Republic of Cyprus
Ministry of Finance

ANNUAL REPORT 2011

PUBLIC DEBT MANAGEMENT

MARCH 2012

Public Debt Management Annual Report 2011

Republic of Cyprus
Ministry of Finance

March 2012

PUBLIC DEBT MANAGEMENT ANNUAL REPORT 2011

Ministry of Finance
Michael Karaoli & Gregori Afxentiou
1439 Nicosia
Cyprus

Telephone +357 22 601182
www.mof.gov.cy/pdmo
pdm@mof.gov.cy

This publication is based on information available up to 15 March 2012.

ISSN (print): 1986-3756
ISSN (online):1986-3764

CONTENTS

FOREWORD 7

LEGAL FRAMEWORK OF PUBLIC DEBT 11

EUROZONE PUBLIC FINANCES AND DEBT MARKETS 13

FINANCING THE BORROWING REQUIREMENTS OF 2011 ... 19

THE SIZE AND COMPOSITION OF GOVERNMENT DEBT 23

COST OF PUBLIC DEBT 33

CONTINGENT LIABILITIES 35

DEBT MANAGEMENT 37

CREDIT RATING DEVELOPMENTS 43

STATISTICAL ANNEX 45

DISCLAIMER

The information contained in this report has not been independently verified. All information is subject to verification, completion and change without notice and the Republic of Cyprus is not under any obligation to update or keep current the information contained herein. No representation or warranty, expressed or implied, is made as to the accuracy, completeness or fairness of the report and the information contained herein and no reliance should be placed on such information.

The information and opinions contained in this report are provided as at the reference date and are subject to change without notice.

This report does not constitute or form part of, and should not be construed as, an offer to sell or issue or the solicitation of an offer to buy or acquire securities in any jurisdiction or an inducement to enter into investment activity in any jurisdiction. Neither this report nor any part thereof, nor the fact of its publication, shall form the basis of, or be relied on in connection with, any contract or commitment or investment decision whatsoever.

List of abbreviations

bps	basis points
bln	billion
CBC	Central Bank of Cyprus
CGB	Cyprus Government Bond
CHF	Swiss franc
CoE	Council of Europe
CRA	Credit Rating Agency
E	Euribor, Euro Interbank Offered Rate
ECB	European Central Bank
ECP	Euro Commercial Paper
EFSF	European Financial Stability Facility
EIB	European Investment Bank
EMTN	Euro Medium Term Note
EMU	European Monetary Union
est	estimate
EU	European Union
EUR	Euro
GGA	General Government Account
GBP	Sterling
GDP	Gross Domestic Product
GGD	General Government Debt
GRDS	Government Registered Development Stock
JPY	Japanese Yen
IMF	International Monetary Fund
ISDA	International Swaps and Derivatives Association
mln	million
PDMO	Public Debt Management Office
SRF	Special Reserve Fund
SSF	Social Security Fund
TB	Treasury Bill
VAT	Value Added Tax
VSFR	Variable-Spread Floating Interest Rate

FOREWORD

This report constitutes an implementation of the commitment of the Republic of Cyprus for full transparency and accountability with respect to the public debt management. It has been an international experience that transparency in the management of the public debt is one of the main pillars for safeguarding the legitimate interests of taxpayers as well as of investors.

The year 2011 was marked by developments in the euro area that will drastically shape the European and global economic history.

Cyprus, a small open economy, with a banking sector equivalent to six times the GDP of the country, excluding foreign banking institutions operating in Cyprus, joined the eurozone (EMU) on 1st January 2008, after having successfully passed the rigorous evaluation of all EU Institutions. After the accession to the EMU, Cyprus achieved positive credit ratings. Cyprus, during its EU pre-accession phase, proceeded with harmonising its legislation which, even since 2002 has prohibited government borrowing from the Central Bank. Also, the government at that time abolished the sinking funds which were intended for the repayment of Government Registered Development Stock (GRDS) at maturity. In addition, the foreign exchange restrictions were removed. The above-mentioned institutional adjustments have rendered the Cypriot Government fully dependent on the markets as regards its financing.

In addition, with the accession to the EU in 2004, the Cypriot economy, mainly through the flexible and outward-looking financial sector, began to expand abroad and primarily in the Greek economy, in the context of integration with the single European market. This process was facilitated and has intensified with the adoption of the euro. Naturally, the EMU membership entails, inter alia, the adoption of the common currency, exchange rate and basic interest rates.

The accession of Cyprus to the eurozone coincided with a negative development in the same year: long festering international financial crisis manifested itself affecting the financial institutions and markets in the USA and in Europe. In 2008 Iceland's banking crisis followed with the default of its three largest banks, holding assets 11 times the GDP of the country. Meanwhile, in 2008, the banking crisis in Ireland unfolded. The sovereign debt crisis in Greece followed, which has been continuing until today. In April 2010 Greece proceeded with the first loan agreement with the euro area Member States and the IMF, and at the same time, in May 2010, the creation of the European Stabilisation Mechanism was agreed by the EU Member States. In November 2010, Ireland officially requested financial assistance from the EU, the euro area Member States and the IMF. One year after Greece's request, in April 2011, Portugal applied for financial support from the EU and the IMF to address its fiscal needs. The Europe-wide stress tests for the credit institutions that followed, proved the existence of large capital gaps for a number of banking institutions across the EU.

The uncertainty in the markets, which was the result of the aforesaid events, increased by rumours about sovereign debt crises in other countries of the European periphery. The unprecedented uncertainty drove the investors – creditors to high risk aversion and consequently towards the core economies and low risk EU Member States. At the same time, the adoption of austerity budgetary measures, mainly on the expenditure side, by most EU Member States became inevitable. As a result of the above, the EU economy ended up with substantial amounts of borrowing requirements to be covered by the Governments of the Member States in 2012, in most cases at high borrowing costs, while the banking institutions also had to confront very high funding needs. The high yields on the secondary bond markets of countries of the European periphery and the minimal growth rates or even recession in many of these are characterising today the EU economy.

The main reasons for the repeated downgrades of the credit ratings of the Republic by the Credit Rating Agencies (CRAs) were the exposure of the Cyprus banking sector to the Greek economy and the delay in adoption of fiscal measures. The markets exhibited once again the speed at which they respond, especially under conditions of speculation, uncertainty and panic, when in June 2011 they preceded the CRAs with respect to the exclusion of Cyprus from the international capital markets. This has led to a vicious circle of new downgrades of the Republic of Cyprus by the CRAs, which has continued until today. Other reasons for the downgrades of the Republic of Cyprus, in accordance with the assessments of the CRAs, is the inefficiency of policy decision-making at the level of the eurozone to confront the crisis in the debt markets as well as the subdued external economic environment affecting the economy of Cyprus.

The exclusion of the Republic of Cyprus from international capital markets since June 2011, led to a series of negative developments with regard to the public debt management metrics: first, the Cypriot Government has had to rely almost exclusively on borrowing from the domestic market; second, such borrowing is feasible mainly in the form of short term Treasury Bills and at high cost levels; third, the large amounts of short term borrowing of 2011 imply increased refinancing needs for 2012, high refinancing risk and high interest rate risk.

The above-mentioned unfavourable borrowing conditions of the Republic, became even worse owing to two additional factors: (a) the fact that the downgrades of the CGBs led to the impairment of their nominal value when they are placed by banks as collateral to the European Central Bank in order to obtain credit facilities, and (b) the fact that the European Banking Authority requires the banks to value their CGBs according to their current market value which is inversely proportional to the secondary market yields of these bonds.

Naturally, these conditions led to the reduction in the available liquidity which the Cypriot Government needs to obtain but also to similar distortions concerning the credit and lending conditions, faced by the private sector in the Cypriot financial system (e.g. the high levels of lending interest rates).

A recourse constituting a significant amelioration of the above problem was provided by the bilateral loan amounting to €2,5 billion, secured from the Russian Federation at the end of 2011, which will cover most of the borrowing needs of 2012. However, even with a balanced government budget, the return of the Republic of Cyprus to the international capital markets remains a necessity, due to the continuous refinancing requirements.

Public Debt Management Office
Ministry of Finance
Nicosia, Cyprus

LEGAL FRAMEWORK OF PUBLIC DEBT

Government financing is undertaken mainly under the Cyprus Treasury Bills Law and the Loan (Development) Law, and the terms of issue of domestic government bills and bonds.

The Cypriot legislation ensures the fulfilment of debt obligations of the Republic and the protection of investors. The Constitution of the Republic of Cyprus states that the government debt constitutes an absolute and unconditional obligation of the Republic, and that debt charges constitute a first claim against the Government Consolidated Fund.

Furthermore, as a member of the Eurosystem, it is prohibited for the Central Bank of Cyprus to finance the budget deficit.

Another important feature of legal framework relates to the ECP and EMTN Programmes which, unlike the Treasury Bills and the domestic bonds (GRDS), are issued under the English Law.

Moreover, holders of bonds issued under the EMTN Programme enjoy:

- Cross default claims in respect to indebtedness of the Republic
- Negative pledge in respect of any security accounted as indebtedness
- 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

Investors of Commercial Paper (ECP) also enjoy pari passu treatment.

