

Bank of Cyprus



## BANK OF CYPRUS PUBLIC COMPANY LIMITED

(incorporated in the Republic of Cyprus as a limited liability company under the Cyprus Companies Law, Cap.113,  
Registered in Cyprus under no. 165)

€4,000,000,000

### Euro Medium Term Note Programme

Under the Euro Medium Term Note Programme described in this Prospectus (the “Programme”), Bank of Cyprus Public Company Limited (the “Bank”), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Euro Medium Term Notes (the “Notes”). The aggregate nominal amount of Notes outstanding will not at any time exceed €4,000,000,000 (or the equivalent in other currencies).

Application has been made to the *Commission de Surveillance du Secteur Financier* (the “CSSF”) in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 relating to prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) (the “Luxembourg Act”) for the approval of this document as a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the “Prospectus Directive”). Application has also been made to the Luxembourg Stock Exchange for Notes issued under this Base Prospectus to be admitted to the official list of the Luxembourg Stock Exchange (the “Official List”) and to be admitted to trading on the Luxembourg Stock Exchange’s regulated market (the “Luxembourg Stock Exchange Regulated Market”). References in this Prospectus to Notes being “listed” (and all related references) shall mean that such Notes have been admitted to the Official List and admitted to trading on the Luxembourg Stock Exchange Regulated Market. The Luxembourg Stock Exchange Regulated Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council On Markets in financial instruments. However, unlisted Notes may be issued pursuant to the Programme. The relevant Final Terms (as defined on page 140) in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Official List and admitted to trading on the Luxembourg Stock Exchange (or any other stock exchange).

The Notes of each Series (as defined on page 24) in bearer form will initially be represented by a temporary global note in bearer form, without interest coupons (each a “temporary Global Note”). Notes in registered form will be represented by registered certificates (each a “Certificate”), one Certificate being issued in respect of each Noteholder’s entire holding of Registered Notes (as defined below) of one Series and may be represented by a Global Certificate (as defined below). If the Global Notes are stated in the applicable Final Terms to be issued in new global note (“NGN”) form the Global Notes will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the “Common Safekeeper”) for Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, *société anonyme* (“Clearstream, Luxembourg”).

Global notes which are not issued in NGN form (“Classic Global Notes” or “CGNs”) and Certificates will be deposited on the issue date of the relevant Tranche either with (a) a common depositary on behalf of Euroclear and Clearstream, Luxembourg (the “Common Depositary”) or (b) such other clearing system as agreed between the Bank and the relevant Dealer. Interests in temporary Global Notes will be exchangeable for interests in permanent global notes (each a “permanent Global Note” and, together with the temporary Global Notes, the “Global Notes”), or if so stated in the relevant Final Terms, definitive Notes (“Definitive Notes”), after the date falling 40 days after the completion of the distribution of such Tranche (as defined in “General Description of the Programme”) upon certification as to non-U.S. beneficial ownership. Interests in permanent Global Notes will be exchangeable for Definitive Notes in whole but not in part as described under “Summary of Provisions Relating to the Notes while in Global Form”. Notes of each Tranche of each Series to be issued in registered form (“Registered Notes”) and which are sold in an “offshore transaction” within the meaning of Regulation S (“Unrestricted Notes”) under the U.S. Securities Act of 1933 (the “Securities Act”) will initially be represented by a permanent registered global certificate (each an “Unrestricted Global Certificate”), without interest coupons, which may be deposited on the issue date (a) in the case of a Tranche intended to be cleared through Euroclear and/or Clearstream, Luxembourg, with a common depositary on behalf of Euroclear and Clearstream, Luxembourg and (b) in the case of a Tranche intended to be cleared through a clearing system other than or in addition to Euroclear and/or Clearstream, Luxembourg, The Depositary Trust Company (“DTC”) or delivered outside a clearing system, as agreed between the Bank and the relevant Dealer.

Registered Notes which are sold in the United States to qualified institutional buyers within the meaning of Rule 144A under the Securities Act (“Restricted Notes”) will initially be represented by a permanent registered global certificate (each a “Restricted Global Certificate” and, together with the “Unrestricted Global Certificate”, the “Global Certificates”), without interest, which may be deposited on the issue date either with (a) a common depositary on behalf of Euroclear and Clearstream, Luxembourg, or (b) a custodian for, and registered in the name of Cede & Co. as nominee for, DTC (the “Custodian”).

Beneficial interests in Global Certificates held by Euroclear, Clearstream, Luxembourg and/or DTC will be shown on and transfers thereof will be effected only through, records maintained by Euroclear, Clearstream, Luxembourg and/or DTC and their participants. See “Clearing and Settlement”. The provisions governing the exchange of interests in the Global Notes and in each Global Certificate are described in “Summary of Provisions Relating to the Notes while in Global Form”.

Tranches of Notes (as defined in “General Description of the Programme”) issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the rating assigned to the Notes already issued. Whether or not a rating in relation to any Tranche of Notes will be treated as having been issued by a credit rating agency established in the European Union and registered under Regulation (EC) No 1060/2009 on credit rating agencies (the “CRA Regulation”) will be disclosed in the relevant Final Terms. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms of each Tranche, based on then prevailing market conditions.

#### Arranger

**BofA Merrill Lynch**

#### Dealers

**BofA Merrill Lynch  
Barclays Capital  
Credit Suisse  
Goldman Sachs International  
ING Commercial Banking  
Natixis  
UBS Investment Bank**

**Bank of Cyprus  
Citi  
Deutsche Bank  
HSBC  
J.P. Morgan  
Société Générale Corporate and Investment Banking  
UniCredit Bank**

*This Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the “Prospectus Directive”) and for the purpose of giving information with regard to the Bank and its subsidiaries and affiliates taken as a whole (the “Group”) and the Notes which, according to the particular nature of the Bank and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Bank.*

*The Bank accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Bank (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.*

*This Prospectus has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Prospectus as completed by final terms in relation to the offer of those Notes may only do so in circumstances in which no obligation arises for the Bank or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Bank nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.*

*This Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see “Documents Incorporated by Reference”).*

No person has been authorised to give any information or to make any representation other than those contained in this Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Bank or any of the Dealers or the Arranger (as defined in “General Description of the Programme”). Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Bank or the Group since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Bank or the Group since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive (2003/71/EC), the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

The distribution of this Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Bank, the Dealers and the Arranger to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and may include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered or sold or, in the case of bearer Notes, delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (“Regulation S”).

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S and within the United States to “qualified institutional buyers” in reliance on Rule 144A under the Securities Act (“Rule 144A”). Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For

a description of these and certain further restrictions on offers, sales and transfers of Notes and distribution of this Prospectus see “Subscription and Sale” and “Transfer Restrictions”.

The Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission (the “SEC”), any state securities commission in the United States or any other U.S. regulatory authority, nor has any of the foregoing authorities passed upon or endorsed the merits of the offering of Notes or the accuracy or the adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

TO NEW HAMPSHIRE RESIDENTS: NEITHER THE FACT THAT A REGISTRATION STATEMENT NOR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSONS, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Bank or the Dealers to subscribe for, or purchase, any Notes.

To the fullest extent permitted by law, none of the Dealers or the Arranger accept any responsibility for the contents of this Prospectus or for any other statement, made or purported to be made by the Arranger or a Dealer or on its behalf in connection with the Bank or the issue and offering of the Notes. The Arranger and each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement. Further, the Arranger and the Dealers have not separately verified the information contained in this Prospectus. None of the Dealers or the Arranger makes any representation, express or implied, or asserts any responsibility, with respect to the accuracy or completeness of any of the information in this Prospectus. Neither this Prospectus nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Bank, the Arranger or the Dealers that any recipient of this Prospectus or any other financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers or the Arranger undertakes to review the financial condition or affairs of the Bank during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers or the Arranger.

In connection with the issue of any Tranche (as defined in “General Description of the Programme”), the Dealer or Dealers (if any) named as the stabilising manager(s) (the “Stabilising Manager(s)”) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment shall be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

In this Prospectus, unless otherwise specified or the context otherwise requires, references to “euro” and “€” are to the single currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community as amended by the Treaty on the European

Union and the Treaty of Amsterdam, references to “USD” or “U.S.\$” are to U.S. dollars, references to “AUD” are to Australian dollars, references to “GBP” are to pounds sterling, references to “RON” are to Romanian lei, references to “UAH” are to Ukrainian hryvnia and references to “RUB” are to Russian rubles. Unless otherwise specified, where financial information has been translated into another currency, it has been translated, for convenience only, at the relevant rate set out below:

USD/€	0.7477
GBP/€	1.1574
AUD/€	0.7609
RUB/€	0.0244
UAH/€	0.0940
RON/€	0.2334

The above rates are the approximate middle spot rates on 31 December 2010.

Such translations should not be construed as a representation that the amounts in question have been, could have been or could be converted into the relevant currency at that or any other rate.

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## DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the audited consolidated annual financial statements of the Bank for the financial years ended 2009 and 2010 together, in each case, with the audit report thereon, which have been previously published or are published simultaneously with this Prospectus and which have been approved by the CSSF or filed with it. Such documents shall be incorporated in and form part of this Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus may be obtained from (i) the registered office of the Bank, and/or (ii) the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

The table below sets out the relevant page references for the audited consolidated annual financial statements for the financial years ended 2009 and 2010 as set out in the Bank's Annual Report 2009 and the audited consolidated financial statements of the Bank for the financial year ended 2010. Information contained in the documents incorporated by reference other than information listed in the table below is for information purposes only, and does not form part of this Prospectus.

<i>Audited consolidated annual financial statements of the Group</i>	<u>2010</u>	<u>2009<sup>1</sup></u>
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Notes:

- 1 Consolidated Financial Statements 2010
- 2 Annual Report 2009

## **PROSPECTUS SUPPLEMENT**

If at any time the Bank shall be required to prepare a prospectus supplement pursuant to Article 13 of the Luxembourg Act, the Bank will prepare and make available an appropriate supplement to this Prospectus which shall be approved by the CSSF and which, in respect of any subsequent issue of Notes to be listed on the Official List and admitted to trading on the Luxembourg Stock Exchange Regulated Market, shall constitute a supplement to the base prospectus as required by Article 13 of the Luxembourg Act.

The Bank has given an undertaking to the Dealers that if at any time during the duration of the Programme there is a significant new factor, material mistake or inaccuracy relating to information contained in this Prospectus which is capable of affecting the assessment of any Notes and whose inclusion in this Prospectus or removal is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Bank and the rights attaching to the Notes, the Bank shall prepare a supplement to this Prospectus or publish a replacement Prospectus for use in connection with any subsequent offering of the Notes and shall supply to each Dealer such number of copies of such supplement hereto as such Dealer may reasonably request.

## **AVAILABLE INFORMATION**

The Bank has agreed that, for so long as any Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Bank will, during any period in which it is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934 (the “Exchange Act”) nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner or to the Trustee for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner, prospective purchaser or Trustee, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

## **FORWARD-LOOKING STATEMENTS**

This Prospectus includes “forward-looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. All statements other than statements of historical facts included in this Prospectus, including, without limitation, those regarding the Bank’s financial position, business strategy, plans and objectives of management for future operations (including development plans and objectives relating to the Bank’s products), are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Bank, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Bank’s present and future business strategies and the environment in which the Bank will operate in the future. These forward-looking statements speak only as of the date of this Prospectus. The Bank expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Bank’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

## RISK FACTORS

*The Bank believes that the following factors may affect its ability to fulfil its obligations under the Notes issued under the Programme. All of these factors are contingencies which may or may not occur and the Bank is not in a position to express a view on the likelihood of any such contingency occurring.*

*Factors which the Bank believes may be material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.*

*The Bank believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Bank to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons and the Bank does not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.*

### **Risk factors relating to the Bank**

#### ***The Group's operations are subject to risks resulting from the prevailing economic conditions in Cyprus and abroad***

The Group's operations are affected by the prevailing economic conditions as well as the economic conditions of specific sectors in which the Group operates, particularly in Cyprus and Greece where a significant part of its operations are situated.

Since the autumn of 2007, the world economy as well as the international financial system have been faced with intense uncertainty and turmoil. The problems and dislocation in the world economy and global capital markets have had a significant influence on liquidity levels, the valuation of financial assets and the availability and terms of credit.

Intense concerns exist for further the continuation of the prevailing economic recession and turmoil in the financial system internationally as well as within the countries in which the Group operates. These conditions have to some degree influenced and are expected to continue to influence the Group's income and profitability.

The continuing deterioration and deceleration of various economies of the world, including of those countries in which the Group operates, which are influenced by the trends concerning unemployment, the real estate sector, money markets, bond markets and foreign exchange markets, inflation and liquidity in the global capital markets, which could lead to (i) lower levels of demand as well as supply of the products and services offered by the Group and (ii) impairments as well as negative fair value adjustments to the Group's assets, with adverse effects on the Group's operating results, financial condition and prospects.

A possible worsening of these economic conditions may adversely impact the Group as well as other financial institutions which could have an adverse effect on the Group's operating results. In particular, the Group may face the following challenges in connection with these events:

- the Group's ability to assess the creditworthiness of its customers or to estimate the value of its assets may be impaired if the models and techniques it uses become less accurate in their prediction of borrowers' behaviour in the future;
- demand for borrowing by creditworthy customers may diminish as economic activity slows;
- lower lending interest rates and/or higher deposit interest rates may reduce the net interest income earned by the Group;
- market developments may affect consumer confidence and may cause decline in credit card usage and adverse changes in payment patterns, leading to an increase in write-offs and loan impairment charges for non performing loans;

- trade and capital flows may decrease as a result of protectionist measures being introduced in certain markets which may have a negative effect on the Group's operations;
- increased government ownership and control over financial institutions and further consolidation in the financial industry could significantly alter the competitive landscape.

### ***Interest rate risk***

Interest rate risk is the risk of a change in the fair value of future cash flows of a financial instrument due to changes in market interest rates. Interest rate risk arises as a result of timing differences on the repricing of assets and liabilities. It is measured using interest rate sensitivity gap analysis, where the difference between assets and liabilities repricing in each time band is calculated, separately for each currency.

Changes in market interest rates, yield curves and credit spreads may affect the interest margin between the lending and deposit interest rates and consequently impact the Group's net interest income.

An increase in interest rates may result in an increase of non-performing loans, a decrease in demand for new loans or a limitation of the Group's ability to grant new loans. On the other hand, a decrease in interest rates may cause, among other things, loan prepayments and increased competition for deposits.

Competitive pressures and/or fixed rates of existing commitments or loan facilities may restrict the Group's ability to increase interest rates in the event of an increase in lending interest rates. Furthermore, the existence of fixed interest rate term deposits (mainly in euro) restricts the Group's ability to reduce the cost of its commitments in the event of a decrease in market interest rates.

The Group's equity is also affected by changes in market interest rates. The changes in the Group's equity arise from changes in the fair value of fixed rate debt securities classified as 'available-for-sale' as well as from changes in the fair value of derivative financial instruments which are hedging instruments in effective cash flow hedges.

### ***Price risk***

Price risk is the risk that fluctuations in the market prices of equities and other traded securities will affect the value of the Group's investment portfolio.

Changes in the prices of equity securities classified as "investments at fair value through profit or loss" affect the Group's results, whereas changes in the value of equity securities classified as "available-for-sale" affect the Group's equity.

In order to manage the risk of loss from changes in equity prices, maximum limits have been set for the amounts that can be invested in equity shares in the trading book. Other restrictions such as maximum amount invested in a specific issuer, specific industry, etc. also exist.

Debt securities price risk is the risk of loss as a result of adverse changes in the prices of debt securities held by the Group. Debt security prices change as the credit risk of the issuers change. The Group invests a significant part of its liquid assets in debt securities issued by governments and banks.

Changes in the prices of debt securities classified as "investments at fair value through profit or loss" affect the Group's profit, whereas changes in the value of debt securities classified as "available-for-sale" affect the Group's equity (assuming no impairment).

Furthermore, the Group's insurance and investment businesses are subject to the risk of negative price adjustments in the value of equities and other securities held by the Group.

### ***Currency risk***

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

Foreign exchange rate fluctuations expose the Group to risks that arise from transactions in foreign currencies, as well as from changes in the value of the Group's assets and liabilities denominated in foreign currencies. Losses may also arise from the management of the Group's assets/liabilities in foreign countries.

The Group's international businesses, earnings and net assets are denominated in local currency which may fluctuate according to the prevailing exchange rates. It is difficult to accurately predict changes in economic or market conditions and such changes may have an adverse impact on the Group's operating results, financial condition and prospects.

### ***Credit risk***

The Group is subject to risks regarding the credit quality and the recovery of loans to and amounts due from customers and market counterparties. Credit risk arises from a potential non-timely settlement of current or prospective obligations from counterparties which results in loss of equity and profit.

The level of non-performing loans and advances affect the Group's results. As at 31 December 2010, the Group's non-performing loans and advances represented 7.3 per cent. of the total Group loans and advances. The majority of non-performing loans and advances originate from banking operations in Cyprus. The total level of non-performing loans in Cyprus is estimated at 7.0 per cent.

The Group has taken measures for the improvement of its loan portfolio. These measures include the improvement of its credit approval systems and its credit rating and credit scoring systems. The Group has also adopted detailed and strict procedures for handling overdue amounts. However, there can be no assurance that the measures taken by the Group will effectively contain the level of nonperforming loans and advances and no assurance can be provided as to the Group's satisfaction from the liquidation of collateral.

Future provisions for non-performing loans and advances may have a material negative impact on the Group's results. In addition, the financial and economic crisis and the slowdown of the world economies may lead to an increase in the level of non-performing loans.

Changes in the credit quality of the Group's borrowers and counterparties arising from the financial crisis, the slowdown of the world economies and the slowdown of Cyprus economy, may reduce the value of the Group's assets and increase the Group's write-downs and allowance for impairment losses. Factors including higher unemployment, reduced corporate profitability, increased corporate and personal insolvencies and/or increased interest rates may reduce the borrowers' ability to repay loans. In addition, the economic crisis may negatively impact the prospects of the Cypriot (and the global) economy resulting in the deterioration of the value of securities held against lending exposures and increasing the risk of loss in the event of borrower default.

