0	0	125	36	**161**
2031	0	0	0	0	128	29	**157**
2032	0	0	0	0	131	29	**160**
2033	0	0	0	0	0	25	**25**
2034	0	0	0	0	0	21	**21**
2035	0	0	0	0	0	21	**21**
2036	0	0	0	0	0	15	**15**
2037	0	0	0	0	0	13	**13**
2038	0	0	0	0	0	6	**6**
	976	**4.359**	**0**	**3.819**	**2.233**	**3.639**	**15.026**

Notes:

1. Consolidated figures on the general government level
2. The bond for the recapitalization of the banking sector is included in the debt redemptions of the year 2017
3. Savings Certificates of €32,1 mln and loans for the EFSF of €295,1 mln not included in the table
4. A flat redemption profile for the local authorities loans and the loans of the central government entities is assumed

Table 7: Debt servicing

	2008	2009	2010	2011	2012
Interest payments (€ mln)	487	432	391	426	564
General Government Debt (GGD, € mln)	8.388	9.865	10.677	12.777	15.351
Tax revenue (TR, € mln)	5.252	4.452	4.606	4.711	4.623
Total government revenue (GR, € mln)	7.389	6.764	7.116	7.139	7.150
Interest payments (%GDP)	2,84	2,56	2,26	2,40	3,15
Interest payments (% GGD)	5,80	4,38	3,67	3,33	3,65
Interest payments (% TR)	9,27	9,70	8,50	9,04	12,13
Interest payments (% GR)	6,59	6,39	5,50	5,97	7,85

Note:
Interest payments exclude intragovernmental interest payments to the Social Security Fund

Table 8: Investments of the Social Security Fund with the central government (€)

Deposits with the Central Government	**7.591.232.109**
Social Insurance Fund	6.964.722.723
Unemployment Benefits Account	4.589.421
Termination of Employment Fund	396.067.491
Central Holiday Fund	84.546.729
Insolvency Fund	141.305.744
Investment in Cyprus government treasury bill 5.000% mat. 12/11/2013	**50.721.000**
Investment in Cyprus government bond 6.000% mat. 4/1/2015	**20.000.000**
Investment in Cyprus government bond 3.750% mat. 1/11/2015	**137.000.000**
Investment in Cyprus government bond 4.625% mat. 3/2/2020	**204.100.000**
Investment in Cyprus government bond 6.000% mat. 9/6/2021	**10.000.000**
Total	**8.013.053.109**

Note:
Table excludes deposits with credit institutions of €79 mln at 31/12/2012.

Table 9: Government guarantees (€)

Outstanding amount as at	31-12-2012	31-12-2011
Municipalities *	221.449.679	226.287.493
Community Boards*	7.870.212	8.626.117
	229.319.991	**234.913.610**
PUBLIC AND OTHER ORGANISATIONS		
Public Corporate Bodies		
Sewerage Boards	681.498.942	669.892.189
Electricity Authority of Cyprus	426.048.597	419.364.679
Cyprus State Fairs Authority	167.618	254.892
Cyprus Ports Authority	0	41.855.204
Cyprus Broadcasting Corporation*	12.182.210	15.322.506
Cyprus Sports Organisation *	22.157.426	24.004.347
Central Agency for Equal Distribution of Burdens	239.650.808	242.419.933
Cyprus Olympic Committee	2.752.043	3.048.585
Central Slaughter-house Board	20.441.553	19.350.669
Cyprus Theatrical Organisation*	363.763	347.495
	1.405.262.960	1.435.860.499
Not for Profit Organisations	1.168.721	1.190.370
	1.406.431.681	**1.437.050.869**
ENTERPRISES		
Companies with share capital participation by the Government		
Cyprus Popular Bank	1.000.000.000	0
Cyprus Airways	32.084.476	39.060.000
Companies		
ETKO, LOEL, etc.	20.190.316	18.723.186
Cooperative Societies	15.817.072	14.511.425
Sundries	5.347.976	5.198.218

	1.073.439.840	**77.492.829**
NATURAL PERSONS	**1.405.091**	**937.437**
INTERNATIONAL ORGANISATIONS		
European Financial Stability Facility[13]	264.615.782	25.714.074
TOTAL GUARANTEED LOANS	**2.975.212.285**	**1.776.108.819**

***** These entities are included in the General Government sector, and therefore their loans are part of the General Government Debt.