EUROZONE PUBLIC FINANCES AND DEBT MARKETS

Public finances

In the euro area, fiscal deficit outcomes for 2011 are projected at 4,1%, an improvement of 2 percentage points from the year before[1], mainly attributed to the increased consolidation efforts in the Member States, even though growth fell quarter after quarter during the year. As in the year before, most countries of the eurozone were under fiscal surveillance within the Excessive Deficit Procedure. Gross public debt of the euro area was projected to continue its rising trend albeit at a decreasing rate, and to reach 88% of GDP in 2011 from 85,6% of GDP in 2010[2].

In Cyprus, the General Government Deficit-to-GDP ratio is estimated to have risen from 5,3% to 6,4% or about €1085 million[3] in 2011. This increase resulted from a direct loss of revenue as VAT revenue from manufacturing, energy and construction sectors declined, and indirect losses from the effect of Vasiliko accident on economic growth. At the same time, expenditure grew mainly due to higher Social Security Payments, and growth of wages and salaries.

The Vasiliko accident in July 2011 disrupted the economic path of the first half of the year, which was by then growing at 1,4% year-on-year. The accident impacted negatively on growth mainly due to the electricity disruption, the fall in production capacity and a decline in consumer sentiment. The growth for the year is estimated to be 0,5%.[4]

There was consequently an increase of the debt-to-GDP ratio to 71,6% from 61,5% the year before. This increase is attributed to (a) fiscal slippage, (b) stagnation of real GDP and (c) the overfinancing undertaken towards the end of 2011 in order to finance the needs of early 2012. This overfunding was of the order of €720 million, accounting for about 4 percentage points of GDP.

---

[1] Source: European Commission Autumn Forecast 2011

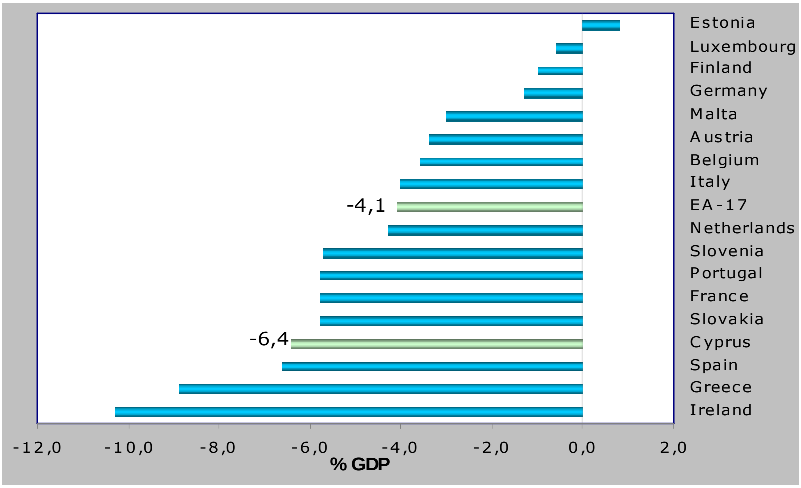
[2] Source: European Commission Autumn Forecast 2011

[3] Source: Cyprus Ministry of Finance; by the cash basis methodology

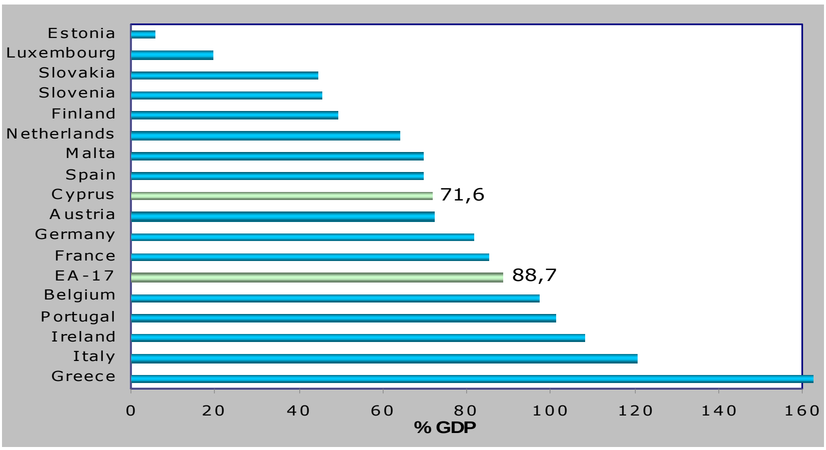
[4] Source: Cyprus Statistical Service, March 2012

All in all, as regards the debt-to-GDP ratio Cyprus performed better than the eurozone average, but diverged away from the Maastricht reference value.

Graph 1: General Government Net Lending (+) / Net borrowing (-) in 2011 (forecast)



Graph 2: General Government consolidated gross debt 2011 (forecast)



Sources: Cyprus Ministry of Finance (Cyprus); European Commission Forecast, Autumn 2011 (other countries)

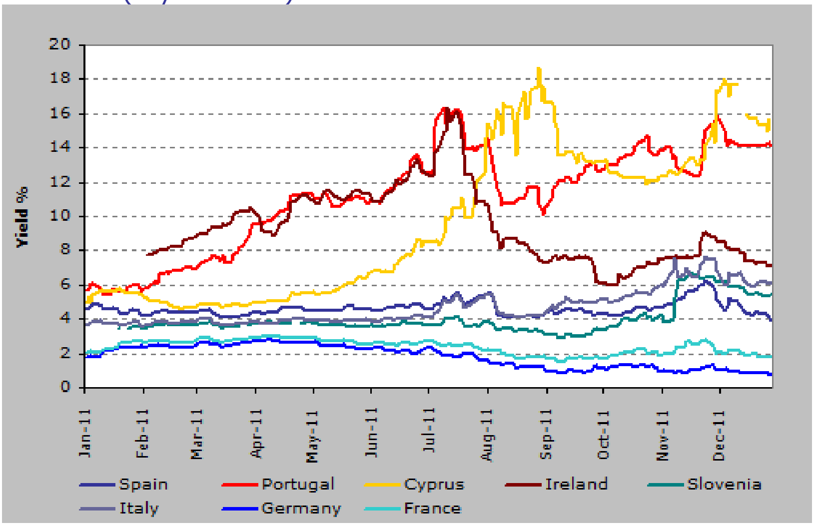
Sovereign debt markets

Secondary sovereign bond markets in the eurozone remained fragile and volatile throughout the year fuelled by concerns on the public finances of some EMU countries and the potential loss of their market access. The sovereign credit worthiness was in the focus of the increasingly risk-averse investors. At the same time, what seemed as a difficulty in effective crisis management at the eurozone level contributed to the persistent uncertainty among investors.

In spring, Portugal became the third country, after Greece and Ireland, to receive funding from its European counterparties. Furthermore, in the EU Summits of July and October 2011 a second package for Greece was agreed, a component of which was a private sector involvement in the reduction of the Greek state debt burden. However, the crisis was not contained to the three countries under an economic adjustment program. In the second half of the year, the crisis expanded towards other countries with large fiscal and debt sustainability problems, and financial system stress.

Although many countries announced new austerity measures in order to restore the market confidence, the European Central Bank had to intervene on several occasions in the secondary market to provide short term relief to the rising costs of some peripheral countries. Indeed, the whole year was characterised by a "flight to quality" to core EMU countries, the latter being basically defined by high credit ratings. Thus, during the year the segmentation of the eurozone sovereign debt market became increasingly apparent.

Graph 3: Secondary yield levels of Cyprus and selected eurozone countries (5-year tenor)

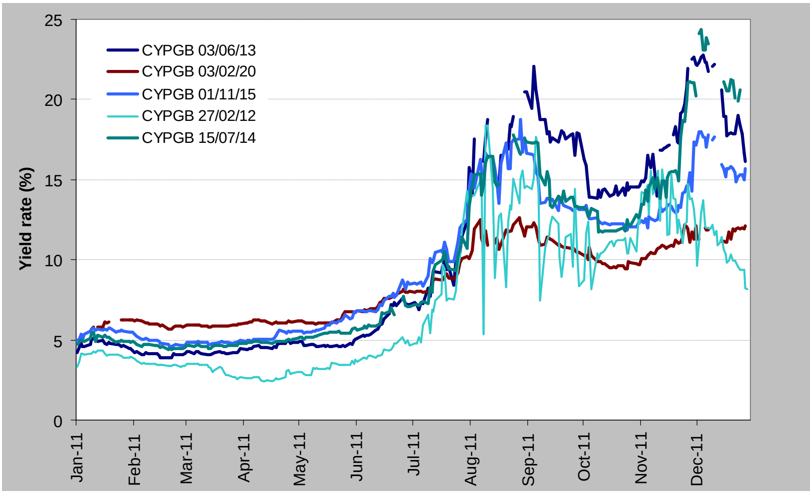


Source: Bloomberg

The Cyprus yield levels were historically high during the year and from May onwards to levels that reflected the loss of market access. The high yields can be attributed to (a) investor perception of "Greek debt crisis" and its impact on the Cypriot banking sector, (b) the lack of early response to fiscal slippage (c) the repeated credit rating downgrades of the Republic and (d) the very shallow and illiquid secondary market of sovereign bonds, which proved very vulnerable during the crisis. The latter is, for example, indicated by the very wide bid-ask spreads of the Cyprus Eurobonds.