If the current economic downturn, uncertainty, reduced affordability and low availability of credit continue, there is a possibility of an extended economic crisis, resulting in the decrease of housing prices and the increase of unemployment rates. This may adversely affect the Group's housing portfolio which is likely to increase its impairment losses, hence affecting the operations, financial condition and prospects of the Group.

### ***Liquidity risk***

The Group's operations are subject to inherent risks concerning liquidity, particularly if the current market conditions continue to reduce the availability of traditional sources of funding. This may affect the Group's ability to meet its financial obligations.

Liquidity risk is the risk that the Group may be unable to fully or promptly meet payment obligations and potential payment obligations as they fall due. This risk also includes the possibility that the Group may have to raise funding at a higher cost or sell assets at a discount. The Group's banking businesses require a steady flow of funds both to meet their obligations relating to maturing deposits as well as to satisfy customer requests for additional borrowing. Such undrawn customer facilities are included by the Group as part of its liquidity management.

Group assets are mainly funded by deposits. The distribution of sources and the maturity of deposits are actively monitored in order to avoid a concentration of funding maturing at any point in time or from a small number of depositors. Moreover, the Group monitors the percentage of fixed deposits that are renewed and aims to ensure that this percentage is maintained at a high level. The Group relies almost exclusively on stable funding sources in order to finance illiquid assets.

The Group's ability to access funding sources on favourable economic terms depends on a variety of factors, including some beyond its control, such as liquidity constraints, general market conditions and loss of confidence in the Cypriot banking system. In the current environment of unprecedented market volatility, the access of banks to traditional funding sources has been and may continue to be significantly restricted.

Liquidity is monitored daily by GMRM. The responsibility for the management of liquidity rests with the treasury units at each location, in cooperation with Group Treasury. GMRM is responsible for monitoring the liquidity position of all banking units of the Group in order to ensure compliance with both internal policies and the limits set by the regulatory authorities in the countries in which the Group operates. The liquidity position is assessed under various scenarios, including a bank-specific crisis and a market crisis.

The Group maintains at all times a diversified portfolio of highly liquid assets in the principal currencies in which it transacts. Moreover, the ratio of liquid assets to total liabilities falling due in the next 12 months is monitored at Group level, with the minimum acceptable ratio set at 25 per cent. Liquid assets are defined as cash, interbank deposits maturing within days and debt and equity securities at discounts prescribed by the regulatory authorities.

#### ***Risks relating to economic activity in Greece***

The Bank's business activities are dependent on the level of banking, finance and financial services required by its customers. In particular, levels of borrowing are heavily dependent on customer confidence, employment trends, the state of the economy and market interest rates at the time.

As the Bank currently conducts a significant part of its business in Greece, its performance is influenced by the level and cyclical nature of business activity in Greece, which is in turn affected by both domestic and international economic and political events.

The Greek economy is experiencing a severe recession and Greece is experiencing unprecedented pressure on its public finances. The severe increase of Greece's budget deficit has led to lower credit ratings by international credit rating agencies during 2010. The tensions relating to Greek public finances have affected the liquidity and profitability of the financial system in Greece and have resulted in:

- lower market values for Greek government debt;
- limited liquidity to the Greek banking system;
- an increase in funding from the European Central Bank;
- an increase competition between Greek banks;
- limited credit extension to customers; and
- an increase in the amount of non performing loans;

Furthermore, in early May 2010, the Greek government agreed to a stabilisation programme, jointly supported by the International Monetary Fund ("IMF"), the European Central Bank and the member states of the Eurozone, the IMF/Eurozone Stabilisation and Recovery Program (the "IMF/Eurozone Stabilisation and Recovery Program") according to which the Greek government has committed to implement measures to decrease expenses and increase revenues with specific goals as to the level of reduction of the government deficit.

The IMF/Eurozone Stabilisation and Recovery Program also contains structural measures and policy guidelines designed to boost the country's competitiveness and improve Greece's growth rates in the medium term.

Despite the implementation of the above measures and the Greek government's commitment to implement the IMF/Eurozone Stabilisation and Recovery Program, a possible failure to attain fiscal targets may lead to termination of the fiscal support by the IMF, the ECB and the EU, a development which may create the conditions for a credit event with respect to the Hellenic republic debt.

However, even if the IMF/Eurozone Stabilisation and Recovery Program is successfully implemented, it is uncertain whether it will achieve the set targets. A failure of these measures will exacerbate current macroeconomic conditions in Greece and will prolong the recession. In such a case, the market reaction will be negative and business activity will deteriorate, which will have a material adverse effect on the business, results of operations and financial results of the Group.

Even if Greece successfully implements the IMF/Eurozone Stabilisation and Recovery Program, it remains uncertain whether the Greek economy will grow sufficiently to ease the financing constraints of Greece. Any further significant deterioration in global economic conditions, including the credit profile of EU countries, the credit worthiness of Greek or international banks or changes to the eurozone, may give rise to concerns regarding the ability of Greece to meet its funding needs.

There can be no assurance that if any of the events described above occur or if there is a further weakening in the Greek economy this will not have an effect on the Issuer's future results.

If the current negative economic conditions in Greece continue, this may have a material adverse effect on the Group's business, financial condition, results of operations and prospects in the Greek market.

#### ***Risk relating to economic activity in Russia***

A significant part of the Bank's assets and operations is located in Russia and, therefore, the Bank is exposed to a deteriorating economic condition in Russia.

Historically, the Russian economy has been adversely affected by market downturns and economic slowdowns elsewhere in the world, including the global financial crisis that commenced in the autumn of 2007 and has had a material adverse effect on the Russian economy, including dampening foreign investment in Russia.

A deterioration of general economic conditions in Russia, a decline in the growth rate of the Russian banking sector in particular, may have an adverse effect on the Bank's results. In case the current negative economy trends continue, this may have a material adverse effect on the Group's business, financial condition, results of operations and prospects in the Russian market.

#### ***Capital requirement risk***

The Group is subject to the risk of insufficient capital resources to meet the minimum capital levels required by regulators. In addition, there is the risk that the minimum capital adequacy requirements set by the relevant regulating bodies may be altered.

The adequacy of the Group's capital is monitored by reference to the rules established by the Basel Committee on Banking Supervision, as adopted by the Central Bank of Cyprus. In December 2006, the Central Bank of Cyprus issued the Directive for the calculation of the capital requirements and large exposures of banks, ("Basel II") adopting the relevant European Union directive. In December 2010, the Basel Committee on Banking Supervision published the Basel III framework, which presents the Basel Committee's reforms to strengthen global capital and liquidity rules with the goal of promoting a more resilient banking sector. Basel III's focus is on capital and funding. It specifies new capital target ratios and sets new standards for short-term funding and requirements for long term funding. Basel III is in the process of being adopted by the EU and it will then need to be transposed into national legislation in Cyprus.

According to the Consolidated Financial Statements of the Group for the year ending 31 December 2010, the Capital Adequacy Ratio of the Group stood at 11.9 per cent., exceeding the minimum percentage as required by the Central Bank of Cyprus.

The possibility that the Group is obliged by the regulatory body to maintain higher capital levels in the future cannot be excluded, which could result in a decrease in operating flexibility and an increase in financing expenses. In addition, any failure of the Group to maintain its minimum regulatory capital ratios could result in administrative actions or sanctions, which in turn may have a material adverse impact on the Group's operating results, financial condition and prospects. A shortage of available capital would also affect the Group's ability to continue organic growth or to pursue acquisition or other strategic opportunities.

### ***Systemic risk***

As a result of the financial crisis, the Group is subject to the risk of deterioration of the commercial soundness and/or perceived soundness of other financial services institutions within and outside Cyprus, which may result in significant systemic liquidity problems, losses or defaults. Financial services institutions that deal with each other are interrelated as a result of trading, investment, clearing, counterparty and other relationships.

The Group routinely executes transactions with counterparties in the financial services industry, commercial banks, investment banks, mutual and hedge funds and other institutional clients, resulting in a significant credit concentration. Consequently, the Group is exposed to the risk of loss of capital if the counterparty financial institutions fail or are otherwise unable to meet their obligations.

A default of, or even concerns about the default of, one or more financial services institutions may lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions, which could materially and adversely affect the Group's operating results, financial condition and prospects.

### ***Credit rating risk***

The Group's borrowing costs and access to the capital markets depend significantly on its credit ratings.

As at the date of this Prospectus, the long-term credit ratings of the Bank are Baa2 (stable outlook) by Moody's Investors Service Inc and BBB+ (negative outlook) by Fitch Rating Ltd.

Whether or not a rating will be treated as having been issued by a credit rating agency established in the European Union and registered under Regulation (EC) No 1060/2009 on credit rating agencies (the "CRA Regulation") will be disclosed in the relevant Final Terms. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

Deterioration of the long-term credit ratings of the Group may significantly increase borrowing costs, limit its access to the capital markets and trigger additional collateral requirements for secured funding arrangements. Therefore, a reduction in credit ratings may adversely affect the Group's access to liquidity and its competitive position, hence, adversely affecting the Group's business, financial position and results.

### ***Operational risk***

Operational risk is the risk of loss arising from fraud, unauthorised activities, error, omission, inefficiency, systems failure and external events. Operational risk is inherent in every business organisation and covers a wide range of issues.

The Group's operations are subject to a number of operational risks that may result from inefficiency or failure in internal procedures and systems due to human error, as well as due to external factors such as fraud, misappropriation or theft of the Group assets, unauthorised transactions, errors, omissions, reduced

efficiency and problems with the orderly operation of information systems, other systems and internal procedures of the Group.

The Group manages operational risk through a control-based environment in which processes are documented and transactions are reconciled and monitored. This is supported by a programme of periodic reviews undertaken by the Group Internal Audit department and by continuous monitoring of operational risk incidents to ensure that past failures are not repeated.

Any weakness in the Group's internal control systems and processes within the environment of the global economic crisis may have a negative impact on the Group's results. Furthermore, any damage to the Group's reputation arising from inadequacies, weaknesses or failures in its systems may have a significant adverse impact on the Group's operations.

### ***Political and economic risk***

Terrorist acts, other acts of war or hostility, geopolitical, pandemic or other such events and responses to those acts/events may create economic and political uncertainties, which may have a negative impact on international economic conditions and in turn, on the business and results of the Group in ways that cannot be predicted.

External factors, such as political and economic developments in Cyprus and overseas, may negatively affect the Group's operations, strategy and prospects. Events outside the Group's control which may adversely affect it include but are not limited to:

- changes in Government policy;
- changes in the level of interest rates imposed by the European Central Bank;
- fluctuations in consumer confidence and the level of consumer spending;
- introduction/change of the European Union's regulations and directives relating to the banking and other sectors;
- political instability or military conflict that impact Europe and/or other regions; and
- taxation and other political, economic or social developments affecting Cyprus, Greece, Russia and any other country where the Group operates.

### ***Regulatory risk***

The Group's operations are subject to substantial regulation and regulatory and governmental oversight. Adverse legal or regulatory changes may be introduced in the future either by the European Union or by the Central Bank of Cyprus or changes in government policy, which may have a negative impact on the Group's operating results, financial condition and prospects.

The operations of the Cypriot insurance companies are supervised by the Registrar of Insurance Companies. Legal or regulatory changes may be introduced in the future by either the European Union or the Registrar which may adversely affect the results and financial position of the Group's insurance companies.

In the current market environment, with increased government intervention of the banking sector, future changes in regulation, fiscal or other policies are unpredictable and beyond the control of the Group.

Areas where changes may have an adverse impact include, but are not limited to:

- the monetary, interest rate and other policies of central banks and regulatory authorities;
- other changes in regulatory requirements, such as prudential rules relating to the capital adequacy or liquidity frameworks;

- external bodies applying or interpreting standards or laws differently to the way these were historically applied by the Group;
- changes in the competitive environment and pricing in the market;
- further developments in the financial reporting environment; and
- other unfavourable political, military or diplomatic developments producing social instability or legal uncertainty.

### ***Litigation risk***

The Group may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal proceedings against the Group, which may result in additional costs incurred.

Furthermore, in the event that legal issues are not properly dealt with by the Group, these may give rise to the unenforceability of contracts with customers, legal actions against the Group, adverse judgments and diminished reputation of the Group. All these events may result in the disruption of the smooth operation of the Group, possibly reducing profits and equity.

The Group's management pays special attention to the sound evaluation and monitoring of the risks involved with litigation, arbitration or other legal matters and has stated that there have not been any particular litigations, claims or assessments, in the recent past, the outcome of which could have had or has had, a material effect on the financial position and performance of the Group.

### ***Tax risk***

Tax risk is the risk associated with changes in tax rates or legislation, or misinterpretation of the relevant legislation. This could result in increased tax charges or tax liabilities. Failure to adequately manage this risk may adversely impact the Group and asserts that there have not been in the recent past any particular litigation, claims or assessments the outcome of which could have or has had in the recent past a material effect on the financial position and performance of the Group.

### ***Competition risk***

The Group faces intense competition in the markets in which it operates.

In Cyprus, competition originates primarily from commercial banks, co-operative credit and savings institutions, international banking units and insurance companies, which offer similar products and services. As a result of the harmonisation of the Cypriot banking sector to the European Union *acquis communautaire*, banking institutions licensed to operate in the EU are entitled to open branches in Cyprus without having to obtain a permit from the Central Bank of Cyprus, therefore potentially leading to increased competition.

The adoption of the euro as a replacement of the national currency on 1 January 2008 further reduced barriers to entry in the Cypriot market by other European banks and financial services companies leading to further competition.

In Greece, the Group competes with Greek banks, which control the largest share of the total assets of the banking system, as well as with co-operative banks and branches of credit institutions headquartered in European Union member countries.

Should competition intensify due to the entry of foreign banks in Cyprus offering competitive interest rates in deposits and loans compared to those traditionally offered by the Bank, the latter may face deterioration of its profit margins. In order to compete with foreign banks, the Bank may have to offer more competitive rates, which may negatively affect its profitability. It is also possible that increased competition from foreign banks may adversely affect the results and financial condition of the Group.

If financial markets remain unstable, financial institution consolidation may accelerate. Moreover, government intervention in the banking sector may impact the competitive position of banks within a country and among international competitors which may be subject to different forms of government intervention, thus potentially putting the Group at a competitive disadvantage to local banks in such jurisdictions.

Any combination of these factors could result in a reduction in the Group's profit.

#### ***Failure to attract or retain senior management or other key employees***

The Group's success depends on the ability and experience of its senior management. The loss of key employees, particularly to competition, may have an adverse effect on the Group's revenue, profit and financial condition. In addition, the Group's operations and future success will depend on its ability to attract and retain highly skilled and qualified personnel, which cannot be guaranteed.

Furthermore, failure to effectively manage trade union relationships may result in the Group's disruption of business and operations, causing potential financial loss.

The failure to attract or retain a sufficient number of appropriate personnel may significantly impede the Group's financial plans, growth and other strategic objectives.

#### ***Insurance risk***

Insurance risk is the uncertainty involved in the amount of an insurance claim should an insured event under an insurance contract occur. Given the nature of an insurance contract, this risk is random and highly unpredictable.

For a portfolio of insurance contracts, where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This could occur because the frequency or severity of claims and benefits is greater than estimated. Insurance events are random and the actual number and amount of claims and benefits vary from year to year based on estimates established using statistical techniques.

The above risk exposure is mitigated by the Group through the diversification of its insurance portfolio, the careful selection of risks to be undertaken through strategic and sound risk underwriting policies and the use of reinsurance arrangements. However, although the Group has reinsurance arrangements, it is not relieved of its direct obligations and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements. For this reason, the creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength and credit rating.

#### ***IT risk***

Interruption or violation of the Group's of information technology safety may cause loss of work and other damages.

For conducting its business, the Group relies on information technology and telecommunication systems. The Group's Information Technology Department is responsible for the smooth operation of the information technology and telecommunication systems, as well as the management of the risks that arise from them.

Any interruption or suspension of the operation or violation of the security of these systems may cause significant problems in the operation of the systems for the monitoring of client accounts, and the booking and administration of client deposits and advances.

The Group cannot assure that such events will not materialise or if they do materialise that they are going to be managed effectively. Any interruption or suspension of the IT systems may have adverse effects on the Group's financial position and results.

### ***Pension risk***

The Group operates several defined benefit retirement plans.

The cost of providing benefits for the defined benefit plans is estimated separately for each plan, using the Projected Unit Credit Method of actuarial valuation by independent actuaries.

The actuarial valuation involves making assumptions about discount rates, expected rates of return on plan assets, future salary increases, mortality rates and future pension increases where necessary. The Group sets these assumptions based on market expectations as at the balance sheet date, using the best estimates for each parameter covering the period over which obligations are to be settled.

The Group's retirement benefit plan obligations as at 31 December 2010 are presented in note 11 of the Consolidated Financial Statements. Any amendment in the underlying assumptions used for the actuarial valuations may cause a significant increase to these obligations, as well as to the contributions for the cover of any actuarial or operating deficits of the retirement benefit plans.

### **Risk factors relating to the Notes**

*The Bank's Notes may be less liquid and more volatile than Notes issued by other issuers*

The Bank's Notes may be less liquid than those of other major issuers elsewhere in Europe and the United States. Consequently, holders of the Bank's Notes may face difficulties in disposing of their Notes, especially in large blocks. The value of the Bank's Notes may be adversely affected by sales of substantial amounts of its Notes or the perception that such sales could occur.