[13] Statistically, the guarantees to the EFSF correspond to the the maximum guarantee amount excluding the obligations towards the Fund accounted for as general goverment debt.

Table 10: Average yield history of Government Registered Development Stocks (% at issuance)

	2003	2004	2005	2006	2007	2009	2010	2011	2012
2yr	3,32	4,22	3,38	3,40	4,03	-	2,00	4,50	-
5yr	4,16	4,83	5,61	4,25	4,25	5,00	-	5,00	-
10yr	4,88	5,91	5,51	4,50	4,50	-	-	6,63	-
15yr	4,95	5,58	3,06	-	-	-	-	-	-

Table 11: Number of issuances of Government Registered Development Stocks

	2003	2004	2005	2006	2007	2009	2010	2011	2012
2yr	10	13	4	3	1	-	1	1	-
5yr	11	12	2	1	1	2	-	1	-
10yr	3	4	7	5	5	-	-	2	-
15yr	3	2	2			-	-	-	-
	27	**31**	**15**	**9**	**7**	**2**	**1**	**4**	**0**

Table 12: 52-week Treasury Bills

	2003	2004	2005	2006	2007	2009	2010	2011	2012
Yield %	3,71	4,43	4,33	2,89	4,12	1,52	1,70	3,07	5,00
No. of issues	13	11	8	4	1	1	1	2	1

Note: There were no issuances of GRDS or Treasury Bills in 2008

Table 13: Matured securities in the domestic market
1-1-2012 to 31-12-2012

TREASURY BILLS

Issue	Yield %	Maturity	ISIN	€ mln
04-10-2011	4,60	03-01-2012	CY0142170816	245
04-01-2012	4,82	03-02-2012	CY0142280813	373
27-07-2011	3,90	29-02-2012	CY0142110812	50
03-02-2012	4,40	05-03-2012	CY0142310818	120
03-02-2012	4,50	03-04-2012	CY0142320817	150
20-04-2011	3,15	18-04-2012	CY0141920815	210
11-05-2011	2,98	09-05-2012	CY0141950812	200
16-05-2012	4,15	15-06-2012	CY0142540810	159
06-06-2012	4,50	06-07-2012	CY0142590815	200
15-06-2012	4,50	16-07-2012	CY0142610811	133
06-07-2012	4,50	05-08-2012	CY0142670815	200
16-05-2012	4,38	15-08-2012	CY0142550819	208
18-07-2012	5,00	20-08-2012	CY0142750815	53
06-08-2012	5,07	04-09-2012	CY0142830815	200
20-08-2012	5,00	19-09-2012	CY0142850813	53
27-08-2012	5,00	26-09-2012	CY0142890819	33
04-09-2012	5,00	04-10-2012	CY0142900816	240
12-07-2012	5,00	11-10-2012	CY0142710819	151
19-09-2012	4,90	19-10-2012	CY0142930813	53
26-09-2012	4,95	26-10-2012	CY0142950811	33
27-07-2012	5,00	26-10-2012	CY0142820816	24
04-10-2012	5,00	04-11-2012	CY0142900816	240
16-08-2012	5,15	15-11-2012	CY0142840814	150
19-10-2012	5,10	19-11-2012	CY0143030811	53
22-10-2012	5,10	19-11-2012	CY0143040810	17
24-08-2012	5,15	23-11-2012	CY0142880810	100
26-10-2012	5,00	26-11-2012	CY0143060818	33
23-11-2012	4,68	30-11-2012	CY0143210819	100
05-11-2012	5,00	05-12-2012	CY0143100812	240
30-11-2012	4,68	07-12-2012	CY0143260814	100
07-12-2012	4,68	14-12-2012	CY0143290811	100
15-11-2012	5,10	17-12-2012	CY0143150817	50
19-11-2012	4,95	17-12-2012	CY0143190813	20
14-12-2012	4,68	21-12-2012	CY0143350813	100
				4.391

GOVERNMENT REGISTERED DEVELOPMENT STOCK

Issue	Coupon %	Maturity	ISIN	€ mln
04-01-2007	4,25	04-01-2012	CY0140150810	427,2
16-01-2010	2,00	16-01-2012	CY0141180816	116,0
25-02-2002	5,50	25-02-2012	CY0047970815	6,3
				549,5