In fact, there was only temporary or no reaction of yields to positive news that affected the Cypriot economy such as bank stress test results in July, the announcement of the loan agreement with the Russian Federation in September and the fiscal consolidation packages of August and December. Nor did the announcement in December on the discovery of offshore natural gas in the Exclusive Economic Zone of Cyprus, albeit giving more positive prospects in the longer term horizon, triggered any reaction to the Cyprus Eurobond market.

Graph 4: Secondary yield levels for Cyprus Eurobonds 2011



Source: Bloomberg

The above reflects transactions on the Republic's main five Eurobonds, all launched under its EMTN Programme, which are listed in the London Stock Exchange and traded also on Euro MTS.

Liquidity for domestic bonds (Government Registered Development Stocks) 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 assessing the cost of funding. This is explained further in the chapter "Financing the borrowing requirements of 2011".

FINANCING THE BORROWING REQUIREMENTS OF 2011

Total borrowing operations during 2011 amounted to €4793 million, of which debt redemptions equalled €2662 million. The latter includes short term issuances of €1500 million which matured within the year. The cash balance at the General Government Account at the year end was €720 million.

Completed financing operations for the year, i.e. excluding short term issuances maturing within the year, were €3293 million.

Table 1: Summary of annual financing by source

	€ mln	%
Securities- Domestic investors	1802	55
Securities- Foreign investors	700	21
Loans from the EIB	201	6
Bilateral loans	590	18
	3293	**100**

Note: Figure (EUR 3293 million) does not include financing issued and matured within the year 2011

Table 2: Summary of annual financing by tenor category

	€ mln	%
Short term (max 12 months)	1515	46
Medium Term (1-4 years)	715	22
Medium-Long Term (5-10 years)	862	26
Very Long term (over 10 years)	201	6
	3293	**100**

Note: Figure (EUR 3293 million) does not include financing activities issued and matured within the year 2011

Short term borrowing:

Treasury Bills: During the year, Treasury Bills of €1546 million were issued, of which €841 million matured in the same year. The remaining €705 million are due to mature within the first half of 2012.

Table 3: Summary results of Treasury Bill auctions

Tenor	Amount auctioned € mln	Weighted average yield rate (%)
13 weeks	335	4,30
26 weeks	586	2,45
31 weeks	50	3,90
39 weeks	165	2,80
52 weeks	410	3,07
	1546	

The auctions were carried out via an electronic system with accredited dealers. The investors are entirely domestic credit institutions.

Euro Commercial Papers: In total €1424 million of Euro Commercial Papers were issued during the year, of which €765 million were outstanding by the year end. Commercial Papers were issued also in foreign currencies, namely US dollar and swiss franc, and were fully hedged via foreign exchange swaps. At the year end, one Paper in the nominal amount of $65 million was outstanding.

Table 4: Summary results Euro Commercial Paper issuances

Tenor	Amount € mln	Weighted average yield rate (%)
1 month	90	2,17
2 months	20	4,71
3 months	354	2,93
6 months	844	4,03
12 months	116	2,84
	1424	

Euro Medium Term Notes: The smallest component of short term borrowing was a 1-year bond under the EMTN Programme at an annual yield rate of 3,12% and for an amount of €45 million. The Note was issued by private placement to a domestic investor in June 2011.

Medium to long term borrowing:

Medium to long term security issuances, i.e. for tenors of over one year, were limited due to the exceptionally difficult market conditions. In particular, during the second half of the year Cyprus had no access to longer term funding in the international capital markets, but only to a limited domestic investor base.

Of the total borrowing operations, medium to long term borrowing totalled € 1778 million, or about 54% of the annual financing, of which € 987 million were securities and € 791 million loans.

Securities:
In February 2011 a €170 million, 5-year bond under the EMTN Programme was issued by private placement to a number of domestic credit institutions and other domestic investors. The coupon was set at 4,75%. The largest security issuance was a 2-year domestic bond (Government Registered Development Stock "GRDS") in July for a nominal amount of €715 million and a coupon rate of 4,50% (yield rate 5,00%). The auction attracted mostly credit institutions. Three small domestic bonds (GRDS) with a total nominal amount of €102 million were issued over the summer. Yields were 5,55% for the 5-year tenor and 6,25% and 7,00% for the 10-year tenor.

Loans:
Moreover, the European Investment Bank granted financing in the form of long term loans amounting to €201 million for infrastructure work on roads, school premises, and premises of the University of Cyprus. This funding stems from older loan agreements, from which financing is released during the project progress.

During the year, a bilateral loan agreement between the Governments of Cyprus and the Russian Federation was signed. The loan is for a nominal amount of € 2500 million, to be redeemed in one instalment in 2016 and carries an annual interest rate of 4,50%. The loan is disbursed in three separate tranches: €590 million by 31st December 2011; €1320 million by 1st February 2012; and €590 million by 1st April 2012.

Review of the annual financing profile
The financing pattern of the year was a result of the adverse market conditions and unexpected loss of market access which effectively cancelled the funding plan of issuance of a new benchmark Eurobond of at least €1 billion in the medium to long term tenors. With the alteration of the original plan the financing was compartmentalised into various smaller volume issuances at shorter tenors. Moreover, new borrowing was undertaken at a higher funding cost than previous years.

Although much of short term borrowing was executed in order to manage the liquidity of the Central Government and was redeemed by the year end, a quite high proportion of 46% of the annual needs were eventually financed via short term instruments.

A further difference to the financing of previous years was the return to financing the majority of the needs from the Cypriot market as domestic investors seemed less sensitive to rating actions and concerns on the Greek debt and Greek economy altogether were more contained. Conversely, based on data of primary issuance, the total debt ownership by domestic investors is estimated to have actually slightly declined from 60% to 58%. This is due to the year's debt redemptions which were mainly directed into the domestic market.

Moreover, the year included a significant increase in the cost of borrowing in the primary market. Excluding the new long term loans which carry either relatively low fixed rates or indexed to floating rates with low margins, the weighted average interest rate of the 2011 security issuances was 4,26%. The weighted average interest rate on total debt at the year end stood at 4,12%.

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.

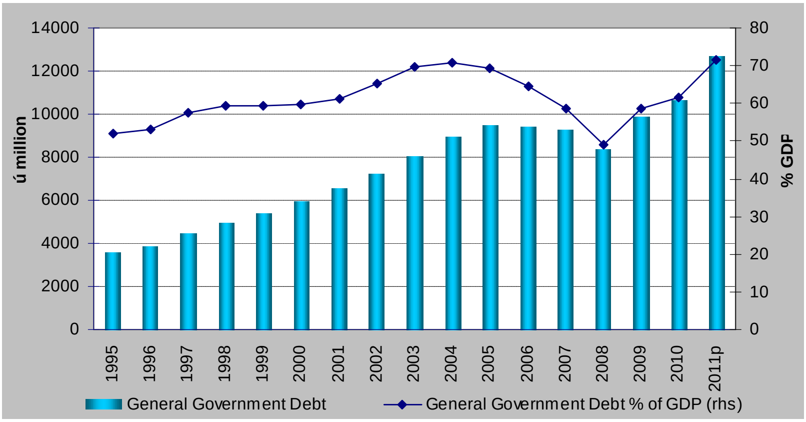
Sections (i) and (ii) show the size, historical evolution and structure of the consolidated General Government Debt, whereas section (iii) deals separately with the unconsolidated General Government Debt. Valuation and methodology is according to the Maastricht definition for public debt.

(i) Size and evolution of General Government Debt

<u>Evolution of government debt</u>
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% in 2008. Since then, fiscal slippage and low to negative growth rates contributed to a new increase of the debt-to-GDP ratio.

Within 2011 the debt-to-GDP ratio increased to 71,6% from 61,5% the year before. This increase can be attributed to three factors. Similarly to the previous two years, both the fiscal deficit (estimated at 6,40% of GDP on a cash basis) and the low growth, estimated at 0,5%, contributed to the accumulation of debt stock. The third factor was the overfinancing towards the end of the year 2011 intended for the financing needs of early 2012, accounting for 4% of GDP.

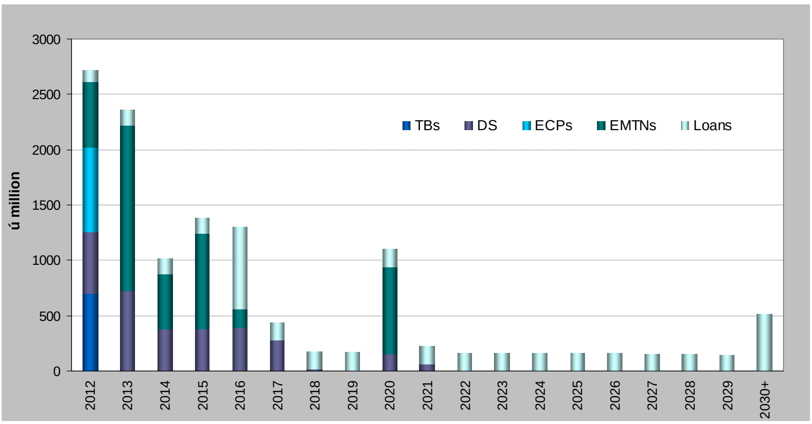
Graph 5: Trend in the consolidated General Government Debt



<u>Maturity Profile</u>

There is a high concentration of debt redemptions in the 5 year period between 2012 and 2016. In particular, 2012 and 2013 are the years with the heaviest maturities of over €2 billion each, while 2015, 2016 and 2020 also stand beyond the €1 billion redemption mark each. All securities expire within a 10-year horizon, i.e. after 2021 all debt redemptions correspond to loans. The longest debt redemption point is the year 2038. The weighted average remaining maturity of the General Government Debt is 4,6 years.