*The price of the Bank's Notes may be volatile*

The market price of the Bank's Notes may be subject to wide fluctuations in response to numerous factors, many of which are beyond the Bank's control. These factors include, but are not limited to, the following:

- fluctuations in the Group's results;
- the course of the economies of the countries in which the Group has presence;
- changes in the Rating Agencies' credit rating of the Bank;
- allegations made, or proceedings against, current or former members of the Bank's Board of Directors and senior management team;
- political instability or military conflict in Cyprus or abroad; and \* the general state of the Bond markets.

In addition, capital markets, in general, have experienced significant volatility during the current financial crisis. These market fluctuations may adversely affect the market price of the Bank's Notes regardless of its actual performance and prospects.

### ***Notes may not be a suitable investment for all investors***

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;

- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

### ***Risk factors relating to the structure of a particular issue of Notes***

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

#### *Notes subject to optional redemption by the Bank*

An optional redemption feature is likely to limit the market value of Notes. During any period when the Bank may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Bank may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

#### *Index Linked Notes and Dual Currency Notes*

The Bank may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "Relevant Factor"). In addition, the Bank may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) the Notes may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable is likely to be magnified; and

- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on the yield.

#### *Credit-Linked Notes*

An investment in Credit-Linked Notes will entail significant risks not associated with a conventional fixed rate or floating rate debt security. Such risks include exposure to the credit risk of the particular reference entity or basket of reference entities in addition to that of the Bank. Depending on the manner in which the particular series of Credit-Linked Notes is linked to the credit of a reference entity or basket of reference entities, a fall in the creditworthiness of a particular reference entity (or where perceptions worsen regarding the creditworthiness of a particular reference entity) may greatly reduce the market value of the related Credit-Linked Notes and any payments of principal or interest then due. If a series of Credit-Linked Notes is linked to a basket of reference entities, a credit deterioration in one reference entity may be strongly correlated with credit deterioration of other reference entities included in the basket, resulting in substantial decreases over a relatively short period of time in the market value of the related Credit-Linked Notes and any payments of principal or interest then due.

In the event of the occurrence of certain circumstances (which may include, amongst other things, bankruptcy, failure to pay, obligation acceleration, obligation default, repudiation/moratorium, restructuring or additional credit event) in relation to a reference entity or reference entities, in each case, as specified in the applicable Final Terms, the Bank's obligation to pay principal or perform other obligations under the Notes may be replaced by an obligation to pay other amounts calculated by reference to the value of the reference item(s) and/or to deliver the reference item(s).

Potential investors in any such Notes should be aware that depending on the terms of the Credit-Linked Notes (i) payment of principal or interest or delivery of any specified assets may occur at a different time than expected and (ii) they may lose all or a substantial portion of their investment.

The market price of the Credit-Linked Notes may be volatile and will be affected by, amongst other things, the time remaining to the redemption date and the creditworthiness of the reference entity which in turn may be affected by the economic, financial and political events in one or more jurisdictions.

Where the Final Terms of the Credit-Linked Notes provide for physical delivery, the Bank may determine that the specified assets to be delivered are either (a) assets which for any reason (including, without limitation, failure of the relevant clearance system or due to any law, regulation, court order or market conditions or the non-receipt of any requisite consents with respect to the delivery of assets which are loans) it is impossible or illegal to deliver on the Settlement Date or (b) assets which the Bank and/or any affiliate has not received under the terms of any transaction entered into by the Bank and/or such affiliate to hedge the Bank's obligations in respect of the Notes. Any such determination may delay settlement in respect of the Notes and/or cause the obligation to deliver such specified assets to be replaced by an obligation to pay a cash amount which, in either case, may affect the value of the Notes and, in the case of payment of a cash amount, will affect the timing of the valuation of such Notes and as a result, the amount of principal payable on redemption.

The Bank's obligations in respect of Credit-Linked Notes are irrespective of the existence or amount of the Bank's and/or any affiliates' credit exposure to a reference entity and the Bank and/or any affiliate need not suffer any loss nor provide evidence of any loss as a result of the occurrence of a Credit Event.

Prospective purchasers should review the Terms and Conditions of the Notes and the applicable Final Terms to ascertain whether and how such provisions should apply to the Notes.

#### *Partly-paid Notes*

The Bank may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

### *Variable Interest Rate Notes with a multiplier or other leverage factor*

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

### *Inverse Floating Rate Notes*

Inverse floating rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of such Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse floating rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

### *Fixed/Floating Rate Notes*

Fixed/floating rate Notes may bear interest at a rate that the Bank may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Bank's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Bank may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Bank converts from a fixed rate to a floating rate, the spread on the fixed/floating rate Notes may be less favourable than then prevailing spreads on comparable floating rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Bank converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

### *Notes issued at a substantial discount or premium*

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

### *The Bank's obligations under Subordinated Notes are subordinated*

The payment obligations of the Bank under Dated Subordinated Notes and Undated Subordinated Notes will rank behind Senior Notes. Dated Subordinated Notes constitute unsecured and, in accordance with the paragraphs below, subordinated obligations of the Bank and rank *pari passu* without any preference among themselves. Undated Subordinated Notes constitute unsecured and, in accordance with the paragraphs below, subordinated obligations of the Bank, conditional and rank *pari passu* without any preference among themselves.

Holders of the Dated Subordinated Notes to which Condition 3(b) is applicable (as specified in the relevant Final Terms) will be subordinated on a winding-up of the Bank to the claims of Unsubordinated Creditors (as defined on page 32) and payments of principal and interest shall be payable on such winding-up only if and to the extent that the Bank could be considered solvent at the time of payment thereof and still be considered solvent immediately thereafter. See Condition 3(b) of the Terms and Conditions of the Notes for a full description of subordination and the payment obligations of the Bank under Dated Subordinated Notes.

Payments of principal and interest in respect of the Undated Subordinated Notes are conditional upon the Bank being solvent. No such principal or interest will be payable in respect of Undated Subordinated Notes except to the extent that the Bank could make such payment and still be solvent immediately thereafter. See Condition 3(c) of the Terms and Conditions of the Notes for a full description of subordination and the payment obligations of the Bank under the Subordinated Notes.

Any suspension of payments under the Dated Subordinated Notes or the Undated Subordinated Notes will likely have an adverse effect on the market price of the Dated Subordinated Notes and of the Undated

Subordinated Notes. In addition, as a result of the conditional payment provisions of the Dated Subordinated Notes and the Undated Subordinated Notes, the market price of the Dated Subordinated Notes and Undated Subordinated Notes may be more volatile than the market prices of other debt securities on which original issue discount or interest accrues that are not subject to such suspension and may be more sensitive generally to adverse changes in the Bank's financial condition.

#### *Modification, waivers and substitution*

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes, (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Notes in place of the Bank, in the circumstances described in Condition 11 of the Terms and Conditions of the Notes.

#### *European Monetary Union*

The United Kingdom may join the European Monetary Union at a future date. If the United Kingdom joins the European Monetary Union prior to the maturity of the relevant Notes, there is no assurance that this would not adversely affect investors in the relevant Notes. It is possible that prior to the maturity of the relevant Notes, the United Kingdom may become a participating Member State and that the euro may become the lawful currency of the United Kingdom. In that event (i) all amounts payable in respect of any Notes denominated in sterling may become payable in euro; (ii) the law may allow or require such Notes to be re-denominated into euro and additional measures to be taken in respect of such Notes; and (iii) there may no longer be available published or displayed rates for deposits in sterling used to determine the rates of interest on such Notes or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the euro could also be accompanied by a volatile interest rate environment, which could adversely affect investors in the Notes.

#### *EU Savings Directive*

Under EU Council Directive 2003/48/EC on the taxation of savings income (the "EU Savings Directive"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest (and similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident, or certain limited types of entity established, in that other Member State. However, for a transitional period, Luxembourg and Austria may instead (unless during that period they elect otherwise) apply a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). A number of non-EU countries and territories including Switzerland, have adopted similar measures (a withholding system in the case of Switzerland).

The transitional period is to terminate at the end of the first full fiscal year following an agreement by certain non-EU countries to the exchange of information relating to such payments.

If a payment to an individual were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Bank nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. However, the Bank is required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to this Directive.

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

#### *Change of law*

The Terms and Conditions of the Notes are based on English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

#### *Integral multiples of less than €100,000*

In relation to any issue of Notes which have a denomination consisting of the minimum Specified Denomination of €100,000 plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of €100,000 or its equivalent. In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

#### ***Risk factors relating to the market in general***

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

#### *The secondary market in general*

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. Generally, these types of Notes would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severe adverse effect on the market value of Notes.

Since the second half of 2007, disruption in the global credit markets, coupled with the re-pricing of credit risk and the deterioration of the housing market in the United States and elsewhere, created increasingly difficult conditions in the financial markets. The latest market data indicates severe economic downturns in most developed economies coupled with continuing volatility, poor liquidity, ongoing widening of credit spreads and lack of price transparency in the financial markets. Since September 2008, these conditions have resulted in failures of a number of financial institutions in the United States and in Europe as well as aggressive monetary easing by central banks around the world.

It is difficult to predict how long these conditions will exist and to what extent the Bank's investments and markets will be affected. The current environment may be further exacerbated by persisting volatility in the financial sector and lack of liquidity in the overall economies where the Bank operates. This could in turn lead to significant losses or defaults by other institutions or the Bank's borrowers thus having an adverse impact on the future results of the Bank.

#### *Exchange rate risks and exchange controls*

The Bank will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Specified Currency. Such risks include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's

Currency relative to the Specified Currency would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Governmental and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

*Interest rate risks*

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

*Credit ratings may not reflect all risks*

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

*Legal investment considerations may restrict certain investments*

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules

## GENERAL DESCRIPTION OF THE PROGRAMME

*The following general description does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms. Words and expressions defined in “Terms and Conditions of the Notes” below shall have the same meanings in this general description. The Bank may agree with any Dealer that Notes may be issued in a form other than that contemplated in “Terms and Conditions of the Notes” herein, in which event (in the case of listed Notes only) a supplement to this Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.*

*The following general description is qualified in its entirety by the remainder of this Prospectus.*

<b>Issuer</b>	Bank of Cyprus Public Company Limited
<b>Description</b>	Euro Medium Term Note Programme
<b>Size</b>	Up to €4,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time.
<b>Arranger</b>	Merrill Lynch International
<b>Dealers</b>	Bank of Cyprus Public Company Limited Barclays Bank PLC Citigroup Global Markets Limited Credit Suisse Securities (Europe) Limited Deutsche Bank AG, London Branch Goldman Sachs International HSBC Bank plc ING Bank N.V. J.P. Morgan Securities Ltd. Merrill Lynch International Natixis Société Générale UBS Limited UniCredit Bank AG
	The Bank may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Prospectus to “Permanent Dealers” are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to “Dealers” are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
<b>Trustee</b>	Deutsche Trustee Company Limited
<b>Issuing and Paying Agent and Calculation Agent</b>	Deutsche Bank AG, London Branch
<b>Method of Issue</b>	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “Series”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of

that Series. Each Series may be issued in tranches (each a “Tranche”) on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the final terms document (“Final Terms”).

**Issue Price**

Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.

**Form of Notes**

The Notes may be issued in bearer form only (“Bearer Notes”), in bearer form exchangeable for Registered Notes (“Exchangeable Bearer Notes”) or in registered form only (“Registered Notes”). Each Tranche of Bearer Notes and Exchangeable Bearer Notes will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in “Selling Restrictions” below), otherwise such Tranche will be represented by a permanent Global Note. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder’s entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as “Global Certificates”.

**Clearing Systems**

Euroclear and Clearstream, Luxembourg for Bearer Notes, Euroclear, Clearstream, Luxembourg and DTC for Registered Notes or as otherwise specified in the applicable Final Terms.

**Initial Delivery of Notes**

On or before the issue date for each Tranche, if the relevant Global Note is a NGN, the Global Note will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche if the relevant Global Note is a CGN, the Global Note representing Bearer Notes or Exchangeable Bearer Notes or the Certificate representing Registered Notes may (or, in the case of Notes listed on the Luxembourg Stock Exchange, shall) be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Global Notes or Certificates relating to Notes that are not listed on the Luxembourg Stock Exchange may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Bank, the Issuing and Paying Agent, the Trustee and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.

**Currencies**

Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Bank and the relevant Dealers.

<b>Maturities</b>	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued with any maturity. Unless otherwise permitted by then current laws, regulations and directives, (i) Subordinated Notes may be undated and (ii) Dated Subordinated Notes will have a minimum maturity of not less than five years and one day.
<b>Specified Denomination</b>	Definitive Notes will be in such denominations as may be specified in the relevant Final Terms save that in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in an EEA State in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).
<b>Fixed Rate Notes</b>	<p>Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms.</p> <p>Floating Rate Notes Floating Rate Notes will bear interest determined separately for each Series as follows:</p> <ul style="list-style-type: none"> <li>(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or</li> <li>(ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Final Terms) as adjusted for any applicable margin.</li> </ul> <p>Interest periods will be specified in the relevant Final Terms.</p>
<b>Zero Coupon Notes</b>	Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.
<b>Dual Currency Notes</b>	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange as may be specified in the relevant Final Terms.
<b>Index Linked Notes</b>	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the relevant Final Terms and any prospectus supplement as the case may be.
<b>Credit Linked Notes</b>	Payment of principal and/or interest is linked to the credit of a specified entity, entities or basket of reference entities and Notes will be issued on such terms as may be determined by the Bank and as specified in the applicable Final Terms and any prospectus supplement as the case may be.
<b>Interest Periods and Interest Rates</b>	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates

	in the same interest period. All such information will be set out in the relevant Final Terms.
<b>Redemption</b>	The relevant Final Terms will specify the basis for calculating the redemption amounts payable.
<b>Redemption by Instalments</b>	The Final Terms issued in respect of each issue of Notes that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.
<b>Other Notes</b>	Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, Partly Paid Notes and any other type of Note that the Bank, the Trustee and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Final Terms and the prospectus supplement.
<b>Optional Redemption</b>	The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Bank (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.
<b>Status of Notes</b>	Senior Notes will constitute unsubordinated and unsecured obligations of the Bank and Subordinated Notes will constitute subordinated obligations of the Bank all as described in “Terms and Conditions of the Notes – Status”.
<b>Negative Pledge</b>	Applicable to Senior Notes only. See “Terms and Conditions of the Notes – Negative Pledge”.
<b>Cross Default</b>	Applicable to Senior Notes only. See “Terms and Conditions of the Notes – Events of Default”.
<b>Ratings</b>	Tranches of Notes (as defined in “General Description of the Programme”) may be rated or unrated. Where a Tranche of Notes is rated such rating will be specified in the relevant Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
<b>Early Redemption</b>	Except as provided in “Optional Redemption” above, Notes will be redeemable at the option of the Bank prior to maturity only for tax reasons. See “Terms and Conditions of the Notes – Redemption, Purchase and Options”.
<b>Withholding Tax</b>	All payments of principal and interest in respect of the Notes, will be made free and clear of withholding taxes of the Republic of Cyprus and/or the Hellenic Republic, unless the withholding or deduction is required by law. In that event, the Bank shall pay such additional amounts as shall result in the Noteholders receiving such amounts as they would have received in respect of the Notes had no such withholding or deduction been required subject to customary exceptions (including the ICMA Standard EU Exceptions), all as described in “Terms and Conditions of the Notes – Taxation”.

**Governing Law**

English (with the exception of the terms and conditions relating to Subordination and the related provisions of the Trust Deed which will be governed by the laws of the Republic of Cyprus).

**Approval and Listing and Admission to Trading**

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to list Notes issued under the Programme on the Official List and to admit them to trading on the Luxembourg Stock Exchange Regulated Market or as otherwise specified in the relevant Final Terms and references to listing shall be construed accordingly. As specified in the relevant Final Terms, a Series of Notes may be unlisted.

**Redenomination, Renominalisation and/or Consolidation**

Notes denominated in a currency of a country that subsequently participates in the third stage of European Economic and Monetary Union, may be subject to redenomination, renominalisation and/or consolidation with other Notes then denominated in euro. The provisions applicable to any such redenomination, renominalisation and/or consolidation will be as specified in the relevant Final Terms.

**Selling Restrictions**

The United States, the Public Offer Selling Restriction under the Prospectus Directive (in respect of Notes having a specified denomination of less than €100,000 or its equivalent in any other currency as at the date of issue of the Notes), the United Kingdom, Cyprus, Greece, Japan, Switzerland and such other restrictions as may be required in connection with a particular issue, all as specified in the relevant Final Terms. See “Subscription and Sale”.

The Bank is Category 2 for the purposes of Regulation S under the Securities Act.

The Bearer Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the “D Rules”) unless (i) the relevant Final Terms states that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the “C Rules”) or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute “registration required obligations” under the United States Tax Equity and Fiscal Responsibility Act of 1982 (“TEFRA”), which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.

**Transfer Restrictions**

There are restrictions on the transfer of Registered Notes sold pursuant to Rule 144A under the Securities Act. See “Transfer Restrictions”.

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Final Terms. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme.*

The Notes are constituted by an amended and restated Trust Deed (as amended or supplemented as at the date of issue of the Notes (the “Issue Date”), the “Trust Deed”) dated 17 May 2011 between Bank of Cyprus Public Company Limited (the “Bank”) and Deutsche Trustee Company Limited (the “Trustee”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Receipts, Coupons and Talons referred to below. An amended and restated Agency Agreement (as amended or supplemented as at the Issue Date, the “Agency Agreement”) dated 17 May 2011 has been entered into in relation to the Notes between the Bank, the Trustee, Deutsche Bank AG, London Branch as initial issuing and paying agent and the other agents named in it. The issuing and paying agent, the paying agents, the registrar, the transfer agents, the exchange agent and the calculation agent(s) for the time being (if any) are referred to below respectively as the “Issuing and Paying Agent”, the “Paying Agents” (which expression shall include the Issuing and Paying Agent), the “Registrar”, the “Transfer Agents” (which expression shall include the Registrar), the “Exchange Agent” and the “Calculation Agent(s)”. Copies of the Trust Deed and the Agency Agreement are available for inspection during usual business hours at the principal office of the Trustee (presently at Winchester House, 1 Great Winchester Street, London EC2N 2DB) and at the specified offices of the Paying Agents and the Transfer Agents.