SAVINGS CERTIFICATES	**10,2**

Table 14: Matured securities in the foreign market 1-1-2012 to 31-12-2012

EURO COMMERCIAL PAPERS

Issue	Yield %	Maturity	ISIN	€ mln
05-10-2011	4,560	04-01-2012	XS0688658086	49
03-01-2012	4,850	03-02-2012	XS0727104365	76,6
10-02-2011	2,010	09-02-2012	XS0591976146	10
11-02-2011	2,400	10-02-2012	XS0592268519	18
11-02-2011	2,430	10-02-2012	XS0592268519	8
30-09-2011	4,505	30-03-2012	XS0687500081	200
14-04-2011	3,050	12-04-2012	XS0618404437	20
15-04-2011	3,050	13-04-2012	XS0619075483	20
21-04-2011	3,120	19-04-2012	XS0620589860	20
24-10-2011	4,705	24-04-2012	XS0698381620	400
03-05-2011	3,150	02-05-2012	XS0620589860	10
17-05-2011	3,180	15-05-2012	XS0629364109	10
06-03-2012	4,605	06-06-2012	XS0755866042	60
03-04-2012	4,555	06-06-2012	XS0770088960	140
01-06-2012	4,505	02-07-2012	XS0790198955	64
02-07-2012	4,505	01-08-2012	XS0801194969	43
01-08-2012	4,905	31-08-2012	XS0811148898	45
				1.193

EURO MEDIUM TERM NOTES

Issue	Coupon %	Maturity	ISIN	€ mln
27-02-2002	5,500	27-02-2012	XS0143546207	550
08-06-2011	3,120	08-06-2012	XS0635640526	45
				595

Table 15: Loan amortisations by creditor 1-1-2012 to 31-12-2012

	€ mln
European Investment Bank	19,42
Council of Europe Development Bank	24,84
French Treasury	0,12
Central Bank of Cyprus	50,69
	95,07

Table 16: Government deposits (€ mln)

		Cash at the Central Bank of Cyprus	Deposits at MFIs	Total
2008	31-Dec.	99,9	0	99,9
2009	31-Dec.	223,1	16,5	239,6
2010	31-Dec.	131,3	1,5	132,8
2011	31-Oct.	653,4	231,5	884,9
	30-Nov.	559,5	116,5	676
	31-Dec.	805,6	16,5	822,1
2012	31-Jan.	1.834,2	16,5	1.850,7
	29-Feb.	894,8	6,5	901,3
	31-Mar.	1.143,4	56,5	1199,9
	30-Apr.	386,4	56,5	442,9
	31-May	403,8	56,5	460,3
	30-Jun.	154,8	6,5	161,3
	31-Jul.	90,6	19,5	110,1
	31-Aug.	348,5	19,5	368
	30-Sept.	375,3	19,5	394,8
	31-Oct.	223,8	19,5	243,3
	30-Nov.	199,2	19,5	218,7
	31-Dec.	148,7	69,5	218,2

Table 17: Historical credit ratings

Long term local currency

Fitch		Moody's		S&P	
BB-	21-11-2012	B3	08-10-2012	CCC+	20-12-2012
BB+	25-06-2012	Ba3	13-06-2012	B	17-10-2012
BBB-	27-01-2012	Ba1	12-03-2012	BB	01-08-2012
BBB	10-08-2011	Ba3	04-11-2011	BB+	13-01-2012
A-	31-05-2011	Baa1	27-07-2011	BBB	27-10-2011
AA-	12-07-2007	A2	24-02-2011	BBB+	29-07-2011
AA	04-02-2002	Aa3	03-01-2008	A-	30-03-2011
		A1	10-07-2007	A	16-11-2010
		A2	19-07-1999	A+	24-04-2008
				A	01-12-2004
				A+	12-08-2003
				AA-	03-12-1999
				AA	09-11-1998
				AA+	16-07-1996

Short term local currency

Fitch		Moody's		S&P	
B	25-06-2012	NP	12-03-2012	C	20-12-2012
F3	10-08-2011	P-3	04-11-2011	B	13-01-2012
F1	31-05-2011	P-2	27-07-2011	A-3	27-10-2011
F1+	12-07-2007	P-1	06-11-1989	A-2	30-03-2011
F1	01-02-2002			A-1	12-08-2003
				A-1+	16-07-1996

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