Graph 6: General Government Debt redemption profile



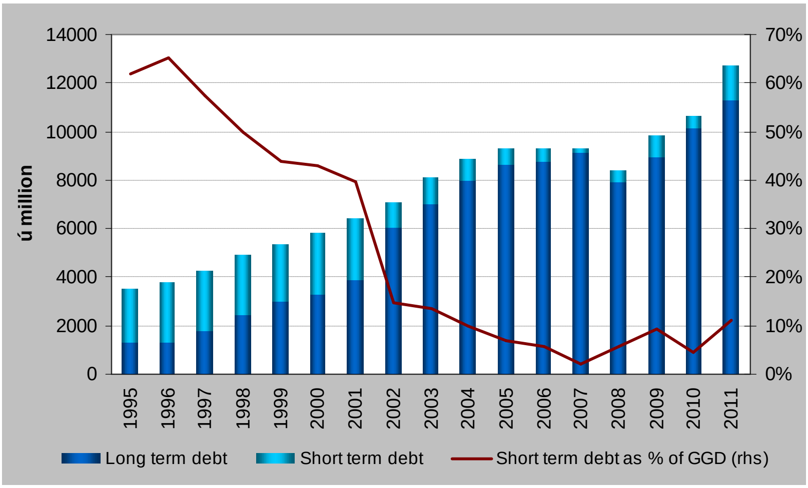
Note: A flat redemption profile for loans of the Local Authorities and semigovernmental organisations of the Central Government is assumed

(ii) Composition of the General Government Debt

Short term and long term debt

Short term debt, i.e. debt with an original maturity of up to 12 months, has experienced a sharp decline since the mid 90s. 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 abandoning of Central Bank financing all pending obligations of the government with the Central Bank of Cyprus were transformed into a 30-year loan, thus immediately reducing the short term debt balance from 40% of outstanding debt in 2001 to 15% in 2002. After 2005 short term debt remained below the threshold of 10% of total outstanding debt. Due to the difficulty in accessing long term tenors, at the year end 2011, the balance of short term debt increased to 12% of the General Government Debt[5].

Graph 7: Evolution of short term debt



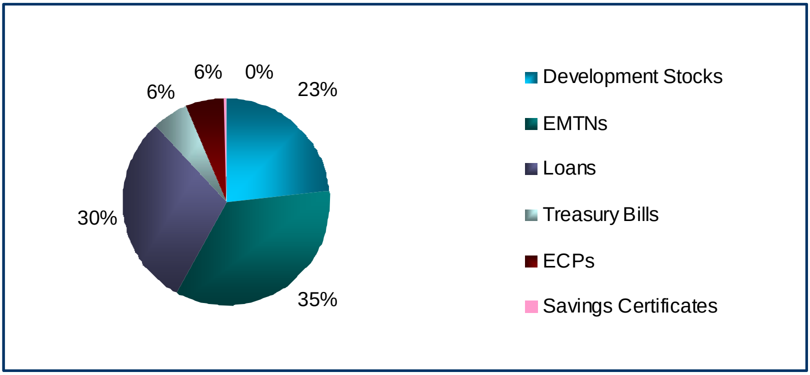
[5] For indicators on all debt due within 12 months, please refer to Chapter "Debt Management".

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

More specifically, the large Eurobonds launched under the Republic's EMTN programme remained the largest financing instrument by more than one third of outstanding debt. The second most important instrument are Loans, mainly from the Central Bank of Cyprus, supranational organisations (the European Investment Bank and the Council of Europe Development Bank) or in government bilateral form.

Domestic long term bonds (GRDS), historically the main financing security of the government, had still a considerable proportion of 23 % of the outstanding debt at the year end. Short term instruments i.e. Treasury Bills and Commercial Paper, accounted for 6% of GGD each.

Graph 8: Debt stock by financing instrument

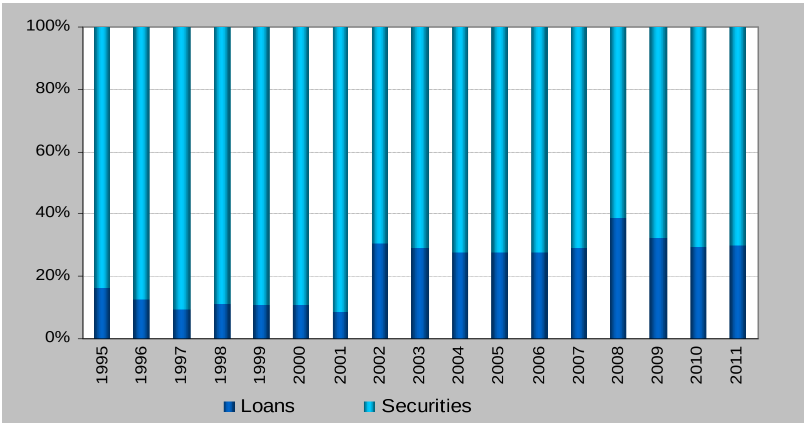


In a comparison over time, Graph 9 shows how the contribution of loans in the debt balance has been increasing. The significant increase in loan balance of 2002 is due to the conversion of all outstanding obligations for financing purposes of the government to the Central Bank of Cyprus in the nominal amount of €1,64 billion in the form of a 30-year loan.

In 2011, the proportion of loans in the portfolio remained fairly constant compared to previous years, albeit new financing of €791 million from the first instalment of the bilateral loan and loans by the EIB.

As loans have a very long term tenor and are being amortised annually, the variability in debt stock is in essence reflected as variability in the securities balance.

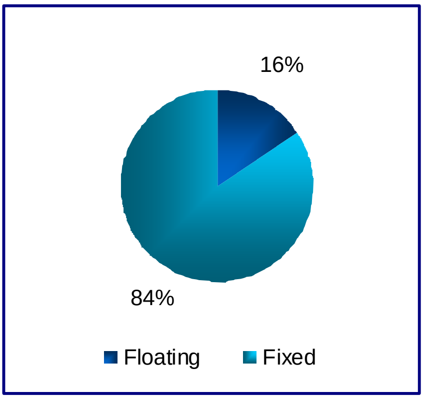
Graph 9: Share of loans and securities in the debt portfolio



Breakdown by interest type

All debt securities carry fixed interest rate, although bonds can be issued at other coupon types as well. 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 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 semigovernmental organisations from domestic credit institutions carry floating

Graph 10: Debt by interest type, 31st Dec. 2011



interest rates.

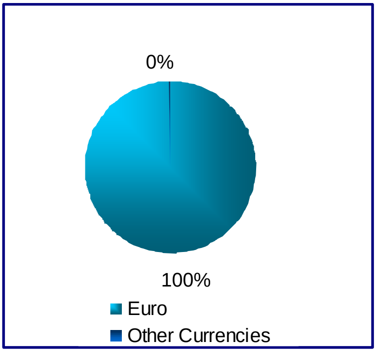
In total, the proportion of floating interest rate debt stands at 16% of GGD or a nominal value of €1993 million. There are no index-linked securities. Overall, market risk from fluctuations of interest rates can be considered to be low.

Breakdown by currency

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

Regarding the currency composition, all debt is nominated in euros, apart from a few small loans from the European Investment Bank and the Council of Europe Development Bank nominated in JPY, CHF and GBP. These make up less than 1% of outstanding debt. There is furthermore a hedged Commercial Paper of $ 65 million.

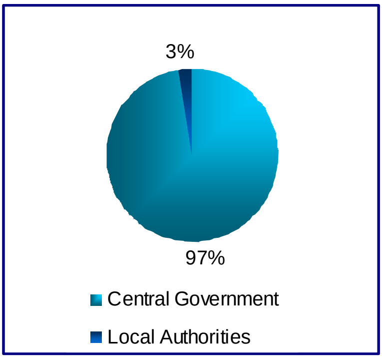
Graph 11: Debt stock by currency, 31st Dec. 2011



Breakdown by sector of government

The consolidated General Government Debt stems almost exclusively from the Central Government. Loans for Local Authorities are €337 million or about 2,6% of debt, and with no contribution by the Social Security Fund, the bulk of General Government Debt is accounted for by the Central Government.