The Noteholders, the holders of the interest coupons (the “Coupons”) relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the “Talons”) (the “Couponholders”) and the holders of the receipts for the payment of instalments of principal (the “Receipts”) relating to Notes in bearer form of which the principal is payable in instalments are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

### **1. Form, Denomination and Title**

The Notes are issued in bearer form (“Bearer Notes”, which expression includes Notes that are specified to be Exchangeable Bearer Notes), in registered form (“Registered Notes”) or in bearer form exchangeable for Registered Notes (“Exchangeable Bearer Notes”) in each case in the Specified Denomination(s) shown hereon provided that in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

*All Registered Notes shall have the same Specified Denomination. Where Exchangeable Bearer Notes are issued, the Registered Notes for which they are exchangeable shall have the same Specified Denomination as the lowest denomination of Exchangeable Bearer Notes.*

This Note is a Senior Note, a Dated Subordinated Note or an Undated Subordinated Note as specified hereon.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note, a Credit-Linked Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates (“Certificates”) and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder. Registered Notes issued by a relevant Dealer and sold in the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act will initially be represented by a permanent global certificate (a “Restricted Global Certificate”).

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Bank shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “Register”). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, “Noteholder” means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be), “holder” (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

## **2. Exchanges of Exchangeable Bearer Notes and Transfers of Registered Notes**

### *(a) Exchange of Exchangeable Bearer Notes*

Subject as provided in Condition 2(f), Exchangeable Bearer Notes may be exchanged for the same nominal amount of Registered Notes at the request in writing of the relevant Noteholder and upon surrender of each Exchangeable Bearer Note to be exchanged, together with all unmatured Receipts, Coupons and Talons relating to it, at the specified office of any Transfer Agent; provided, however, that where an Exchangeable Bearer Note is surrendered for exchange after the Record Date (as defined in Condition 7(b)) for any payment of interest, the Coupon in respect of that payment of interest need not be surrendered with it. Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes that are not Exchangeable Bearer Notes may not be exchanged for Registered Notes.

### *(b) Transfer of Registered Notes*

One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Bank), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning

transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Bank, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

*(c) Exercise of Options or Partial Redemption in Respect of Registered Notes*

In the case of an exercise of an option of the Bank or a Noteholder in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

*(d) Delivery of New Certificates*

Each new Certificate to be issued pursuant to Conditions 2(a), (b) or (c) shall be available for delivery within three business days of receipt of the request for exchange, form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such request for exchange, form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant request for exchange, form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition (d), "business day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

*(e) Exchange Free of Charge*

Exchange and transfer of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Bank, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

*(f) Closed Periods*

No Noteholder may require the transfer of a Registered Note to be registered or an Exchangeable Bearer Note to be exchanged for one or more Registered Note(s) (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Bank at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date. An Exchangeable Bearer Note called for redemption may, however, be exchanged for one or more Registered Note(s) in respect of which the Certificate is simultaneously surrendered not later than the relevant Record Date.

### **3. Status**

*(a) Status of Senior Notes*

The Senior Notes (being those Notes that specify their status as Senior) and the Receipts and Coupons relating to them constitute (subject to Condition 4) unsecured, senior obligations of the Bank and shall at all times rank pari passu and without any preference among themselves. The payment obligations of the Bank

under the Senior Notes and the Receipts and Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Bank, present and future.

*(b) Status of Dated Subordinated Notes*

The Dated Subordinated Notes (being those Notes that specify their status as Dated Subordinated), the Receipts and the Coupons relating to them constitute unsecured, subordinated obligations of the Bank and shall at all times rank *pari passu* and without any preference among themselves. The rights of the holders of the Dated Subordinated Notes and the Receipts and Coupons relating to them are subordinated on a winding-up to the claims of Unsubordinated Creditors (as defined below) and accordingly amounts payable in respect of such principal and interest shall be payable in such winding-up only if and to the extent that the Bank could be considered solvent at the time of payment thereof and still be considered solvent immediately thereafter. For the purpose of this Condition 3(b), the Bank shall be solvent if (i) it is able to pay its debts as they fall due and (ii) its Assets exceed its Unsubordinated Liabilities. A report as to the solvency of the Bank by the Board of Directors of the Bank or, in the circumstances as provided in the Trust Deed, the Auditors (as defined in the Trust Deed, the “Auditors”) of the Bank or, if the Bank is insolvent or in winding-up, its liquidator, shall in the absence of proven error be treated and accepted by the Bank, the Trustee, the Noteholders and the Couponholders as correct and sufficient evidence thereof.

If at any time as the Bank is insolvent an order is made or an effective resolution is passed for the winding-up of the Bank, the claims of the holders of the Dated Subordinated Notes and the Coupons relating to them shall be subordinated in right of payment to the claims of all creditors of the Bank who are unsubordinated depositors or other unsubordinated creditors of the Bank, and thus will rank (i) *pari passu* with creditors whose claims are, or are expressed to be, subordinated (whether only in the event of the winding-up of the Bank or otherwise) to the claims of unsubordinated depositors and other unsubordinated creditors of the Bank but not further or otherwise and other creditors of the Bank whose claims are, or are expressed to rank, *pari passu* with the claims of the holders of the Dated Subordinated Notes, and (ii) in priority to creditors who are subordinated creditors of the Bank whose claims (which will include claims in respect of Undated Subordinated Notes) are, or are expressed to rank, junior to the claims of the holders of the Dated Subordinated Notes.

For the purpose of these Conditions, “Unsubordinated Creditors” means creditors of the Bank who are unsubordinated depositors or other unsubordinated creditors of the Bank and “Unsubordinated Liabilities” means the unconsolidated gross liabilities of the Bank (other than liabilities to persons who are not, or are trustees for persons who are not, Unsubordinated Creditors) all as shown by the latest published audited balance sheet of the Bank, but adjusted for contingent assets and contingent liabilities and for subsequent events, all in such manner as such Directors, the Auditors or the liquidator (as the case may be) may determine.

*(c) Status of Undated Subordinated Notes*

The Undated Subordinated Notes (being those Notes that specify their status as Undated Subordinated) and Coupons relating to them constitute unsecured, subordinated obligations of the Bank, conditional as described below, and rank *pari passu* without any preference among themselves.

The rights of the holders of the Undated Subordinated Notes and Coupons relating to them are subordinated to the claims of Senior Creditors (as defined below) and accordingly payments of principal and interest are conditional upon the Bank being solvent at the time of payment by the Bank and no principal or interest shall be payable in respect of the Undated Subordinated Notes except to the extent that the Bank could make such payment and still be solvent immediately thereafter. For the purpose of this Condition 3(c), the Bank shall be solvent if (i) it is able to pay its debts as they fall due and (ii) its Assets exceed its Liabilities. A report as to the solvency of the Bank by the Board of Directors of the Bank or, in the circumstances as provided in the Trust Deed, the Auditors of the Bank or, if the Bank is insolvent or in winding-up, its liquidator, shall in the absence of proven error be treated and accepted by the Bank, the Trustee, the Noteholders and the Couponholders as correct and sufficient evidence thereof.

If at any time as the Bank is insolvent an order is made or an effective resolution is passed for the winding-up of the Bank, there shall be payable on each Undated Subordinated Note (in lieu of any other payment), but subject as provided in this Condition 3(c), such amount, if any, as would have been payable to the holder thereof if, on the day prior to the commencement of the winding-up and thereafter, such holder of such Undated Subordinated Note were the holder of a preference share in the capital of the Bank having a preferential right to a return of assets in the insolvency or winding-up over the holders of all issued shares for the time being in the capital of the Bank on the assumption that such preference share was entitled to receive on a return of assets in such winding-up an amount equal to the nominal amount of such Undated Subordinated Note together with Arrears of Interest (as defined in Condition 5(b)), if any, and any accrued interest (other than Arrears of Interest) up to, but excluding, the date of repayment (as provided in the Trust Deed) in respect thereof.

For the purposes of these Conditions “Assets” means the unconsolidated gross assets of the Bank; and “Liabilities” means the unconsolidated gross liabilities of the Bank (other than liabilities to persons who are not, or are trustees for persons who are not, Senior Creditors), all as shown by the latest published audited balance sheet of the Bank, but adjusted for contingent assets and contingent liabilities and for subsequent events, all in such manner as such Directors, the Auditors or the liquidator (as the case may be) may determine and “Senior Creditors” means creditors of the Bank (i) who are unsubordinated depositors or other unsubordinated creditors of the Bank or (ii) whose claims are, or are expressed to be, subordinated (whether only in the event of the winding-up of the Bank or otherwise) to the claims of unsubordinated depositors and other unsubordinated creditors of the Bank but not further or otherwise, which will include claims in respect of Dated Subordinated Notes or (iii) who are subordinated creditors of the Bank other than those whose claims are, or are expressed to rank, *pari passu* with, or junior to, (1) the claims of the holders of the Undated Subordinated Notes or (2) obligations of the Bank which rank *pari passu* with the Undated Subordinated Notes.

*N.B. The obligations of the Bank in respect of the Undated Subordinated Notes and the related Coupons are conditional upon the Bank being solvent for the purpose of this Condition 3(c) immediately before and after payment by the Bank. If this Condition 3(c) is not satisfied, any amounts which might otherwise have been allocated in or towards payment of principal and interest in respect of the Undated Subordinated Notes may be used to absorb losses.*

**4. Negative Pledge**

This Condition 4 shall apply only to Senior Notes and references to “Notes” and “Noteholders” shall be construed accordingly.

*(a) Restriction*

So long as any of the Notes, Receipts or Coupons remains outstanding (as defined in the Trust Deed) the Bank shall not create or permit to subsist, and will procure that no Material Subsidiary shall create or permit to subsist, any Security other than a Permitted Security upon the whole or any part of its undertaking, assets or revenues present or future to secure any Relevant Debt or to secure any guarantee of or indemnity in respect of any Relevant Debt unless, at the same time or prior thereto, the Bank’s obligations under the Trust Deed and such Notes, Receipts or Coupons (A) are secured equally and rateably therewith to the satisfaction of the Trustee or (B) have the benefit of such other security or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed).

*(b) For the purposes of this Condition (or in any other Condition where a definition is expressly stated to apply):*

“Excluded Subsidiary” means any Subsidiary of the Bank:

- (a) which is a single purpose company or limited liability undertaking whose principal assets and business are constituted by a securitisation or similar financing and

- (b) none of whose liabilities in respect of such financing are the subject of Security or a guarantee or underwriting or other similar form of assurance from the Bank or any other Subsidiary of the Bank

“Material Subsidiary” has the meaning given to it in Condition 10

“Permitted Security” means (i) any security created by or over the assets of an Excluded Subsidiary to secure indebtedness for or in respect of moneys borrowed or raised; or (ii) any security created as security for any indebtedness of the Bank or any of its Subsidiaries in respect of covered bonds

“Relevant Debt” means any present or future indebtedness for or in respect of moneys borrowed or raised, having an original maturity of more than one year, in the form of, or represented by, bonds, notes, debentures, loan stock or other securities that are for the time being, or are capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market

“Security” means any mortgage, charge, pledge, lien or other form of encumbrance or security interest and

“Subsidiary” means, at any particular time, in respect of a company or corporation (its “Holding Company”), any company or corporation:

- (i) more than half the issued equity share capital of which, or more than half the issued share capital carrying voting rights of which, is beneficially owned, directly or indirectly, by the first mentioned company or corporation or
- (ii) which is a subsidiary of another subsidiary of the first mentioned company or corporation.

## **5. Interest and other Calculations**

### *(a) Interest on Fixed Rate Notes*

Each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date, provided however, that interest on Undated Subordinated Notes shall (subject to Condition 3(c)) be payable only at the option of the Bank unless such date is a Compulsory Interest Payment Date (as defined below). The amount of interest payable shall be determined in accordance with Condition 5(i).

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused or is not made by reason of Condition 3(c), in which event interest shall continue to accrue as provided in the Trust Deed.

### *(b) Interest on Undated Subordinated Notes*

Interest on the Undated Subordinated Notes shall accrue from day to day and shall be payable on each Compulsory Interest Payment Date in respect of the interest accrued in the Interest Period ending on the day immediately preceding such date. The amount of interest payable shall be determined in accordance with Condition 5(i). On any Optional Interest Payment Date there may be paid (if the Bank so elects and gives not less than 30 days’ notice of such election to the holders of the Undated Subordinated Notes in accordance with Condition 16) the interest accrued in the Interest Period ending on the day immediately preceding such date, but the Bank shall not have any obligation to make such payment and any failure to pay shall not constitute a default by the Bank for any purpose nor grant any rights under Condition 10(b). Any interest not paid in respect of Undated Subordinated Notes on an Interest Payment Date together with any other interest not paid on any other Interest Payment Date shall, so long as the same remains unpaid, constitute “Arrears of Interest”. Arrears of Interest may, at the option of the Bank, be paid in whole or in part at any time upon the expiration of not less than seven days’ notice to such effect given to the holders of the Undated Subordinated Notes in accordance with Condition 16, but all Arrears of Interest on all Undated Subordinated Notes outstanding shall become due in full on whichever is the earliest of (i) the date upon which a dividend is next paid on any class of share capital of the Bank, (ii) the date set for any redemption pursuant to Condition 6(c) or 6(d) or (iii) the commencement of winding-up of the Bank. Notwithstanding the foregoing,

if notice is given by the Bank of its intention to pay the whole or part of Arrears of Interest, the Bank shall be obliged to do so upon the expiration of such notice. Arrears of Interest shall not themselves bear interest.

(c) *Interest on Floating Rate Notes and Index Linked Interest Notes*

- (i) *Interest Payment Dates:* Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(i). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.
- (ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.
- (iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), "ISDA Rate" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified hereon
- (y) the Designated Maturity is a period specified hereon and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity", "Reset Date" and "Swap Transaction" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

(x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotation, (expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

(y) if the Relevant Screen Page is not available or if, sub-paragraph (x)(1) applies and no such offered quotation appears on the Page at the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee and the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the

Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(iv) *Rate of Interest for Index Linked Interest Notes:* The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.

(d) *Zero Coupon Notes*

Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

(e) *Dual Currency Notes*

In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.

(f) *Partly Paid Notes*

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.

(g) *Accrual of Interest*

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(h) *Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding*

- (i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(c) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.
- (ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures

shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “unit” means the lowest amount of such currency that is available as legal tender in the countries of such currency.

(i) *Calculations*

The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(j) *Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts*

The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Trustee, the Bank, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(k) *Determination or Calculation by Trustee*

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Trustee shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of this Condition, with any

necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

(l) *Definitions*

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

‘Business Day’ means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency and/or
- (ii) in the case of euro, a day on which the TARGET system is operating (a “TARGET Business Day”) and/or
- (iii) if the currency is Australian dollars or New Zealand dollars, a business day in Sydney, Melbourne, Auckland and Wellington respectively and/or
- (iv) in the case of a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

“Compulsory Interest Payment Date” means, in respect of any Undated Subordinated Note, any Interest Payment Date if, in the immediately preceding six calendar months, any dividend has been declared or paid on any class of share capital of the Bank.

“Day Count Fraction” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the “Calculation Period”):

- (i) if “Actual/Actual” or “Actual/Actual-ISDA” is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365)
- (ii) if “Actual/365 (Fixed)” is specified hereon, the actual number of days in the Calculation Period divided by 365
- (iii) if “Actual/360” is specified hereon, the actual number of days in the Calculation Period divided by 360
- (iv) if “30/360”, “360/360” or “Bond Basis” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case **D<sub>1</sub>** will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and **D<sub>1</sub>** is greater than 29, in which case **D<sub>2</sub>** will be 30

- (v) if “30E/360” or “Eurobond Basis” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case **D<sub>1</sub>** will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case **D<sub>2</sub>** will be 30

- (vi) if “30E/360 (ISDA)” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case **D<sub>1</sub>** will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case **D<sub>2</sub>** will be 30

- (vii) if “Actual/Actual-ICMA” is specified hereon,

- (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
- (b) if the Calculation Period is longer than one Determination Period, the sum of:
  - (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
  - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

“Determination Period” means the period from and including a Determination Date in any year to but excluding the next Determination Date and

“Determination Date” means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s).

“euro-zone” means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

“Interest Accrual Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“Interest Amount” means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount, specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

“Interest Commencement Date” means the Issue Date or such other date as may be specified hereon.

“Interest Determination Date” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

“Interest Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

“Interest Period Date” means each Interest Payment Date unless otherwise specified hereon.

“ISDA Definitions” means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon.

“Optional Interest Payment Date” means, in respect of any Undated Subordinated Note, any Interest Payment Date other than a Compulsory Interest Payment Date.

“Rate of Interest” means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon.

“Reference Banks” means in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of

EURIBOR, the principal euro-zone office of four major banks in the euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified hereon.

“Reference Rate” means the rate specified as such hereon.

“Relevant Screen Page” means such page, section, caption, column or other part of a particular information service as may be specified hereon.

“Specified Currency” means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated.

“TARGET System” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

*(m) Calculation Agent*

The Bank shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Bank shall (with the prior approval of the Trustee) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

## **6. Redemption, Purchase and Options**

*(a) Redemption by Instalments and Final Redemption*

- (i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.
- (ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.
- (iii) Undated Subordinated Notes have no final maturity date and are only redeemable in accordance with the following provisions of this Condition 6 or Condition 10.

(b) *Early Redemption*

(i) *Zero Coupon Notes:*

- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.
- (B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(d).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

- (ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) *Redemption for Taxation Reasons*

The Notes may be redeemed at the option of the Bank in whole, but not in part, (but subject to prior consent thereto having been obtained from the Central Bank of Cyprus (the “Central Bank”, which expression shall include any successor to the Central Bank of Cyprus as the relevant regulator of banks operating in Cyprus), if required, in the case of Dated Subordinated Notes or Undated Subordinated Notes) on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Note) or at any time (if this Note is neither a Floating Rate Note nor an Index Linked Note), on giving not less than 30 nor more than 60 days’ notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption) and, in the case of Undated Subordinated Notes, shall also pay Arrears of Interest (if any) and any accrued interest (other than Arrears of Interest) up to, but excluding, the date of redemption, if (i) the Bank satisfies the Trustee immediately before the giving of such notice that it has or will become obliged to pay additional amounts as described under Condition 8 as a result of any change in, or amendment to, the laws or regulations of the Republic of Cyprus or any lawful political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date of the first Tranche of the Series to which the relevant Notes relate, and (ii) such obligation cannot be avoided by the Bank taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Bank would be obliged to pay such additional amounts were a payment in

respect of the Notes then due. Before the publication of any notice of redemption pursuant to this paragraph, the Bank shall deliver to the Trustee a certificate signed by two Directors of the Bank stating that the obligation referred to in (i) above cannot be avoided by the Bank taking reasonable measures available to it and the Trustee shall accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above in which event it shall be conclusive and binding on Noteholders and Couponholders.

*(d) Redemption at the Option of the Bank*

If Call Option is specified hereon, the Bank may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem all or, if so provided, some of the Notes on any Optional Redemption Date and subject to prior consent thereto having been obtained from the Central Bank, if required, in the case of Dated Subordinated Notes or Undated Subordinated Notes. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption or, in the case of Undated Subordinated Notes, together with all Arrears of Interest (if any) as provided in Condition 5(b). Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption, the notice to Noteholders shall also contain the certificate numbers of the Notes to be redeemed, which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

*(e) Redemption at the Option of Noteholders*

If Put Option is specified hereon, the Bank shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Bank (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("Exercise Notice") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Bank.

*(f) Partly Paid Notes*

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified hereon.

*(g) Purchases*

The Bank and any of its Subsidiaries (as defined in Condition 4) (with the consent of the Central Bank in the case of Dated Subordinated Notes or Undated Subordinated Notes) may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price. Any purchase by tender shall be made available to all Noteholders alike.

*(h) Cancellation*

All Notes purchased by or on behalf of the Bank or any of its Subsidiaries (as defined in Condition 4) may, at the option of the Bank, be held, reissued or resold or be surrendered for cancellation. In the case of Bearer Notes, any cancellation will be effected by the Bank surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by the Bank surrendering the Certificate representing such Notes to the Registrar. In each case, if so surrendered, such Notes shall be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Bank in respect of any such Notes shall be discharged.

**7. Payments and Talons**

*(a) Bearer Notes*

Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption in full of the Bearer Notes and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. In this paragraph, "Bank" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

*(b) Registered Notes*

- (i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
- (ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof or in the case of Registered Notes to be cleared through the Depositary Trust Company ("DTC"), on the fifteenth DTC business day before the due date for payment thereof (each a "Record Date"). For the purpose of this Condition 7(b), "DTC business day" means any day on which DTC is open for business. Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.
- (iii) Registered Notes, if specified in the relevant Final Terms, will be issued in the form of one or more Restricted Global Certificates and may be registered in the name of, or in the name of a nominee for, DTC. Payments of principal and interest in respect of Registered Notes denominated in U.S. dollars will be made in accordance with Conditions 7(b)(i) and 7(b)(ii). Payments of principal and interest in respect of Registered Notes registered in the name of, or in the name of a nominee for, DTC and denominated in a Specified Currency other than U.S. dollars will be made or procured to be made by the Issuing and Paying Agent in the Specified Currency in accordance with the following provisions. The amounts in such Specified Currency payable by the Issuing and Paying Agent or its agent to DTC or DTC's nominee with respect to Registered Notes held by DTC or DTC's nominee will be received from the Bank by the Issuing and Paying Agent who will make payments in such Specified Currency by wire transfer of same day funds, in the case of Notes registered in the name of DTC's nominee, to

such nominee, or otherwise to the designated bank account in such Specified Currency of those DTC participants entitled to receive the relevant payment who have made an irrevocable election to DTC, in the case of interest payments, on or prior to the third DTC business day after the Record Date for the relevant payment of interest and, in the case of payments or principal, at least twelve DTC business days prior to the relevant payment date, to receive that payment in such Specified Currency. The Issuing and Paying Agent, after the Exchange Agent has converted amounts in such Specified Currency into U.S. dollars, will cause the Exchange Agent to deliver such U.S. dollar amount in same day funds to DTC's nominee for payment through the DTC settlement system to those DTC participants entitled to receive the relevant payment who did not elect to receive such payment in such Specified Currency. The Agency Agreement sets out the manner in which such conversions are to be made.

*(c) Payments in the United States*

Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Bank shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Bank, any adverse tax consequence to the Bank.

*(d) Payments subject to Fiscal Laws*

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

*(e) Appointment of Agents*

The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Bank and their respective specified offices are listed below. The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Bank and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Bank reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Bank shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) Paying Agents having specified offices in at least two major European cities, (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Trustee and (vii) a Paying Agent in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

In addition, the Bank shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in paragraph (c) above. Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

*(f) Unmatured Coupons and Receipts and unexchanged Talons:*

- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index Linked Notes) they, should be surrendered for payment together with all unmaturing Coupons (if any) relating thereto, failing which an amount equal to the face value of each

missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9). In addition, any Undated Subordinated Note presented for payment after an order is made or an effective resolution is passed for the winding-up in the Republic of Cyprus of the Bank must be presented together with all Coupons in respect of Arrears of Interest relating to Interest Payment Dates falling prior to such commencement of the winding-up of the Bank, failing which there shall be withheld from any payment otherwise due to the holder of such Undated Subordinated Note such proportion thereof as the Arrears of Interest due in respect of any such missing Coupon bears to the total of the principal amount of the relevant Undated Subordinated Note, all Arrears of Interest in respect thereof and interest (other than Arrears of Interest) accrued on such Undated Subordinated Note in respect of the Interest period current at the date of commencement of the winding-up.

- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Interest Note or Index Linked Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
- (v) Where any Bearer Note that provides that the relative unmatured Coupons are not to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Bank may require.
- (vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) *Talons*

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(h) *Non-Business Days*

If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "business day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in the relevant place of presentation, in such jurisdictions as shall be specified as "Financial Centres" hereon and:

- (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or
- (ii) (in the case of a payment in euro) which is a TARGET Business Day or
- (iii) (in the case of payment in Australian dollars or New Zealand dollars) a business day in Sydney, Melbourne, Auckland and Wellington, respectively).

## 8. Taxation

All payments of principal and interest by or on behalf of the Bank in respect of the Notes, the Receipts and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Republic of Cyprus and/or the Hellenic Republic or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Bank shall pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) *Other connection*: to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with the Republic of Cyprus and/or the Hellenic Republic other than the mere holding of the Note, Receipt or Coupon or
- (b) *Presentation more than 30 days after the Relevant Date*: presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day or
- (c) *Payment to individuals*: where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or
- (d) *Payment by another Paying Agent*: (except in the case of Registered Notes) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used in these Conditions, “Relevant Date” in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate), Receipt or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions and the Trust Deed to (i) “principal” shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) “interest” shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) “principal” and/or “interest” shall be deemed to include any additional amounts that may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

## 9. Prescription

Claims against the Bank for payment in respect of the Notes, Receipts and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

## 10. Events of Default

### (a) Senior Notes

In the case of Senior Notes:

If any of the following events occurs, the Trustee at its discretion may, and if so requested in writing by holders of at least 25 per cent. nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, subject in each case to it being indemnified to its satisfaction, give notice to the Bank that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together (if applicable) with accrued interest:

- (i) *Non-Payment*: default is made for more than 14 days (in the case of interest) or seven days (in the case of principal) in the payment on the due date of interest or principal in respect of any of the Notes or
- (ii) *Breach of Other Obligations*: the Bank does not perform or comply with any one or more of its other obligations in the Notes or the Trust Deed which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 30 days after notice of such default shall have been given to the Bank by the Trustee or
- (iii) *Cross-Default*: (A) any other present or future indebtedness of the Bank or any of its Material Subsidiaries for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of default, event of default or the like (howsoever described), or (B) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (C) the Bank or any of its Material Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (iii) have occurred and remains unpaid or undischarged, as the case may be, equals or exceeds €10,000,000 or its equivalent (as reasonably determined by the Trustee) or
- (iv) *Enforcement Proceedings*: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against the whole or a material (in the opinion of the Trustee) part of the property, assets or revenues of the Bank or any of its Material Subsidiaries and is not discharged or stayed within 90 days or
- (v) *Security Enforced*: a secured party takes possession of, or a receiver, manager or other similar officer is appointed in respect of, the whole or a substantial part of the undertaking, assets and revenues of the Bank or any Material Subsidiary and in any of the foregoing cases it shall not be stayed or discharged within 60 days or
- (vi) *Insolvency*: the Bank or any of its Material Subsidiaries is insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or, in the opinion of the Trustee, a material part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or, in the opinion of the Trustee, a material part of the debts of the Bank or any of its Material Subsidiaries or
- (vii) *Winding-up*: an order is made or an effective resolution passed for the winding-up or dissolution of the Bank or any of its Material Subsidiaries, or the Bank or any of its Material Subsidiaries shall apply or petition for a winding-up or administration order in respect of itself or ceases to carry on all or, in

the opinion of the Trustee, substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders or (ii) in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in the Bank or another of its Subsidiaries or

- (viii) *Illegality*: it is or will become unlawful for the Bank to perform or comply with any one or more of its obligations under any of the Notes or the Trust Deed or
- (ix) *Analogous Events*: any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs,

provided that, in relation to paragraphs (ii), (iii), (iv), (v), (vi), (viii) and (ix) and, with respect to Material Subsidiaries only, paragraph (vii) the Trustee shall have certified that in its opinion such event is materially prejudicial to the interests of the Noteholders.

“Material Subsidiary” at any time shall mean any Subsidiary of the Bank:

- (i) whose consolidated total assets represent 10 per cent. or more of the consolidated total assets of the Bank as calculated by reference to the then latest audited consolidated financial statements of such Subsidiary and the then latest audited consolidated financial statements of the Bank, provided that, in the case of a Subsidiary acquired after the end of the financial period to which the then latest relevant audited consolidated financial statements of the Bank relate, the reference to the then latest audited consolidated financial statements of the Bank for the purposes of the calculation above shall, until consolidated financial statements for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned financial statements as if such Subsidiary had been shown in such financial statements by reference to its then latest relevant audited consolidated financial statements, adjusted as deemed appropriate by the Bank; or
- (ii) to which is transferred all or substantially all of the business, undertaking and assets of a Subsidiary of the Bank which immediately prior to such transfer is a Material Subsidiary, whereupon the transferor Subsidiary shall immediately cease to be a Material Subsidiary and the transferee Subsidiary shall cease to be a Material Subsidiary under the provisions of this subparagraph (ii) upon publication of its next audited consolidated financial statements but so that such transferor Subsidiary or such transferee Subsidiary may be a Material Subsidiary on or at any time after the date on which such audited consolidated financial statements have been published by virtue of the provisions of subparagraph (i) above or before, on or at any time after such date by virtue of the provisions of this subparagraph (ii).

A report by two Directors of the Bank that, in their opinion, a Subsidiary of the Bank is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Bank and the Noteholders.

#### *(b) Subordinated Notes*

In the case of Dated Subordinated Notes or Undated Subordinated Notes:

- (i) *Non-Payment*: if the Bank shall not make payment of any principal or any interest in respect of the Notes for a period of 10 days or more after the due date for the same (which failure to make payment shall constitute prima facie evidence of the Bank’s inability to make such payment), the Trustee, having given prior written notice thereof to the Bank where reasonably practicable, at its discretion may, and if so requested in writing by the holders of at least 25 per cent. in principal amount of the Notes then outstanding (as defined in the Trust Deed) or as directed by an Extraordinary Resolution of the Noteholders shall, (subject in each case to it first being indemnified to its satisfaction) institute proceedings in the Republic of Cyprus (but not elsewhere) for the winding-up of the Bank and prove in such winding-up or

- (ii) *Enforcement Proceedings*: the Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per cent. in principal amount of the Notes then outstanding (as defined in the Trust Deed) or as directed by an Extraordinary Resolution of the Noteholders shall, (subject in each case to it first being indemnified to its satisfaction) institute such proceedings against the Bank as it may think fit to enforce any obligation, condition or provision binding on the Bank under the Trust Deed or the Notes (other than any obligation for payment of any principal or interest in respect of the Notes or Coupons) provided that the Bank shall not by virtue of any such proceedings be obliged to pay any sum or sums representing principal or interest in respect of the Notes or Coupons sooner than the same would otherwise have been payable by it or
- (iii) *Winding-up*: in the event of the commencement of the winding-up of the Bank (except in any such case a winding-up for the purpose of a reconstruction or amalgamation or the substitution in place of the Bank of a Successor in Business (as defined in the Trust Deed, a “Successor in Business”) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders), the Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per cent. in principal amount of the Notes then outstanding (as defined in the Trust Deed) or as directed by an Extraordinary Resolution of the Noteholders shall, (subject in each case to it first being indemnified to its satisfaction) (i) give notice to the Bank that the Notes are due and repayable immediately (and the Notes shall thereby become so due and repayable) at their principal amount together with accrued interest and any additional amounts as provided in the Trust Deed and (ii) prove in the winding-up of the Bank.

## **11. Meetings of Noteholders, Modification, Waiver and Substitution**

### *(a) Meetings of Noteholders*

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, (vii) to take any steps that as specified hereon may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply, or (viii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent. or at any adjourned meeting not less than 25 per cent. in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

*These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Final Terms in relation to such Series.*

*(b) Modification of the Trust Deed*

The Trustee may agree, without the consent of the Noteholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed that is of a formal, minor or technical nature or is made to correct a manifest or proven error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.

*(c) Substitution*

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders or the Couponholders, to the substitution of (i) the Bank's Successor in Business (ii) any Holding Company of the Bank or a Successor in Business of any Holding Company or (iii) or any Subsidiary (as defined in Condition 4) of the Bank or its Successor in Business in place of the Bank, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders or the Couponholders, to a change of the law governing the Notes, the Receipts, the Coupons, the Talons and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

*(d) Entitlement of the Trustee*

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Bank any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

## **12. Enforcement**

At any time after the Notes become due and payable, or the Trustee shall have become entitled (i) to institute proceedings in the Republic of Cyprus for the winding up of the Bank or (ii) to institute proceedings to enforce any obligation, condition or provision binding on the Bank under the Trust Deed or the Notes, the Trustee may, at its discretion and without further notice, institute such proceedings against the Bank as it may think fit subject to this Condition and Condition 10 to enforce the terms of the Trust Deed, the Notes, the Receipts and the Coupons, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least 25 per cent. in nominal amount of the Notes outstanding, and (b) it shall have been indemnified to its satisfaction. No Noteholder, Receiptholder or Couponholder may proceed directly against the Bank unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

In relation to Dated Subordinated Notes and Undated Subordinated Notes no remedy against the Bank, other than as referred to in Condition 10, shall be available to the Trustee or the Noteholders or Couponholders, whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach by the Bank of any of its other obligations under or in respect of the Notes or under the Trust Deed.

## **13. Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Bank and any entity related to the Bank without accounting for any profit. The Trustee may rely without liability to Noteholders on a certificate, report or opinion of the Auditors (as set out in the Trust Deed) whether or not addressed to it and

whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise.

#### **14. Replacement of Notes, Certificates, Receipts, Coupons and Talons**

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent in Luxembourg (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Bank for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, inter alia, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Bank on demand the amount payable by the Bank in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Bank may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

#### **15. Further Issues**

The Bank may from time to time without the consent of the Noteholders or Couponholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Bank may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

#### **16. Notices**

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*) and so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)) or in a daily newspaper with general circulation in Luxembourg (which is expected to be the *Luxembourger Wort*). If in the opinion of the Trustee any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

#### **17. Contracts (Rights Of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

## **18. Governing Law and Jurisdiction**

### *(a) Governing Law*

The Trust Deed, the Notes, the Receipts, the Coupons and the Talons and any non-contractual obligation arising out of or in connection with them are governed by, and shall be construed in accordance with, English law, save for Conditions 3(b) and 3(c) which shall be governed by the laws of the Republic of Cyprus.

### *(b) Jurisdiction*

The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Receipts, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons (“Proceedings”) may be brought in such courts. The Bank has in the Trust Deed irrevocably submitted to the jurisdiction of such courts.

### *(c) Service of Process*

The Bank has irrevocably appointed an agent in England to receive, for it and on its behalf, service of process in any Proceedings in England.

## SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

### **Initial Issue of Notes**

Global Notes which are issued in CGN form and Certificates may be delivered on or prior to the original issue date of the Tranche to a Common Depository.

If the Global Notes are stated in the applicable Final Terms to be issued in NGN form, the Global Notes will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper. Depositing the Global Notes with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

If the Global Note is a CGN, upon the initial deposit of a Global Note with a common depository for Euroclear and Clearstream, Luxembourg (the “Common Depository”) or registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depository, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. If the Global Note is an NGN, the nominal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Notes represented by the Global Note and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time. Upon the initial deposit of a Global Certificate in respect of, and registration of, Registered Notes in the name of a nominee for DTC and delivery of the relevant Global Certificate to the Custodian for DTC, DTC will credit each participant with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with the Common Depository may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

### **Relationship of Accountholders with Clearing Systems**

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg, DTC or any other clearing system as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg, DTC or such clearing system (as the case may be) for his share of each payment made by the Bank to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, DTC or such clearing system (as the case may be). Such persons shall have no claim directly against the Bank in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Bank will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

### **Exchange**

#### *Temporary Global Notes*

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

- (i) if the relevant Final Terms indicate that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see “General Description of the

Programme – Selling Restrictions”), in whole, but not in part, for the Definitive Notes defined and described below; and

- (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Final Terms, for Definitive Notes.