Graph 12: Debt stock by sector of contribution, 31st Dec. 2011

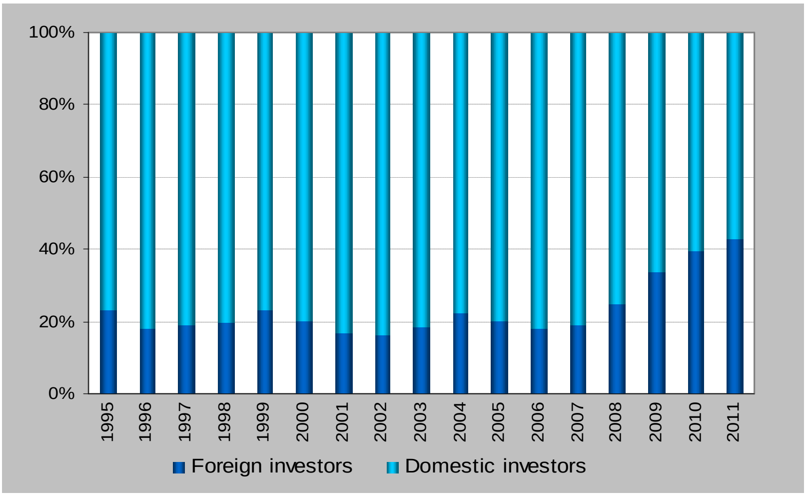


Breakdown by investor origin

Historically, foreign ownership of debt was either in the short term form via the ECP Programme or via loans from supranational organisations. Long term bonds were issued for the first time outside Cyprus in 1997. Two 10-year bonds issued under the EMTN Programme in 2002 and 2004 in total of €1050 million, increased the share of foreign investor ownership.

Following the adoption of the euro the share of debt placed in foreign market further increased due to the issuances of three Cyprus government bonds in the euromarket of sizes between €1-1,5 billion each in the years 2009 and 2010. At least 75% of these investors were non-residents of Cyprus. The further increase in foreign debt ownership in 2011 resulted from a higher stock of ECPs at the year end and borrowing via supranational or bilateral loans.

Graph 13: Debt holders at primary issue (est.)



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

There are investments between the different subsectors of the General Government, i.e. the Central Government, the Social Security Fund and the Local Authorities.

Investments of the Social Security Fund in the form of deposits with the government or by ownership of government securities amount to € 7799 million. The Fund, which is reported as a single account is, in fact, composed of five different accounts:

1. Social Security Fund
2. Unemployment Benefits Account
3. Central Holiday Fund
4. Termination of Employment Fund
5. 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 €7448 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 the two government EMTN bond issuances of 2010 (€137 million of bonds due on 1/11/2015 and €204 million of bonds due on 3/2/2020) and further €10 million in 10-year Government Registered Development Stocks in June 2011. These investments total €351 million.

It is noted that the SSF maintains also deposits with credit institutions amounting to a total of €123 million at the end 2011.

- Intragovernmental investments of the Administered Funds

There are 5 administered funds of the Central Government with an outstanding balance at the year end of €146,2 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 surplus of these Funds is invested in 13-week Treasury Bills at an interest equal to the ECB Main Refinancing Operations Rate minus 0,50%.

Finally, there is one intragovernmental loan 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

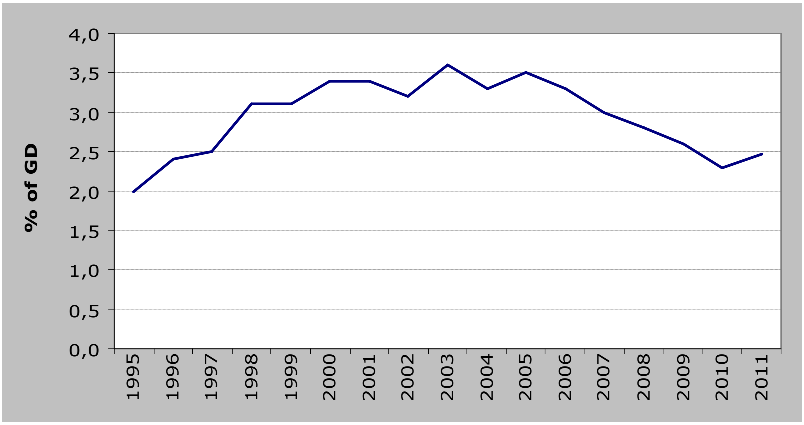
The level of interest payments as a share of GDP remains currently at a relatively low level. Since the peak in 2005, interest payments have followed a declining path as a result of the debt reduction achieved between 2005 and 2008. Furthermore, with the entry in the eurozone new borrowing was possible at lower interest levels while the redemption of high-yield debt continued.

This path has stopped in 2011, with interest payments increasing to 2,48% of GDP, or €440 million. This increase is attributed to the increase in debt stock in 2010 and the borrowing activity of 2011, a large proportion of which was in short term tenors i.e. debt issued at discount and interest being payable within 2011. On the other hand, the level of base interest rates was at low levels, containing interest expenditure on floating rate obligations.

This change of trend is likely to continue in the next years, with an increase in the debt ratio, the short refixing period for a large proportion of debt, and the recent increase in primary issuance costs which will likely remain in the years to come.

Moreover, an increase in interest payments is expected due to the redemption of the low yield debt accumulated after the entry into the eurozone and its replacement with new higher yield debt. This gradual increase will occur with a time lag.

Graph 14: Interest payments on public debt as % of GDP



CONTINGENT LIABILITIES

Contingent liabilities are not part of public debt and have thus no direct impact on the government accounts. However, when assessing the long term sustainability of public finances it is important to consider the contingent or off-balance sheet liabilities, i.e. those liabilities whose realisation depends on future events.

Government Guarantees
Government guarantees are granted to municipalities and community boards, sewerage boards, public and other organisations, and enterprises. Government guarantees at the end 2011 increased to €1726 million from €1666 million the year before. Excluding guarantees granted to entities of the General Government whose loans count towards the public debt, the figure reduces to €1476 million compared to €1425 million in 2010. This "net" guarantee balance for 2011 accounts for about 8% of the year's GDP. Table 9 of the Appendix shows the complete list of guarantees by entity.

Government Guarantees to the EFSF
For executed operations of the European Financial Stability Facility by 31st Dec 2011, the Total Scheduled Amount of guarantees for Cyprus is €45,7 million for principal and interest. The contribution key of Cyprus in the EFSF pool as amended in the Framework Agreement under EFSF 2 is 0,1957%.

Special Government Bonds
Zero coupon, Special Government Bonds of €3 billion were issued in November 2009 with a 3-year maturity due on 30.11.2012 to domestic banking institutions to be used by the latter as collateral for liquidity extraction from the European Central Bank.

Under chapter 7 "Exchange of assets" of the Eurostat Guidance Note on the statistical recording of public interventions to support financial institutions and financial markets during the financial crisis, the exchange of government securities does not form part of the government consolidated gross debt if:

- The liquidity scheme is temporary (less than 5 years), and
- The risk for the government that the securities will not be returned is very small (usually due to arrangements in place for the valuation and substitution of the assets provided in exchange for the government securities).

For the allocation of the bonds, bilateral contracts were signed between the Ministry of Finance and the credit institutions and upon expiry the bonds will be returned and cancelled.

By end 2011 some credit institutions returned a portion of their allocated Bonds, so that the outstanding balance stood at €2769 million.

Deposit Protection Scheme

There are two deposit protection schemes, for commercial banks and the cooperative credit institutions respectively. Under these schemes, the government guarantees deposits of maximum €100000 per customer per institution. Deposits in all currencies are insured. The amount of this contingent liability is estimated to be €38,2 billion in gross terms and €35,3 billion in net terms i.e. accounting for customer loans.

DEBT MANAGEMENT

The debt management framework is currently being reformed in order to provide for a robust institutional framework and to reflect modern debt and capital markets.

Progress on debt management infrastructure
The Ministry of Finance continued its efforts in strengthening the capacity of debt management. This is a twofold effort: improving the institutional debt management, as well as further developing the market of Cyprus government bills and bonds.

<u>Advances in the institutional framework</u>
The Ministry has appointed the World Bank for technical advice in enhancing the debt management capacity in Cyprus.

The first step in the reform of the institutional framework was addressed during the year with the creation of a modern legal debt management framework in Cyprus. Again, under the auspices of the World Bank the Public Debt Management Law, the fist of its kind in Cyprus, has been drafted.

The main aspects addressed in the proposed legislation are:

- Establishment of a Public Debt Management Office (PDMO) within the Ministry of Finance
- Division of competences and responsibilities at different levels of the State
- Borrowing and debt management provisions:
    - Setting of borrowing purposes
    - Definition of borrowing instruments
    - Drafting of an annually rolling Medium Term Debt Management strategy, of a 3 to 5-year horizon, by the PDMO. This shall be reviewed by the Minister of Finance and submitted to the Council of Ministers for approval.
    - Preparation of annual borrowing plans by the PDMO which shall be approved by the Minister of Finance
    - Enabling of other operations related to borrowing such as buybacks and transactions with derivatives
    - Debt management recording
- Setting of and annual reviewing of a liquidity buffer
- Risk assessment of government guarantees
- Reporting to the Parliament

The legislation is currently under legal vetting.

Advances in market activities

As the original financing plan of issuance in the longer term tenors in the eurozone had to be altered, the Ministry explored different market segments and pursued a more flexible issuance practice that matched investor demand in order to cover the government financing needs.

For instance, there was some issuance, albeit in small volumes, of short term securities in foreign currencies (in USD and CHF) under the Republic's Euro Commercial Paper Programme. Furthermore, the first private placements of a 5-year and a 1-year EMTN bond were completed with a number of domestic investors.