Each temporary Global Note that is also an Exchangeable Bearer Note will be exchangeable for Registered Notes in accordance with the Conditions in addition to any permanent Global Note or Definitive Notes for which it may be exchangeable and, before its Exchange Date, will also be exchangeable in whole or in part for Registered Notes only.

#### *Permanent Global Notes*

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under “Partial Exchange of Permanent Global Notes”, in part for Definitive Notes or, in the case of (iii) below, Registered Notes:

- (i) if the permanent Global Note is an Exchangeable Bearer Note, by the holder giving notice to the Issuing and Paying Agent of its election to exchange the whole or a part of such Global Note for Registered Notes; and
- (ii) otherwise, if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system (an “Alternative Clearing System”) and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

#### *Unrestricted Global Certificates*

If the Final Terms state that the Notes are to be represented by an Unrestricted Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) may only be made in part:

- (i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (ii) with the consent of the Bank,

provided that, in the case of the first transfer of part of a holding pursuant to (i) or (iii) above, the Registered Holder has given the Registrar not less than 30 days’ notice at its specified office of the Registered Holder’s intention to effect such transfer.

#### *Restricted Global Certificates*

If the Final Terms state that the Restricted Notes are to be represented by a Restricted Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear, Clearstream, Luxembourg, DTC or an Alternative Clearing System. These provisions will not prevent the trading of interests in the

Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system. Transfers of the holding of Notes represented by that Restricted Global Certificate pursuant to Condition 2(b) may only be made in part:

- (i) if such Notes are held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System (except for DTC) and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (ii) if such Notes are held on behalf of a Custodian for DTC and if DTC notifies the Bank that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to that Restricted Global Certificate or DTC ceases to be a “clearing agency” registered under the Exchange Act or is at any time no longer eligible to act as such, and the Bank is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC; or
- (iii) with the consent of the Bank,

provided that, in the case of the first transfer of part of a holding pursuant to (i) and (ii) above, the Registered Holder has given the Registrar not less than 30 days’ notice at its specified office of the Registered Holder’s intention to effect such transfer. Individual Certificates issued in exchange for a beneficial interest in a Restricted Global Certificate shall bear the legend applicable to such Notes as set out in “Transfer Restrictions”.

#### *Partial Exchange of Permanent Global Notes*

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions (1) for Registered Notes if the permanent Global Note is an Exchangeable Bearer Note and the part submitted for exchange is to be exchanged for Registered Notes, or (2) for Definitive Notes if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Final Terms) relating to Partly Paid Notes.

#### *Delivery of Notes*

If the Global Note is a CGN, on or after any due date for exchange, the holder of a Global Note may, in the case of an exchange in whole, surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Bank will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes or Registered Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes and/or Certificates, as the case may be or if the Global Note is a NGN, the Bank will procure that details of such exchange be entered pro rata in the records of the relevant clearing system. Global Notes and Definitive Notes will be delivered outside the United States and its possessions. In this Prospectus, “Definitive Notes” means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed and Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each permanent Global Note, the Bank will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

### *Exchange Date*

“Exchange Date” means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days, or in the case of an exchange for Registered Notes five days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and in the city in which the relevant clearing system is located.

### *Amendment to Conditions*

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Prospectus. The following is a summary of certain of those provisions:

### *Payments*

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes or Registered Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note in CGN form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. For the purposes of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of “business day” set out in Condition 7(h). If the Global Note is a CGN, a record of each payment so made will be endorsed on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. Condition 7(e)(vii) and Condition 8(d) will apply to the Definitive Notes only. If the Global Note is a NGN, the Issuer shall procure that details of each such payment shall be entered *pro rata* in the records of the relevant clearing system and in the case of payments of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note will be reduced accordingly. Payments under the NGN will be made to its holder. Each payment so made will discharge the Issuer’s obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge.

For so long as the Notes are represented by a Global Certificate, notwithstanding the provisions of Condition 7(b)(ii), each payment will be made to, or to the order of, the person whose name is entered in the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where “Clearing System Business Day” means Monday to Friday inclusive except 1 January and 25 December.

### *Prescription*

Claims against the Bank in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

### *Meetings*

The holder of a permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. (All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder’s holding, whether or not represented by a Global Certificate.)

### *Cancellation*

Cancellation of any Note represented by a permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Note or its presentation to or to the order of the Issuing and Paying Agent for endorsement in the relevant schedule of such permanent Global Note, whereupon the principal amount thereof shall be reduced for all purposes by the amount so cancelled and endorsed.

### *Purchase*

Notes represented by a permanent Global Note may only be purchased by the Bank or any of its subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

### *Bank's Option*

Any option of the Bank provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the Bank giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Bank is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) or any other clearing system (as the case may be).

### *Noteholders' Options*

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time, when the permanent Global Note is a CGN, presenting the permanent Global Note to the Issuing and Paying Agent, or to a Paying Agent acting on behalf of the Issuing and Paying Agent, for notation. Where the Global Note is a NGN, the Issuer shall procure that details of such exercise shall be entered pro rata in the records of the relevant clearing system and the nominal amount of the Notes recorded in those records will be reduced accordingly.

### *NGN nominal amount*

Where the Global Note is a NGN, the Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Notes, as the case may be, in addition to the circumstances set out above shall be entered in the records of the relevant clearing systems and upon any such entry being made, in respect to payments of principal, the nominal amount of the Notes represented by such Global Note shall be adjusted accordingly.

### *Trustee's Powers*

In considering the interests of Noteholders while any Global Note is held on behalf of, or Registered Notes are registered in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note or Registered Notes and may consider such interests as if such accountholders were the holders of the Notes represented by such Global Note or Global Certificate.

### *Notices*

So long as any Notes are represented by a Global Note and such Global Note is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note, except that so long as the Notes are listed on the Luxembourg Stock Exchange Regulated Market and the rules of that exchange so require, notices shall also be published either on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)) or in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

### *Partly Paid Notes*

The provisions relating to Partly Paid Notes are not set out in this Prospectus, but will be contained in the relevant Final Terms and thereby in the Global Notes. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Bank may forfeit such Notes and shall have no further obligation to their holder in respect of them.

## CLEARING AND SETTLEMENT

### **Book-Entry Ownership**

#### *Bearer Notes*

The Bank may make applications to Clearstream, Luxembourg and/or Euroclear for acceptance in their respective book-entry systems in respect of any Series of Bearer Notes. In respect of Bearer Notes, a temporary Global Note and/or a permanent Global Note in bearer form without coupons may be deposited with a common depository for Clearstream, Luxembourg and/or Euroclear or an alternative clearing system as agreed between the Bank and the Dealer. Transfers of interests in such temporary Global Notes or permanent Global Notes will be made in accordance with the normal Euromarket debt securities operating procedures of Clearstream, Luxembourg and Euroclear or, if appropriate, the alternative clearing system.

#### *Registered Notes*

The Bank may make applications to Clearstream, Luxembourg and/or Euroclear for acceptance in their respective book-entry systems in respect of the Notes to be represented by an Unrestricted Global Certificate or a Restricted Global Certificate. Each Unrestricted Global Certificate or Restricted Global Certificate deposited with a nominee for Clearstream, Luxembourg and/or Euroclear will have an ISIN and a Common Code.

The Bank and a relevant U.S. agent appointed for such purpose that is an eligible DTC participant may make application to DTC for acceptance in its book-entry settlement system of the Registered Notes represented by a Restricted Global Certificate. Each such Restricted Global Certificate will have a CUSIP number. Each Restricted Global Certificate will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Certificate, as set out under “Transfer Restrictions”. In certain circumstances, as described below in “Transfers of Registered Notes”, transfers of interests in a Restricted Global Certificate may be made as a result of which such legend may no longer be required.

In the case of a Tranche of Registered Notes to be cleared through the facilities of DTC, the Custodian, with whom the Restricted Global Certificates are deposited, and DTC will electronically record the nominal amount of the Restricted Notes held within the DTC system. Investors in Notes of such Tranche may hold their beneficial interests in an Unrestricted Global Certificate only through Clearstream, Luxembourg or Euroclear. Investors may hold their beneficial interests in a Restricted Global Certificate directly through DTC if they are participants in the DTC system, or indirectly through organisations which are participants in such system.

Payments of the principal of, and interest on, each Restricted Global Certificate registered in the name of DTC’s nominee will be to or to the order of its nominee as the registered owner of such Restricted Global Certificate. The Bank expects that the nominee, upon receipt of any such payment, will immediately credit DTC participant’s accounts with payments in amounts proportionate to their respective beneficial interests in the nominal amount of the relevant Restricted Global Certificate as shown on the records of DTC or the nominee. The Bank also expects that payments by DTC participants to owners of beneficial interests in such Restricted Global Certificate held through such DTC participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC participants. None of the Bank, any Paying Agent or any Transfer Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Restricted Global Certificates or for maintaining, supervising or reviewing any records relating to such ownership interests.

All Registered Notes will initially be in the form of an Unrestricted Global Certificate and/or a Restricted Global Certificate. Individual Certificates will only be available, in the case of Notes initially represented by an Unrestricted Global Certificate, in amounts specified in the applicable Final Terms, and, in the case of Notes initially represented by a Restricted Global Certificate, in amounts of U.S.\$100,000 (or its equivalent

rounded upwards as agreed between the Bank and the relevant Dealer(s)), or higher integral multiples of U.S.\$1,000, in certain limited circumstances described below.

#### *Transfers of Registered Notes*

Transfers of interests in Global Certificates within DTC, Clearstream, Luxembourg and Euroclear will be in accordance with the usual rules and operating procedures of the relevant clearing system. The laws of some states in the United States require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Restricted Global Certificate to such persons may be limited. Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Restricted Global Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

Beneficial interests in an Unrestricted Global Certificate may only be held through Clearstream, Luxembourg or Euroclear. In the case of Registered Notes to be cleared through Euroclear, Clearstream, Luxembourg and/or DTC, transfers may be made at any time by a holder of an interest in an Unrestricted Global Certificate to a transferee who wishes to take delivery of such interest through the Restricted Global Certificate for the same Series of Notes provided that any such transfer made on or prior to the expiration of the distribution compliance period (as used in "Subscription and Sale") relating to the Notes represented by such Unrestricted Global Certificate will only be made upon receipt by the Registrar or any Transfer Agent of a written certificate from Euroclear or Clearstream, Luxembourg, as the case may be, (based on a written certificate from the transferor of such interest) to the effect that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities law of any state of the United States or any other jurisdiction. Any such transfer made thereafter of the Notes represented by such Unrestricted Global Certificate will only be made upon request through Clearstream, Luxembourg or Euroclear by the holder of an interest in the Unrestricted Global Certificate to the Issuing and Paying Agent of details of that account at either Euroclear or Clearstream, Luxembourg or DTC to be credited with the relevant interest in the Restricted Global Certificate. Transfers at any time by a holder of any interest in the Restricted Global Certificate to a transferee who takes delivery of such interest through an Unrestricted Global Certificate will only be made upon delivery to the Registrar or any Transfer Agent of a certificate setting forth compliance with the provisions of Regulation S and giving details of the account at Euroclear or Clearstream, Luxembourg, as the case may be, and/or to DTC to be credited and debited, respectively, with an interest in the relevant Global Certificates.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described above and under "Transfer Restrictions", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Custodian, the Registrar and the Issuing and Paying Agent.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream, Luxembourg and/or Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Global Certificates will be effected through the Issuing and Paying Agent, the Custodian and the Registrar receiving instructions (and where appropriate certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. Transfers will be effected on the later of (i) three business days after the trade date for the disposal of the interest in the relevant Global Certificate resulting in such transfer and (ii) two business days after receipt by the Issuing and Paying Agent or the Registrar, as the case may be, of the necessary

certification or information to effect such transfer. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

For a further description of restrictions on transfer of Registered Notes, see “Transfer Restrictions”.

DTC has advised the Bank that it will take any action permitted to be taken by a holder of Registered Notes (including, without limitation, the presentation of Restricted Global Certificates for exchange as described above) only at the direction of one or more participants in whose account with DTC interests in Restricted Global Certificates are credited and only in respect of such portion of the aggregate nominal amount of the relevant Restricted Global Certificates as to which such participant or participants has or have given such direction. However, in the circumstances described above, DTC will surrender the relevant Restricted Global Certificates for exchange for individual Certificates (which will, in the case of Restricted Notes, bear the legend applicable to transfers pursuant to Rule 144A).

DTC has advised the Bank as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a “banking organisation” under the laws of the State of New York, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic computerised book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC direct participant, either directly or indirectly.

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the global Certificates among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Bank, any Paying Agent or any Transfer Agent will have any responsibility for the performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

While a Restricted Global Certificate is lodged with DTC or the Custodian, Restricted Notes represented by individual Certificates will not be eligible for clearing or settlement through DTC, Clearstream, Luxembourg or Euroclear.

#### *Individual Certificates*

Registration of title to Registered Notes in a name other than a depository or its nominee for Clearstream, Luxembourg and Euroclear or for DTC will be permitted only (i) in the case of Restricted Global Certificates in the circumstances set forth in “Summary of Provisions Relating to the Notes while in Global Form - Exchange - Restricted Global Certificates” or (ii) in the case of Unrestricted Global Certificates in the circumstances set forth in “Summary of Provisions Relating to the Notes while in Global Form – Exchange – Unrestricted Global Certificates”. In such circumstances, the Bank will cause sufficient individual Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant Noteholder(s). A person having an interest in a Global Certificate must provide the Registrar with:

- (i) a written order containing instructions and such other information as the Bank and the Registrar may require to complete, execute and deliver such individual Certificates; and
- (ii) in the case of a Restricted Global Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange, or in the case of a simultaneous resale pursuant to Rule 144A, a certification that the transfer is being

made in compliance with the provisions of Rule 144A. Individual Certificates issued pursuant to this paragraph (ii) shall bear the legends applicable to transfers pursuant to Rule 144A.

*Pre-issue Trades Settlement*

It is expected that delivery of Notes will be made against payment therefor on the relevant Issue Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 of the SEC under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Registered Notes in the United States on the date of pricing or the next succeeding business days until the relevant Issue Date will be required, by virtue of the fact that the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices and purchasers of Notes who wish to trade Notes between the date of pricing and the relevant Issue Date should consult their own adviser.

## **USE OF PROCEEDS**

The net proceeds from each issue of Notes will be used for general funding purposes or to strengthen the Bank's capital base. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

## BUSINESS DESCRIPTION OF THE BANK

### Introduction

The Bank of Cyprus Public Company Limited (the “Bank”) was founded in 1899 and is the holding company of the Bank of Cyprus Group. The registered office of the Bank is located at the Group Headquarters at 51 Stassinos Street, Ay. Paraskevi, Strovolos, 2002 Nicosia, Cyprus, telephone number +357 22 122100. The Bank is a public company limited by shares and is registered in the companies register of Cyprus with registration number HE 165. The Bank’s legal name is Bank of Cyprus Public Company Limited and its commercial name is Bank of Cyprus.

The Bank is listed on the Cyprus Stock Exchange and the Athens Exchange. As at 31 December 2010, the Bank had a market capitalisation of €2.3 billion and accounted for 44.90 per cent. of the total market capitalisation of the Cyprus Stock Exchange.

As at 31 December 2010, the Group had consolidated total assets of €42.64 billion (€39.41 billion as at 31 December 2009). The Group recorded a profit after tax attributable to the owners of the Bank of €306 million for the year ended 31 December 2010 (€313 million for the year ended 31 December 2009).

The Group offers a wide range of financial products and services, which include (i) banking services in Cyprus, Greece, Russia, the United Kingdom, Australia, Romania, Ukraine and the Channel Islands, (ii) leasing services in Cyprus, Greece, Romania and Russia, and (iii) factoring, brokerage, fund management, investment banking, general and life insurance services in Cyprus and Greece.

The Bank is the leading financial services organisation in Cyprus with a market share in total banking system deposits and loans in Cyprus at 31 December 2010, including credit co-operatives, of 31.4 per cent. and 27.5 per cent. respectively (based on Central Bank of Cyprus information). The Bank operates 143 branches in Cyprus.

The Bank has been operating in Greece since 1991. The dynamic expansion of the Bank’s Greek operations started in 1999. As at 31 December 2010 the Bank operated 185 branches in Greece. The market share of the Bank in deposits and loans in Greece in 31 December 2010, based on Bank of Greece information, amounted to 4.2 per cent and 4.2 per cent. respectively. Kyprou Leasing, a subsidiary of the Bank which operates in Greece, held the second largest market share in the Greek leasing sector.

The Bank has been operating in the UK for more than 50 years and during that time it has established itself as an alternative to the mainstream clearing banks. The Bank serves a diverse business customer base across the UK from four offices in London and the Midlands.

The Group’s international activities were further enhanced in 2000 with the operation of a wholly owned subsidiary bank in Australia, which operates 12 branches.

In March 2007, the Bank expanded its operations to Romania with the provision of leasing services. In July 2007, the first banking branch became operational in Bucharest. Today the Bank operates 12 branches.

In Russia the Group commenced its operations in 2007 through the establishment of a wholly owned subsidiary and was the first Greek or Cypriot institution to enter the Russian market. In 2008 the Group’s presence in the Russian market was further enhanced by the acquisition of an 80 per cent. interest in Uniastrum Bank. Uniastrum Bank was founded in 1994 and has its headquarters in Moscow. It operates through an extensive branch network of 211 branches in 48 regions. Uniastrum Bank offers an extensive range of products to the retail sector and enjoys high brand recognition.

In May 2008, the Bank acquired 97 per cent. of the share capital of the Ukrainian bank PJSB Bank of Cyprus (previously AvtoZAZbank) which provides banking services in Ukraine. In December 2010 the Group’s shareholding stood at 100 per cent. Currently the bank operates 27 branches.

At 31 December 2010 the Group operated through a total of 595 branches and employed 12,009 staff worldwide.