In addition, the Republic for the first time arranged an exchange of domestic bills and bonds by early redeeming of outstanding debt (buyback) combined with issuance of new securities with a number of large investors.

There was also progressed work regarding Schuldschein loans in the German market and the legal formalities by the government for concluding agreements of this type of loan are now complete.

Finally, a quarterly debt management report has been set up and is published online, on the PDMO website.

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 between 7 days and 30 weeks. The interest gained was € 5,3 million at an average interest rate of 3,79%. Over the year, the daily outstanding amount deposited averaged €145 million.

The government cash balance at the Central Bank of Cyprus at the year end was €720 million. In addition, the Special Reserve Fund was intact at €85 million[6]. The balance of deposits with the private sector at the year end was €16,5 million. Table 16 of the Appendix shows the monthly cash balance and deposits at Monetary Financial Institutions for the year.

Risk Management

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

The adverse market conditions of the eurozone debt crisis affected the government borrowing substantially during the year, which in turn resulted in a negative change in the risk indicators of the debt portfolio.

With the enactment of the proposed Public Debt Management Law, the PDMO will formulate a formal risk management strategy, with maximum levels set for the various risks faced. In the meantime, the Ministry of Finance aims to maintain the lowest risk exposures as possible.

---

[6] 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 General Government Account. During the current difficult market conditions the SRF can be insufficient, especially at the year end when new borrowing from capital markets is usually restricted. Thus, at the year end 2011 a larger cash buffer was maintained, which inevitably increased the stock of public debt.

Interest rate risk
With restricted market access in the long term tenors of the curve the interest rate risk increased during 2011.

Indeed, debt redemptions were refinanced at shorter tenors, reflecting the deteriorating credit rating position of the Republic and the overall worsening of market conditions.

Bills and bonds are all fixed-rate bullet securities thus their average time to refixing equals their average remaining maturity which stands at 2,57 years. The average time to refixing for bonds only is 3,03 years.

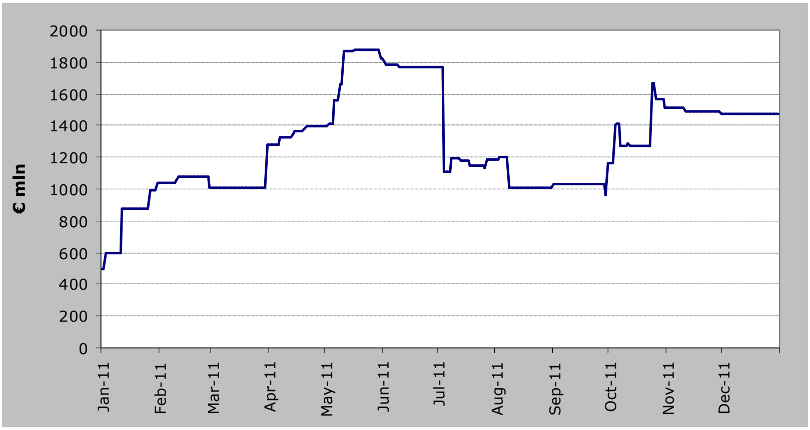
Furthermore, the Republic has about 16% in debt with floating rates, for loans of the Central Government and Local Authorities. Most of the loans of the Central Government are from supranational organisations with low margins over the Euribor rates.

Foreign exchange risk
One important borrowing decision has been to keep borrowing in foreign currencies at minimum levels. During the year there was occasional short term investor-driven borrowing in foreign currency. Any such exposure was hedged with forex swaps.

At the year end, the foreign exchange exposure stemmed only from long term loans nominated in JPY and CHF, which make up less than 1% of the debt portfolio.

Refinancing and liquidity risk
Refinancing risk increased considerably throughout the year. The short term debt balance (by original maturity) over the year averaged €1280 million. It finally closed at €1515 million or about 46% of the year's financing.

Graph 15: Daily balance in outstanding short term debt

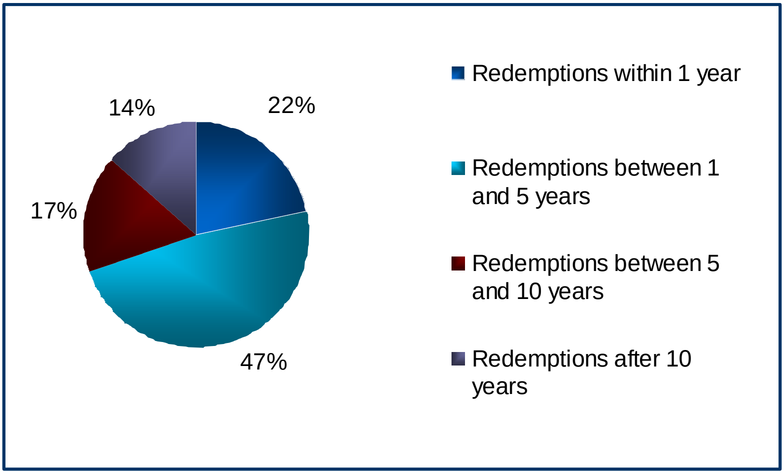


Furthermore, with older debt redemptions of medium to long term debt due in 2012, the total debt with residual maturity of up to 1 year at 31st Dec. 2011 amounted to €2733 million or about 21% of General Government Debt and 15% of GDP.

The restricted market access that changed the borrowing profile produced considerable refinancing obligations thus resulting in a high liquidity risk.

The weighted average residual maturity of debt at year end stood at 4,61 years down from 5,7 years 12 months ago, as a result of financing about two thirds of the annual needs in maturities up to 1 year (short term debt of €1515 million) and in the 2-year tenor (domestic bond of €715 million).

Graph 16: Debt refinancing structure (% of GGD, principal amounts)



<u>Credit risk</u>
Credit risk for the government as a borrower resulted when entering into forex swap transactions and money market (deposit) operations with other counterparties.

There are two ISDA contracts signed with local credit institutions with no Credit Support Annex for collaterisation 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 controlled by assigned maximum limit for exposure to each institution.

CREDIT RATING DEVELOPMENTS

There was an unprecedently severe deterioration in the credit assessment of the Republic during the year. The long term credit rating was downgraded by 3 notches (Fitch Ratings), 5 notches (Standard & Poor's) and 7 notches (Moody's) in this period.

A number of driving factors were mentioned for the change in the credit assessment of the Republic. One major factor were the contingent liabilities for the government resulting from the exposure of Cypriot banks to Greek government bonds and the Greek private sector debt. Furthermore, the fiscal slippage and delay in fiscal response, which, according to the agencies' views both reduced the state's ability to support the banking sector in case such an event would arise, was highlighted by the agencies. Later in the year, the loss of international market access and generally the reduction in financing options was deemed inconsistent with ratings in the A category.

Despite that some of the concerns of the agencies declared as driving reasons behind the downgrading actions, have not been confirmed, the agencies continued their negative assessment.

Although the Republic passed thorough fiscal packages, which were later approved and adopted by the European Commission, thus addressing the agencies΄ concerns regarding fiscal consolidation, this did not seem to count strongly towards the credit rating. Neither did the pre-funding of government financing needs of 2012, albeit being positively mentioned, received enough weight in the agencies' assessments to change the downward trend. Last, the positive prospects in the long term horizon resulting from the discovery of natural gas were not taken into account.

Two major reasons for the continuous negative assessment of the Republic's credit rating, i.e. the inefficiency of decision-making mechanisms of the eurozone and the uncertainty regarding the sovereign debt problem of Greece and its implications on the Cypriot banking system, are mainly of external nature.

The credit ratings of the Republic of Cyprus as at 31st December 2011 are shown below[7].

Agency	Long Term Debt	Short Term Debt	Latest 2011 assessment
Fitch	BBB	F3	10-Aug
Moody's	Baa3	P-3	4-Nov
Standard and Poor's	BBB	A-3	27-Oct

[7] 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

STATISTICAL ANNEX

Table 1: Historical evolution of public debt

	Consolidated General Government Debt (€ mln)	General Government Debt (% GDP)
1990	2217,5	50,8
1991	2583,7	56,5
1992	2974,2	56,1
1993	3277,6	58,6
1994	3345,4	53,6
1995	3589,5	51,8
1996	3896,2	53,1
1997	4478,1	57,4
1998	4981,6	59,2
1999	5416,8	59,3
2000	5930,9	59,6
2001	6567,5	61,2
2002	7246,2	65,1
2003	8093,3	69,7
2004	8963,3	70,9
2005	9490,7	69,4
2006	9445,0	64,7
2007	9307,3	58,8
2008	8388,1	48,9
2009	9864,5	58,5
2010	10652,6	61,5
2011	12720,0	71,6

Table 2: Public Debt by Instrument and Lender 2011 (€ mln)