The Bank has nine representative offices in Russia, Romania, Canada, Ukraine, Serbia and South Africa.

The following table shows the Group's summary income statement for each of the two years ended 31 December 2010 and 2009.

	<i>For the year ended 31 December</i>		
	<i>2010</i>	<i>2009</i>	<i>change</i>
	<i>(in millions of euro)</i>		<i>(per cent.)</i>
Net interest income .....	1,040.4	847.8	23
Net fee and commission income.....	231.2	243.4	(5)
Foreign exchange income .....	38.6	28.6	35
Net gains on sale, revaluation and impairment of investments, derivative financial instruments and subsidiaries .....	71.4	87.1	(18)
Insurance income net of insurance expense .....	59.4	62.8	(5)
Other income.....	8.9	16.8	(47)
Total income <sup>(1)</sup> .....	1,449.9	1,286.5	13
Staff costs and other operating expenses .....	(724.9)	(674.3)	8
Profit before provisions for impairment of loans and advances <sup>(2)</sup> ....	725.0	612.2	18
Provisions for impairment of loans and advances .....	(374.5)	(247.9)	51
Profit before share of profit of associates.....	350.5	364.3	(4)
Share of (loss)/profit of associates .....	(2.0)	0.9	(322)
Profit before tax .....	348.5	365.2	(5)
Tax.....	(46.0)	(43.2)	6
Profit after tax .....	302.5	322.0	(6)
Attributable to:			
Owners of the Company .....	306.2	313.1	(2)
Non-controlling interests ((loss)/profit) .....	(3.7)	8.9	(142)

Notes:

- (1) For the year ended 31 December 2010, divided between the Group's areas of activity as follows: banking and financial services (95.7 per cent.), insurance business (4.2 per cent.) and property and hotel business (0.1 per cent.).
- (2) For the year ended 31 December 2010, divided geographically as follows: Cyprus (60 per cent.), Greece (27 per cent.), Russia (6 per cent.) and other countries (7 per cent.).

All analysis in this Prospectus by geographic segment is shown on the basis that each segment's capital and the related interest income and expense are adjusted in order to be on the same basis as a percentage of the segment's risk weighted assets, as calculated for capital adequacy purposes in accordance with the relevant regulations of the Central Bank of Cyprus. The results of each segment are also adjusted to reflect the liquidity surplus/shortfall of each segment. The Group's total profit as presented in the consolidated income statement is not affected. The loans and advances to customers, the customer deposits and the related income and expense are included in the segment where the business is originated, instead of the segment where the transaction is recorded.

The Group's total income recorded a significant increase of 13 per cent. reaching €1,450 million for 2010, demonstrating the Group's ability to achieve increased recurring income even in adverse economic conditions. The Group's profit before provisions for 2010 reached €725 million and recorded an annual increase of 18 per cent. Despite the significant increase in profit before provisions, the Group's conservative policy regarding provisions resulted in profit after tax and non-controlling interests for 2010 declining by 2 per cent. and reaching €306 million, with the Group being profitable in all the markets in which it operates.

At the same time, the Group enjoys strong capital adequacy (Tier 1 ratio 11.0 per cent.) and healthy liquidity (loans to deposits ratio 84 per cent.). The Group's capital adequacy is expected to be further strengthened with the forthcoming issue of Convertible Enhanced Capital Securities of €1,342 million.

Despite its deterioration, loan quality remains at adequate levels (non-performing loans ratio of 7.3 per cent.) given the challenging macro environment.

- The Group's total income recorded an annual increase of 13 per cent., reaching €1,450 million for 2010, demonstrating the Group's ability to achieve increased recurring income even in adverse economic conditions.
- Profit before provisions for 2010 reached €725 million, recording an increase of 18 per cent. compared to 2009 (€612 million).
- The Group's net interest margin reached 2.66 per cent. for 2010, which is an increase of 27 basis points compared to 2.39 per cent. for 2009.
- The Group achieved satisfactory profitability for 2010, with increased recurring income and a positive contribution to profit from all the markets in which it operates. Despite the important increase in profits before provisions, the Group's conservative policy of strengthening its balance sheet through increased provisions resulted in profit after tax reaching €306 million for 2010 compared to €313 million for 2009.
- In Cyprus, profit before provisions reached €437 million, which is an increase of 16 per cent. compared to 2009. However, having taken into consideration the deterioration of the economic environment, the Group increased its charge for impairment of loans, resulting in profit after tax for 2010 of €256 million, which is 9 per cent. lower than 2009.
- In Greece, profit before provisions for 2010 reached €194 million, recording an increase of 34 per cent. compared to 2009. Despite the increased provision charge (€184 million for 2010 compared to €120 million for 2009), profit after tax reached €11 million compared to €3 million for 2009.
- In Russia, profit before provisions for 2010 reached €46 million, an increase of 12 per cent. compared with 2009, with profit after tax reaching €16 million compared to €7 million for 2009 (an annual increase of 116 per cent.).
- Profit after tax for other countries (Australia, the United Kingdom, Ukraine and Romania) reached €23 million, recording an increase of 12 per cent. compared to 2009.
- The capital adequacy ratio reached 11.9 per cent. at 31 December 2010, with the tier 1 ratio and the core tier 1 ratio reaching 11.0 per cent. and 8.1 per cent., respectively. Taking into consideration the forthcoming issue of Convertible Enhanced Capital Securities of €1,342 million, the pro-forma capital adequacy ratio and tier 1 ratio at 31 December 2010 amounted to 14.0 per cent. and 12.7 per cent., respectively, based on the assumption that all 'Eligible Securities' (as defined in the terms of the issue) (€818 million) are exchanged for the new Convertible Enhanced Capital Securities.
- The Group maintained its healthy liquidity, with a net loans to deposits ratio of 84.1 per cent.
- The Group improved its efficiency, with the cost to income ratio improving to 50.0 per cent. for 2010 from 52.4 per cent. for 2009.
- The Group's loan quality remained at adequate levels as a result of the emphasis placed on effective credit risk management. The non-performing loans ratio reached 7.3 per cent. at 31 December 2010 compared to 6.7 per cent. at 30 September 2010 and 5.6 per cent. at 31 December 2009\*. Despite an increase of 60 basis points in the non-performing loans ("NPL") ratio in the fourth quarter of 2010, the provisions coverage ratio (provisions as a percentage of non-performing loans) remained at a satisfactory level of 55 per cent. at 31 December 2010. The coverage ratio including tangible collateral amounted to 118 per cent. (106 per cent. taking into account tangible collateral at forced sale value).

At 31 December 2010 the Group's gross loans amounted to €28.9 billion recording an annual increase of 9 per cent. mainly due to the weak demand for lending in the two main markets of the Group, Cyprus and

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\* NPLs are defined as loans which are in arrears for longer than three months and which are not fully covered by tangible collateral.

Greece, as well as the prudent credit policy applied by the Group, given the conditions prevailing during the year in the markets in which it operates.

At 31 December 2010 the Group's total loans in Cyprus amounted to €13.9 billion, recording an annual increase of 9 per cent. Loans in Cyprus represent 48 per cent. of the Group's total loan portfolio.

The Group has the largest market share of total loans of commercial banks and credit co-operatives in Cyprus (27.5 per cent. as of December 2010). The preservation of our leading market share is the result of the recognition of the Bank of Cyprus leading brand name, its extensive network and effective marketing campaigns.

At 31 December 2010, the Group's total loans in Greece reached €10.2 billion, representing 35 per cent. of the Group's total loan portfolio. Total loans in Greece recorded an increase of 4 per cent. for 2010.

In December 2010, the Group's market share in loans in Greece was 4.2 per cent.

At 31 December 2010, the Group's total loans in Russia reached €1.9 billion recording a significant annual increase of 34 per cent. Loans in Russia represent 7 per cent. of the total Group loan portfolio.

At 31 December 2010, Group loans in other countries reached €3.0 billion, representing 10 per cent. of the total Group loan portfolio.

Specifically, the loans of the Group:

- in Romania and Ukraine amounted to €0.6 billion and €0.2 billion respectively, representing 3 per cent. of the Group's total loan portfolio;
- in the United Kingdom and Australia amounted to €1.1 billion and €1.0 billion respectively, representing 7 per cent. of the Group's total loan portfolio.

The Group's total deposits at 31 December 2010 reached €33.0 billion recording an annual increase of 15 per cent. The healthy liquidity of the Group, with a net loans to deposits ratio of 84 per cent. and its minimal reliance on wholesale funding (deposits to total assets ratio of 77 per cent.) provide the Group with a strong competitive advantage, particularly in the adverse conditions prevailing in international money markets and the intense competition on deposits evident in the main markets in which the Group operates.

In Cyprus, Group deposits reached €19.7 billion at 31 December 2010 recording an increase of 34 per cent. since the end of 2009. The Group has the leading market share (31.4 per cent.) of total deposits of commercial banks and credit co-operatives. The Group's market share between commercial banks in Cyprus for foreign currency deposits was 43.1 per cent. in December 2010.

In Greece, Group deposits reached €9.8 billion at 31 December 2010, recording an annual decrease of 10 per cent., with the market share reaching 4.2 per cent., at 31 December 2010.

Deposits in Russia recorded a particularly encouraging annual growth of 9 per cent., reaching €1.1 billion at 31 December 2010.

At 31 December 2010, the Group's deposits in other countries reached €2.4 billion. Specifically, Group deposits:

- in the United Kingdom and Australia amounted to €1.3 billion and €0.9 billion respectively;
- in Romania and Ukraine amounted to €0.2 billion and €41 million respectively.

At 31 December 2010, the Group's shareholders' funds amounted to €2.8 billion. The Group's total capital adequacy ratio based on Basel II requirements reached 11.9 per cent. with the tier 1 ratio at 11.0 per cent. and the core tier 1 ratio at 8.1 per cent.

After taking into consideration the importance of maintaining high capital adequacy ratios to allow for the continuous expansion of the Group, the global stricter regulatory environment with regards to capital and also the importance of further strengthening the capital position in anticipation of changes expected to result

from Basel III, the Bank is proceeding with an issue of Convertible Enhanced Capital Securities (“CECS”) for an amount up to €1,342 million. The issue of CECS was proposed by the Board of Directors at its meeting of 28 February 2011 and was approved by the Bank’s shareholders at an Extraordinary General Meeting on 23 March 2011. The CECS will be offered via a priority right to subscribe to the existing shareholders as of 12 April 2011 (“Eligible Shareholders”). Applications can also be made by non – Eligible Shareholders for any CECS that may not be subscribed by the Eligible Shareholders. Subscription lists for the CECS issued are expected to be open from 27 April and 17 May 2011.

Eligible Shareholders and other applicants may subscribe to the CECS issue by paying the corresponding consideration for the CECS either in cash or in the form of ‘Eligible Securities’ of the Bank and specifically (i) Convertible Bonds 2013/18 (ii) Convertible Capital Securities and (iii) Capital Securities 12/2007, of an equal nominal value, which have priority after the Eligible Shareholders and before any other applicants.

## Group Structure

The companies and branches included in the consolidated financial statements of the Group as at 31 December 2010, their activities, their country of incorporation and the percentage held by the Bank (directly or indirectly) are:

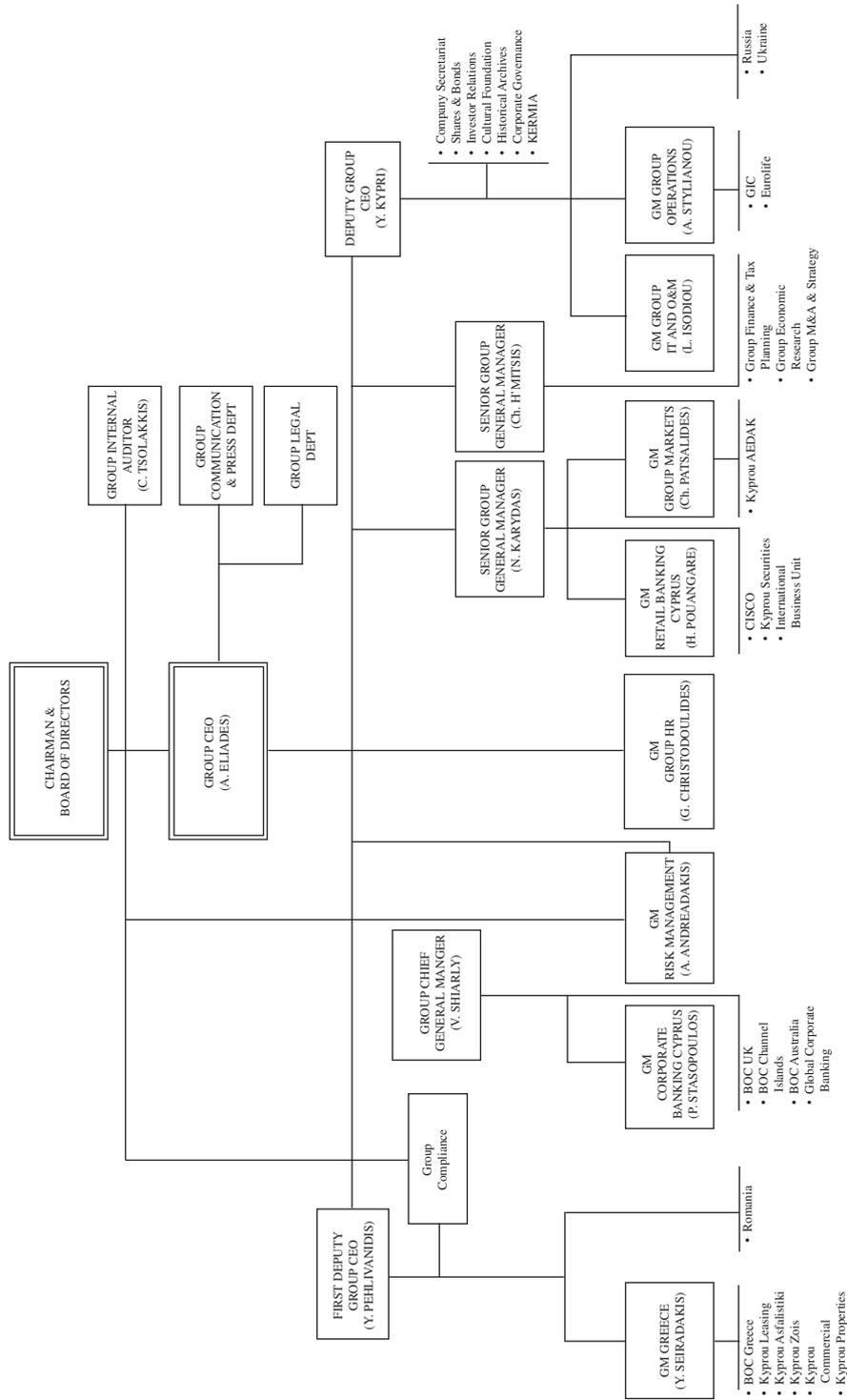
<i>Company</i>	<i>Country</i>	<i>Activities</i>	<i>Percentage holding (per cent.)</i>
Bank of Cyprus Public Company Ltd	Cyprus	Commercial bank	N/A
The Cyprus Investment and Securities Corporation Ltd (CISCO)	Cyprus	Investment banking	100
General Insurance of Cyprus Ltd	Cyprus	General insurance	100
EuroLife Ltd	Cyprus	Life insurance	100
Kermia Ltd	Cyprus	Property trading and development	100
Kermia Properties & Investments Ltd	Cyprus	Property trading and development	100
Kermia Hotels Ltd	Cyprus	Hotel business	100
BOC Ventures Ltd	Cyprus	Management of venture capital investments	100
Tefkros Investments Ltd	Cyprus	Investment fund	100
Bank of Cyprus Mutual Funds Ltd	Cyprus	Inactive	100
Cytrustees Investment Public Company Ltd	Cyprus	Closed-end investment company	50
Diners Club (Cyprus) Ltd	Cyprus	Diners Club credit card facilities	100
BOC Russia (Holdings) Ltd	Cyprus	Intermediate holding company	80
Otherland Properties Ltd	Cyprus	Intermediate holding company	100
Gosman Properties Ltd	Cyprus	Intermediate holding company	100
Pittsburg Properties Ltd	Cyprus	Intermediate holding company	100
Battersee Properties Ltd	Cyprus	Intermediate holding company	100
Trecoda Properties Ltd	Cyprus	Intermediate holding company	100
Bonayia Properties Ltd	Cyprus	Intermediate holding company	100
Bank of Cyprus Public Company Ltd (branch)	Greece	Commercial bank	N/A
Kyprou Leasing SA	Greece	Leasing	100
Kyprou Commercial SA	Greece	Financing of motor vehicles and other consumer products	100
Kyprou Securities SA	Greece	Investment banking	100
Kyprou Asset Management (AEDAK)	Greece	Management of mutual funds	100
Kyprou Properties SA	Greece	Property management	100
Kyprou Insurance Services Ltd	Greece	General insurance brokers	100

<i>Company</i>	<i>Country</i>	<i>Activities</i>	<i>Percentage holding (per cent.)</i>
Kyprou Zois (branch of EuroLife Ltd)	Greece	Life insurance	100
Kyprou Asfaltistiki (branch of General Insurance of Cyprus Ltd)	Greece	General insurance	100
Bank of Cyprus United Kingdom (branch)	United Kingdom	Commercial bank	N/A
Katoikia I Mortgage Finance Plc	United Kingdom	Special purpose entity	–
Katoikia I Holdings Ltd	United Kingdom	Special purpose entity	–
Misthosis Funding Plc	United Kingdom	Special purpose entity	–
Misthosis Funding (Holding) Ltd	United Kingdom	Special purpose entity	–
Bank of Cyprus (Channel Islands) Ltd	Channel Islands	Commercial bank	100
Tefkros Investments (CI) Ltd	Channel Islands	Investment fund	100
Bank of Cyprus Australia Ltd	Australia	Commercial bank	100
Bank of Cyprus Romania (branch)	Romania	Commercial bank	N/A
Cyprus Leasing Romania IFN SA	Romania	Leasing	100
Otherland Properties Dorobanti SRL	Romania	Property investment	100
S.C. ONT Carpati S.A.	Romania	Hotel business	94
Pittsburg Properties SRL	Romania	Property investment	100
Battersee Real Estate SRL	Romania	Property investment	100
Trecoda Real Estate SRL	Romania	Property investment	100
Green Hills Properties SRL	Romania	Property investment	100
CB Uniastrum Bank LLC	Russia	Commercial bank	80
Leasing Company Uniastrum Leasing	Russia	Leasing	100
PJSB Bank of Cyprus	Ukraine	Commercial bank	100
Kyprou Finance (NL) B.V.	Netherlands	Financing company	100

The Group owns 45 per cent. of the share capital of JCC Payment Systems Ltd, for which proportional consolidation is used.