A. DOMESTIC	**5.979.96**
I. LONG TERM	**5.290,54**
1. Development Stocks	**2.968,67**
- Central Bank	0,00
- Deposit Money Banks	2.383,59
- Private Sector	585,08
2. Savings Certificates	**42,30**
- Private Sector	42,30
3. Loans	**2279,57**
- Central Bank	1.453,67
- Local Authorities Loans	337,17
- Loan for School Committees	463,03
- Other	25,70
II. SHORT TERM	**689,42**
1. Treasury Bills	**688,72**
- Central Bank	0,00
- Deposit Money Banks	688,72
- Private Sector	0,00
2. Other	**0,70**
B. FOREIGN	**6.740,05**
1. Short term liabilities to the I.M.F.	**0,00**
2. Long term Loans	**1.572,91**
3. Medium term Notes (E.M.T.N.)	**4.423,72**
4. Short term Papers (E.C.P.)	**743,42**
C. GROSS GENERAL GOVERNMENT DEBT	**12.720,01**

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 months	Yield %	Maturity	ISIN	€ mln
05-10-2011	3	4,560	04-01-2012	XS0688658086	49
10-02-2011	12	2,010	09-02-2012	XS0591976146	10
11-02-2011	12	2,400	10-02-2012	XS0592268519	18
11-02-2011	12	2,430	10-02-2012	XS0592268519	8
30-09-2011	6	4,505	30-03-2012	XS0687500081	200
14-04-2011	12	3,050	12-04-2012	XS0618404437	20
15-04-2011	12	3,050	13-04-2012	XS0619075483	20
21-04-2011	12	3,120	19-04-2012	XS0620589860	20
24-10-2011	6	4,705	24-04-2012	XS0698381620	400
03-05-2011	12	3,150	02-05-2012	XS0620589860	10
17-05-2011	12	3,180	15-05-2012	XS0629364109	10
Total outstanding ECPs					**765**

EURO MEDIUM TERM NOTES

Issue	Tenor (years)	Coupon %	Maturity	ISIN	€ mln
27-02-2002	10	5,500	27-02-2012	XS0143546207	550
08-06-2011	1	3,120	08-06-2012	XS0635640526	45
03-06-2009	4	3,750	03-06-2013	XS0432083227	1.500
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	796
Total outstanding EMTNs					**4.424**

Total outstanding securities in the foreign market	**5.189**

Notes:

1. ECPs are shown at their nominal value
2. Nominal amount of issue of EMTN due in Nov. 2015 and EMTN due in Feb. 2020 is €1000 million respectively; the balance to the figures shown above relates to ownership by the Social Security Fund.

Table 4: Outstanding securities in the domestic market

TREASURY BILLS

Issue	Yield %	Maturity	ISIN	€ mln
04-10-2011	4,60	03-01-2012	CY0142170816	245
27-07-2011	3,90	29-02-2012	CY0142110812	50
20-04-2011	3,15	18-04-2012	CY0141920815	210
11-05-2011	2,98	09-05-2012	CY0141950812	200
Total outstanding Treasury Bills				**705**

GOVERNMENT REGISTERED DEVELOPMENT STOCKS

Issue	Coupon %	Maturity	ISIN	€ mln
04-01-2007	4,25	04-01-2012	CY0140150810	427,2
25-02-2002	5,50	25-02-2012	CY0047970815	6,3
16-01-2010	2,00	16-01-2012	CY0141180816	116,0
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	68,3
30-09-2005	4,75	30-09-2015	CY0049710813	85,4
02-12-2005	4,75	02-12-2015	CY0049770817	25,6
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	17,4
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	51,2
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	85,4
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
Total outstanding GRDS				**2969,3**
SAVINGS CERTIFICATES				**42,3**
Total outstanding securities in the domestic market				**3716,6**

Note:
Treasury Bills are shown at their nominal value.

Table 5: Outstanding loans

Creditor	Interest Rate %	Currency	Maturity	Balance € mln
Foreign Loans				
CoE Development Bank	5,63	JPY	2013	19,9
Europ. Investment Bank	3,62	CHF	2014	0,6
Europ. Investment Bank	5,95	GBP	2014	2,0
Europ. Investment Bank	3,62	EUR	2014	1,8
French Treasury	2	EUR	2015	0,0
Russian Federation	4,5	EUR	2016	590,0
Europ. Investment Bank	0	EUR	2016	3,2
French Treasury	2	EUR	2017	0,7
CoE Development Bank	E+0,28	EUR	2018	8,5
Europ. Investment Bank	5,35	EUR	2019	55,6
Europ. Investment Bank	1	EUR	2022	0,4
Europ. Investment Bank	1	EUR	2022	1,2
CoE Development Bank	E+0,30	EUR	2023	17,4
CoE Development Bank	E+0,30	EUR	2023	40,0
Europ. Investment Bank	1	EUR	2025	1,8
CoE Development Bank	E+0,6	EUR	2025	47,5
Europ. Investment Bank	1	EUR	2026	0,6
CoE Development Bank	E+0,15	EUR	2026	85,7
CoE Development Bank	E+0,09	EUR	2027	16,5
Europ. Investment Bank	4,45	EUR	2029	42,9
CoE Development Bank	3,7	EUR	2028	44,0
CoE Development Bank	E+0,48	EUR	2029	18,3
CoE Development Bank	E+0,48	EUR	2029	11,3
Europ. Investment Bank	VSFR	EUR	2035	60,6
CoE Development Bank	E+0,55	EUR	2030	6,9
Europ. Investment Bank	VSFR	EUR	2035	80,0
Europ. Investment Bank	E+0,01	EUR	2035	90,0
Europ. Investment Bank	VSFR	EUR	2033	189,5
Europ. Investment Bank	E+0,27	EUR	2035	40,0
Europ. Investment Bank	E+0,31	EUR	2036	40,0
Europ. Investment Bank	E+0,33	EUR	2038	56,0
Domestic Loans				
Central Bank	3,00	EUR	2032	1453,7
Coop. Central Bank	E+1,50	EUR	2032	463,0
Total outstanding loans				**1572,9**

Table 6: General Government Debt maturity profile (€ mln)

	Domestic Securities		Foreign Securities		Domestic Loans	Foreign Loans	Total
	TBs	DS	ECPs	EMTNs			
2012	705	550	764,6	595	65,7	44,0	**2734**
2013	0	725	0	1500	95,4	44,8	**2376**
2014	0	379	0	500	96,9	45,7	**1033**
2015	0	386	0	863	98,5	46,6	**1405**
2016	0	391	0	170	100,2	644,2	**1306**
2017	0	287	0	0	101,9	56,4	**446**
2018	0	20	0	0	98,7	62,1	**180**
2019	0	11	0	0	100,5	61,4	**173**
2020	0	154	0	796	102,4	53,4	**1105**
2021	0	67	0	0	104,3	53,5	**224**
2022	0	0	0	0	106,3	53,6	**160**
2023	0	0	0	0	108,3	53,6	**162**
2024	0	0	0	0	110,4	48,9	**159**
2025	0	0	0	0	112,6	49,0	**162**
2026	0	0	0	0	114,8	44,3	**159**
2027	0	0	0	0	117,1	38,7	**156**
2028	0	0	0	0	119,5	35,9	**155**
2029	0	0	0	0	121,9	27,9	**150**
2030	0	0	0	0	124,4	24,3	**149**
2031	0	0	0	0	134,0	19,1	**153**
2032	0	0	0	0	144,7	19,1	**164**
2033	0	0	0	0	0	14,3	**14**
2034	0	0	0	0	0	10,2	**10**
2035	0	0	0	0	0	10,2	**10**
2036	0	0	0	0	0	4,7	**5**
2037	0	0	0	0	0	2,7	**3**
2038	0	0	0	0	0	2,7	**3**

Notes:
1. Consolidated figures on the level of the General Government
2. Savings Certificates of €42,3 million are included in the Total balance
3. Balances of Treasury Bills and Euro Commercial Papers are shown at nominal value
4. Assumed flat redemption profile for loans of Local Authorities and semigovernmental organisations which are categorised with the Central Government

Table 7: Debt servicing

	2007	2008	2009	2010	2011
Interest payments (€ mln)	484,8	486,6	431,9	391,3	440,0
General government debt (GGD, € mln)	9,307.3	8,388.1	9,864.5	10,652.6	12720
Tax Revenue (TR, € mln)	5111,8	5250,3	4450,6	4605,2	4725,8
Interest payments (% of GDP)	3,05	2,84	2,56	2,26	2,48
Interest payments (% of GGD)	5,21	5,80	4,38	3,67	3,46
Interest payments (% of TR)	9,48	9,27	9,70	8,50	9,31

Note:
Interest payments exclude intragovernmental interest payments to the SSF

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

Deposit with the Central Government	**7.448.468.605**
Social Insurance Fund	6.840.515.885
Unemployment Benefits Account	0
Termination of Employment Fund	99.045.290
Central Holiday Fund	381.863.001
Insolvency Fund	127.044.429
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	**7.799.568.605**

Note:
Table excludes deposits with credit institutions.

Table 9: Government guarantees (€)

Outstanding amount as at	**31-12-2010**	**31-12-2011**
Municipalities *	188.739.054	202.022.093
Community Boards *	8.445.830	8.626.117
	197.184.884	**210.648.210**
PUBLIC AND OTHER ORGANISATIONS		
Public Corporate Bodies		
Sewerage Boards	589.217.535	669.892.189
Electricity Authority of Cyprus	458.027.254	419.364.679
Cyprus State Fairs Authority	345.497	254.892
Cyprus Ports Authority	42.985.768	41.855.204
Cyprus Broadcasting Corporation*	19.423.682	15.322.506
Cyprus Sports Organisation *	24.003.813	24.004.347
Central Agency for Equal Distribution of Burdens	228.647.119	242.419.933
Cyprus Olympic Committee	3.374.598	3.048.585
Central Slaughter-House Board	18.101.213	19.350.669
Cyprus Theatrical Organisation*	381.726	347.495
	1.384.508.205	1.435.860.499
Not for Profit Organisations	1.595.841	1.190.370
	1.386.104.046	**1.437.050.869**
ENTERPRISES		
Companies with Share Capital Participation by the Government		
Cyprus Airways	46.165.005	39.060.000
Companies		
ETKO, LOEL, etc	17.497.545	18.723.186
Co-operative Societies	13.812.912	14.511.425
Sundries	5.018.478	5.198.218
	82.493.940	**77.492.829**

NATURAL PERSONS		**937.437**
INTERNATIONAL ORGANISATIONS		
European Financial Stability Facility		**45.671.447**
TOTAL GUARANTEED NOT CO-FINANCED LOANS	**1.665.782.870**	**1.771.800.792**

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

Table 10: Average yield history Government Registered Development Stocks (in %, as at issue)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
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	2008	2009	2010	2011
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**	**0**	**2**	**1**	**4**

Table 12: 52-week Treasury Bills

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Yield	3,71	4,43	4,33	2,89	4,12	-	1,52	1,70	3,07
No. of issues	13	11	8	4	1	0	1	1	2

Table 13: Matured securities in the domestic market 1-1-2011 to 31-12-2011

TREASURY BILLS

Issue	Yield %	Maturity	ISIN	€ mln
03-01-2011	2,02	20-04-2011	CY0141600813	100
12-01-2011	2,52	13-07-2011	CY0141630810	116
19-07-2010	1,70	18-07-2011	CY0141400818	250
31-03-2011	2,74	29-09-2011	CY0141850814	270
08-07-2011	3,50	07-10-2011	CY0142070818	90
12-01-2011	2,80	12-10-2011	CY0141640819	165
03-01-2011	2,02	20-04-2011	CY0141600813	100
				1091

GOVERNMENT REGISTERED DEVELOPMENT STOCKS

Issue	Interest rate %	Maturity	ISIN	€ mln
29-01-2001	7,00	29-01-2011	CY0046400814	63,2
01-02-2006	4,25	01-02-2011	CY0049830819	512,6
				575,8

SAVINGS CERTIFICATES **7,7**

Table 14: Matured securities in the foreign market
1-1-2011 to 31-12-2011

EURO COMMERCIAL PAPERS

Issue	Yield %	Maturity	ISIN	€ mln
29-11-2010	1,530	28-02-2011	XS0565268033	20
31-01-2011	1,000	28-02-2011	XS0587670935	50
09-12-2010	2,110	20-04-2011	XS0567960611	100
29-11-2010	1,750	30-05-2011	XS0565222477	17
30-11-2010	1,760	31-05-2011	XS0565381943	40
30-11-2010	1,860	31-05-2011	XS0565381943	20
02-12-2010	1,970	02-06-2011	XS0566359989	20
03-12-2010	2,110	03-06-2011	XS0566759733	15
10-12-2010	2,120	10-06-2011	XS0569024499	13
27-01-2011	2,510	26-07-2011	XS0576811953	115
06-05-2011	1,820	08-08-2011	XS0625232474	100
09-05-2011	1,820	08-08-2011	XS0625357172	100
03-08-2011	4,715	05-10-2011	XS0657804539	20
01-09-2011	4,710	05-10-2011	XS0673582283	24,2
07-04-2011	2,550	07-10-2011	XS0616130307	50
26-07-2011	4,300	26-10-2011	XS0653827096	105,3
06-05-2011	2,600	31-10-2011	XS0625537153	50
11-10-2011	2,010	11-11-2011	XS0690935589	16
11-05-2011	2,600	11-11-2011	XS0626636426	11
30-05-2011	2,600	30-11-2011	XS0633015234	18
				904,5

Table 15: Loan amortisations by creditor
1-1-2011 to 31-12-2011

Creditor	€ mln
European Investment Bank	19,05
Council of Europe Development Bank	22,16
Government of France	0,12
Central Bank of Cyprus	49,22
	90,55

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-Oct	116,2	1,5	117,7
	30-Nov	569,9	1,5	571,4
	31-Dec	131,3	1,5	132,8
2011	31-Jan	568,8	0	568,8
	28-Feb	92,9	0	92,9
	31-Mar	251,1	0	251,1
	30-Apr	181,2	106,5	287,7
	31-May	259,2	356,5	615,7
	30-Jun	326,7	256,5	583,2
	31-Jul	170,1	231,5	401,6
	31-Aug	97,3	231,5	328,8
	30-Sep	307,7	231,5	539,2
	31-Oct	653,4	231,5	884,9
	30-Nov	559,5	116,5	676,0
	31-Dec	805,6	16,5	822,1

Table 17: Historical credit ratings

Long term local currency

Fitch		Moody's		S&P	
BBB	10-08-2011	Ba3	04-11-2011	BBB	27-10-2011
A-	31-05-2011	Baa1	27-07-2011	BBB+	29-07-2011
AA-	12-07-2007	A2	24-02-2011	A-	30-03-2011
AA	04-02-2002	Aa3	03-01-2008	A	16-11-2010
		A1	10-07-2007	A+	24-04-2008
		A2	19-07-1999	A	01-12-2004
				A+	12-08-2003
				AA-	03-12-1999
				AA	09-11-1998
				AA+	16-07-1996

Long term foreign currency

Fitch		Moody's		S&P	
BBB	10-08-2011	Ba3	04-11-2011	BBB	27-10-2011
A-	31-05-2011	Baa1	27-07-2011	BBB+	29-07-2011
AA-	12-07-2007	A2	24-02-2011	A-	30-03-2011
AA	04-02-2002	Aa3	03-01-2008	A	16-11-2010
		A1	10-07-2007	A+	24-04-2008
		A2	29-01-1998	A	03-12-1999
				A+	09-11-1998
				AA-	14-02-1994

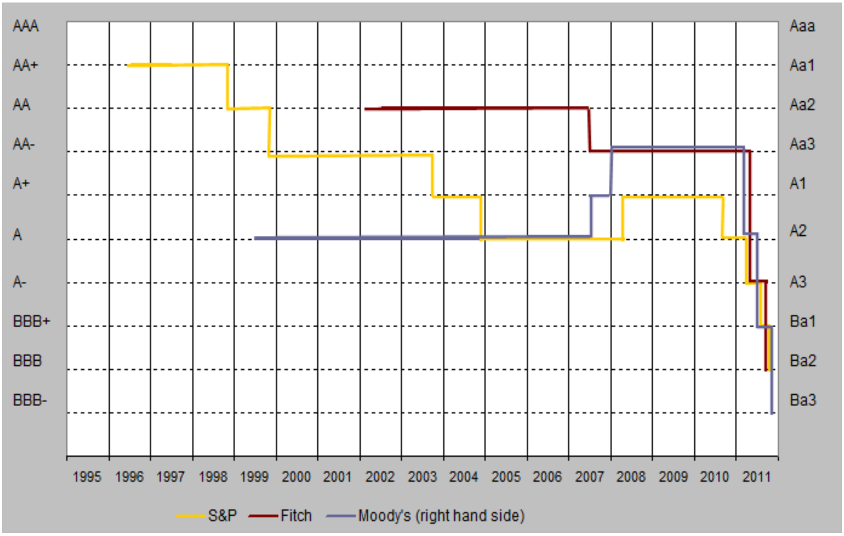
Short term local currency

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

Short term foreign currency

Fitch		Moody's		S&P	
F3	10-08-2011	P-3	04-11-2011	A-3	27-10-2011
F1	31-05-2011	P-2	27-07-2011	A-2	30-03-2011
F1+	12-07-2007	P-1	06-11-1989	A-1	09-11-1998
F1	01-02-2002			A-1+	26-08-1991

Graph 17: Historical path of long term local currency credit rating



Contact

Public Debt Management Office, Ministry of Finance, Michael Karaoli & Gregory Afxentiou Str., 1439 Nicosia, CYPRUS

Tel.: +357 22 601182 | Fax: +357 22 602749 | E-mail: pdm@mof.gov.cy | Website: www.mof.gov.cy/pdmo

Links

- www.cyprus.gov.cy (Government Web Portal)
- www.mof.gov.cy (Ministry of Finance)
- www.centralbank.gov.cy (Central Bank of Cyprus)
- www.treasury.gov.cy (Treasury of the Republic)
- www.mof.gov.cy/cystat (Cyprus Statistical Service)
- www.cysec.gov.cy (Securities and Exchange Commission)
- www.cse.com.cy (Cyprus Stock Exchange)
- www.cipa.org.cy (Cyprus Investment Promotion Agency)

ANNUAL REPORT 2011

PUBLIC DEBT
MANAGEMENT
OFFICE

Ministry of Finance
1439 Nicosia, Cyprus

Tel.: 00357 22 601182

pdm@mof.gov.cy
www.mof.gov.cy/pdmo