The Group also owns a 23 per cent. interest in Interfund Investments Plc which is a closed-end investment company listed on the Cyprus Stock Exchange. It also has a 30 per cent. indirect interest in Grand Hotel Enterprises Society Ltd which is incorporated in Romania and is the owner of a hotel. These two investments are accounted for by the Group as associates.

# GROUP ORGANISATIONAL STRUCTURE



## Strategic Priorities

The Bank of Cyprus Group sets its strategic priorities for the year 2011 which aim to create shareholder value on a sustainable basis. The strategic priorities of the Group for the year 2011 focus on maintaining its healthy liquidity position and strong capital adequacy, on achieving satisfactory profitability with improved efficiency and cost containment and on effective risk management. In addition, the Group aims to further enhance its presence in the new markets in which it operates, which have strong growth potential, thereby creating long-term diversification of income, profitability and risks.

## Deposits and Funding

The Group's funding principally consists of customer deposits. These are attracted through the Bank's branch networks in Cyprus, Greece, the United Kingdom, the Channel Islands, Australia, Russia, Romania and Ukraine. The Group also holds debt securities and takes deposits on the interbank market.

The following table shows a breakdown of the Group's funding by type as at the dates indicated.

	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<i>(in thousands of euro)</i>		
Customer deposits and other accounts .....	27,935,747	28,584,561	32,952,567
Obligations to central banks and amounts due to banks .....	2,832,298	5,290,897	3,706,975
Debt securities in issue .....	959,169	519,111	83,957
	<u>31,727,214</u>	<u>34,394,569</u>	<u>36,743,499</u>

The Group accepts foreign currency deposits, mostly in U.S. dollars, pounds sterling, Australian dollars, Russian rubles and Ukrainian hryvnia from a diversified depositor base.

### *Customer Deposits and Other Accounts*

The majority of the Group's financing consists of customer deposits. As at 31 December 2010, the Group had €32.95 billion customer deposits (€28.58 billion as at 31 December 2009). As at 31 December 2010, the Bank had a market share of approximately 31.4 per cent. of the total deposits held in the Cypriot banking system (including deposits held by the co-operative credit institutions) (based on Central Bank of Cyprus information). The Bank regards its deposit base as stable and has never experienced a run on its deposits. The Bank believes that the reach of its branch network across Cyprus and the strength of its image and financial position are attractive to depositors wishing to deposit funds in Cyprus.

In the Cyprus market the Bank offers demand, savings and time deposits (both notice and fixed period accounts) and structured deposits. Similar products are offered to retail depositors in Greece, the United Kingdom, the Channel Islands, Australia, Russia, Romania and Ukraine. The following table shows a breakdown of the Group's customer deposits and other accounts between these categories as at the dates indicated.

	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<i>(in thousands of euro)</i>		
Demand .....	3,916,475	4,512,915	5,893,902
Savings .....	1,614,524	2,149,604	2,415,718
Time or notice .....	22,404,748	21,922,042	24,642,947
	<u>27,935,747</u>	<u>28,584,561</u>	<u>32,952,567</u>

### *Obligations to central banks and amounts due to Banks*

As at 31 December 2010, 10.09 per cent. of the Group's funding was represented by borrowing from central banks and interbank borrowings (15.38 per cent. as at 31 December 2009). The Cypriot interbank market is very small and the majority of interbank deposits are from overseas banks.

## Debt Securities in Issue

As at 31 December 2010, the Group had €83.96 million of debt securities in issue (€519.11 million as at 31 December 2009). The balance as at 31 December 2010 comprised:

	Contractual interest rate	2010 €000	2009 €000
<b>Medium-term senior debt</b>			
€500 million 2007/2010	Three-month Euribor plus 0.20 per cent.	–	450,992
SEK 50 million 2009/2012	OMX Stockholm 30 index	5,315	4,852
SEK 100 million 2010/2014	Return of specific shares	11,371	–
RUB 1,500 million 2010	16 per cent.	–	2,303
€2 million 2010/2016	DJ EUROSTOXX50 index	2,000	–
USD 2 million 2010/2016	S&P 500 index	1,545	–
		<u>20,231</u>	<u>458,147</u>
<b>Short-term commercial paper</b>			
– Euro	–	4,997	29,495
– USD	–	7,470	13,527
		<u>12,467</u>	<u>43,022</u>
<b>Other debt securities in issue</b>			
RUB Certificates of Deposit and Promissory Notes	11 per cent.	<u>50,767</u>	<u>17,450</u>
Interest-free loan from the European Development Bank	–	492	492
		<u>51,259</u>	<u>17,942</u>
		<u>83,957</u>	<u>519,111</u>

In May 2009, the Group completed the securitisation of mortgage loans, as a result of which €1 billion of residential mortgage backed notes were issued. In September 2009, the Group completed the securitisation of finance lease receivables, as a result of which €689 million of notes were issued. The liability arising from the issue of these notes is not included in the consolidated balance sheet as all notes issued are held by the Group. The notes issued in May 2009 in the context of the securitisation of mortgage loans were redeemed in March 2011 at par.

The Company maintains the Programme with an aggregate nominal amount of up to €4 billion (2009: €4 billion). Under the Programme, the Company issued SEK 50 million 2009/2012 bonds in May 2009, the redemption amount of which is linked to the OMX Stockholm 30 Index. Also under the Programme, the Company issued SEK 100 million 2010/2014 bonds in March 2010, the redemption amount of which is linked to the return of specific shares listed on the Stockholm Stock Exchange. The RUB 1,500 million 2010 bonds were issued at par by CB Uniastrum Bank LLC in April 2007 and were redeemed at par in April 2010. In May 2010, the Company issued the €2 million 2010/2016 and USD 2 million 2010/2016 bonds, the redemption amount of which is linked to the DJ EUROSTOXX 50 and S&P 500 indices, respectively.

The €500 million 2007/2010 bonds which were issued in June 2007, matured in June 2010 and were redeemed at par. The €500 million 2007/2010 bonds are listed on the Luxembourg Stock Exchange. The RUB 1,500 million 2010 bonds were listed on the Moscow Interbank Currency Exchange.

The Company maintains a Euro Commercial Paper Programme (“ECP Programme”) with an aggregate nominal amount of up to €1 billion (2009: €1 billion). According to the terms of the ECP Programme, the Commercial Paper is issued in various currencies at a discount and pays no interest. Each issue has a maturity period of up to 364 days and is unlisted.

RUB certificates of deposits and promissory notes were issued by CB Uniastrum Bank LLC at par, are unlisted and have maturities of up to one year.

#### *Other Sources of Funds*

The Group had in issue the following series of subordinated loan maturities as at 31 December 2008, 2009 and 2010.

	<i>As at 31 December</i>		
	<i>2008</i>	<i>2009</i>	<i>2010</i>
	<i>(in thousands of euro)</i>		
Capital Securities Series B (€51 million) .....	50,713	–	–
Floating Rate Subordinated Bonds, 2011/2016 (€200 million) .....	187,748	142,618	127,315
Capital Securities 12/2007 (€126 million) .....	124,034	123,773	122,023
Convertible Bonds 2013/2018 (€573 million) .....	563,726	41,090	40,986
Convertible Capital Securities (€645 million) .....	–	633,304	634,034
Subordinated Bonds in Ukrainian hryvnia 12/2016 .....	1,806	–	–
Subordinated Bonds in US dollars 2013/2014/2015 .....	6,058	6,058	6,584
<b>Total</b> .....	<b>934,085</b>	<b>946,843</b>	<b>930,942</b>
Repayable according to their expected maturity date:			
less than 1 year .....	53,879	303	335
after 1 year .....	880,206	946,540	930,607
<b>Total</b> .....	<b>934,085</b>	<b>946,843</b>	<b>930,942</b>

All of the above subordinated loan stock ranks after the claims of depositors and other creditors of the Bank but has priority over the shareholders of the Bank and qualifies as Tier II capital in determining the capital base of the Bank, with the exception of the Capital Securities which qualify as Tier I capital.

In May 2006, the Bank issued €200 million 2011/2016 bonds under the Programme maturing in May 2016. The Company has the option to call these bonds in whole from May 2011. The interest rate of the bonds was set at three-month Euribor plus 0.60 per cent until May 2011, increasing to plus 1.60 per cent thereafter. The bonds are listed on the Luxembourg Stock Exchange.

Subordinated Bonds were issued in USD by CB Uniastrum Bank LLC and mature as follows:

USD 2 million on 31 December 2013, USD 2.5 million on 31 December 2014 and USD 2 million on 31 December 2015. The interest rate can be changed unilaterally by the issuer at any time until maturity.

In July 2008, the Company issued Convertible Bonds 2013/2018 in Euro, with a nominal value of €573 million, maturing in June 2018. These Convertible Bonds carried a fixed interest rate of 7.50 per cent. per annum until 30 June 2009 and a floating interest rate thereafter, set at six-month Euribor plus 1.00 per cent. until June 2013 and plus 3.00 per cent. thereafter.

As a result of the rights issue to the Company's shareholders and the special distribution of an interim dividend in the form of shares during 2010, the conversion price of the Convertible Bonds was adjusted in accordance with the relevant terms of issue from €10.50 to €8.11 per share. The conversion periods are between 15-30 September for the years 2010-2012 and 15-31 March for the years 2011-2013. The Convertible Bonds may be redeemed at the option of the Company on or after September 2013, subject to the prior consent of the Central Bank of Cyprus. These Convertible Bonds are listed on the CSE. On 6 June 2009, Convertible Bonds 2013/2018 of nominal value €527 million were exchanged for Convertible Capital Securities of an equal nominal value. During the first conversion period between 15-30 September 2010, 45,866 Convertible Bonds were converted into 4,971 shares.

On 6 June 2009, the Company issued €645 million Convertible Capital Securities. The Convertible Capital Securities were offered to eligible shareholders of the Company (in the ratio of Convertible Capital Securities with a nominal value of €11 for every 10 shares held). The issue proceeds were received through the exchange of Convertible Bonds 2013/2018 with a nominal value of €527 million and the remaining €118 million was received in cash. The Convertible Capital Securities bear a fixed interest rate of 5.50 per cent per annum for the first five years and a floating interest rate of 6-month Euribor plus 3.00 per cent per annum thereafter. The Convertible Capital Securities may be converted into ordinary shares of the Company at the option of the holders. As a result of the rights issue to the Company's shareholders and the special distribution of an interim dividend in the form of shares during 2010, the conversion price of the Convertible Capital Securities was adjusted in accordance with the relevant terms of issue from €5.50 to €4.24 per share. The conversion periods are between 15-30 September for the years 2010-2013 and 15-31 March for the years 2011-2014. The Convertible Capital Securities are perpetual, but may be redeemed at the option of the Company, at par together with any accrued interest, on 30 June 2014 or on any other interest payment date thereafter, subject to the prior consent of the Central Bank. During the first conversion period between 15-30 September 2010, 90,001 Convertible Capital Securities were converted into 18,661 shares. The Convertible Capital Securities are listed on the CSE and the Athens Exchange.

The €126 million Capital Securities 12/2007 were issued in Cyprus Pounds in December 2007. The Capital Securities are perpetual, but may be redeemed in whole, at the option of the Company, at par together with any accrued interest, five years after their issue date or on any interest payment date thereafter, subject to the prior consent of the Central Bank. The interest rate of the Capital Securities 12/2007 was fixed at 6.00 per cent per annum for the first six months and floating thereafter, set at three-month Euribor plus 1.25 per cent per annum. The Capital Securities are listed on the CSE.

The €51 million Capital Securities Series B and the €126 million Capital Securities 12/2007 were issued in Cyprus Pounds in March 2004 and in December 2007 respectively. The Capital Securities are perpetual, but may be redeemed in whole, at the option of the Bank, at par together with any accrued interest, five years after their issue date or on any interest payment date thereafter, subject to the prior consent of the Central Bank. In May 2009, the Bank exercised its option to redeem the Capital Securities Series B at par. Capital Securities Series B bore a floating interest rate which was equal to the base rate at the beginning of each three-month period plus 1.00 per cent. The interest rate of Capital Securities 12/2007 was fixed at 6.00 per cent. per annum for the first six months and floating thereafter, equal to the three-month Euribor plus 1.25 per cent. per annum.

### Loans and Other Advances to Customers

As at 31 December 2010, loans and advances to customers of the Group stood at €27.7 billion (€25.6 billion as at 31 December 2009), which represented 65.0 per cent. of the Group's total assets (65.0 per cent. as at 31 December 2009).

The Group's lending consists of extensions of credit by the Bank and its subsidiaries (including hire purchase and leasing facilities) (see "Other Activities – Hire-Purchase/Leasing"). The following table shows the breakdown of the Group's loans and advances to customers including provisions for impairment of loans and advances as at the dates indicated.

	<i>As at 31 December</i>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<i>(in thousands of euro)</i>		
Loans and advances to customers.....	23,186,972	24,671,713	27,104,251
Hire purchase and finance lease debtors .....	1,925,636	1,836,335	1,781,599
Gross loans and advances to customers .....	25,112,608	26,508,048	28,885,850
Provisions for impairment of loans and advances to customers .....	(687,914)	(872,268)	(1,160,399)
<b>Total .....</b>	<u><u>24,424,694</u></u>	<u><u>25,635,780</u></u>	<u><u>27,725,451</u></u>

(See “Provisioning and Loan Loss Experience” for a discussion of the Group’s policies for classifying and provisioning for bad and doubtful debts.)

### *Lending Policy*

The Bank’s lending worldwide is divided between retail, medium-sized businesses and corporate customers. The Bank in Cyprus currently regards any company with available credit lines with the Group in excess of an aggregate principal amount of €1,300,000 as falling within the corporate category (see “Corporate Lending” below) and in the range of €260,000 and €1,300,000 as falling within the medium-sized business category. All other customers fall within the retail sector which comprises personal customers and small businesses with facilities from the Bank of up to €260,000.

As at 31 December 2010, retail advances accounted for approximately 32 per cent. of the Group’s total gross consolidated extensions of credit, while advances to medium-sized businesses accounted for approximately 27 per cent. Corporate advances accounted for approximately 41 per cent.

The Bank’s primary lending criterion is the borrower’s repayment ability. Additionally, the Bank places emphasis on the provision of satisfactory security, mainly in the form of tangible collateral and personal/corporate guarantees depending on the riskiness. Often customers borrow in their personal capacity or as medium-sized businesses taking advantage of a number of different facilities. In these cases, the security taken by the Bank in respect of a customer’s borrowings is in effect “pooled” by a system of cross collateralisation and cross guarantees, so that default under the terms of one facility may trigger enforcement of security originally taken in respect of another. This pooling of security maintains flexibility in that it allows the Bank to have access to the maximum amount of assets in respect of a borrower. The Bank places paramount importance on the assessment of a prospective borrower’s ability to meet repayment schedules (see “Policies for Approving Credit Exposures”).

Security is held as a last resort for the recovery of the debt. Generally, the Bank only requires a review of security if the borrower makes a request for a new loan or advance or during the annual review (see “Review of Credit Exposures”).

As at 31 December 2010, 93 per cent. of the Group’s credit portfolio was funded and 7 per cent. was unfunded (93 per cent. and 7 per cent. respectively, in 2009). The Group’s unfunded credit consists of acceptances and endorsements, guarantees and performance bonds and documentary credits (see “Trade Finance” below).

In the area of corporate and business lending, the Planning Division, in co-operation with the Group Credit Risk Policy Management Division, prepares periodical sectoral studies to identify on the one hand those sectors which may present problems and on the other the target areas for credit expansion. These studies are used by the Board of Directors in the formulation or review of lending policy. At present, the Bank believes that the main areas in Cyprus which require caution in relation to its loan portfolio are the share brokerage, property developers, clothing, footwear, leather-goods manufacturing, secondhand car and motorbike dealing, supermarkets, football clubs, political parties, airlines, betting agencies/houses/casinos, hotel industries, cigar trading, pleasure boats, arms trading, mass media, importers of foodstuff, beverages and other supermarket commodities, fish farming, poultry farming, winery, local ice cream manufacturing/importing, furniture manufacturing/importing, insurance sectors and restaurants and clubs. The risky sectors are reviewed periodically by the Group Credit Risk Policy Management Division. As a result, the Bank has strict restrictions on new extensions of credit to borrowers in these sectors. In particular, all loan applications (or applications for loan renewals) from business firms in these sectors are referred to Head Office (see “Policies for Approving Credit Exposures”).

### *Retail Lending*

The Group offers a wide range of retail credit products to its customers both in Cyprus and abroad. These include current accounts, home loans, student loans, agricultural loans, loans for businesses, hire purchase finance and credit cards.

Most of the Bank's retail facilities take the form of overdraft accounts with predetermined credit limits or fixed-term loans with a typical maturity of between five and seven years, although home and student loans may have a maturity of up to 40 years. For small business lending, security is always taken in the form of personal guarantees from the owner of the borrowing company and/or other persons backed by mortgages over real property and/or pledges of shares and/or fixed and floating charges over corporate assets.

#### *Medium-sized Businesses and Corporate Lending*

The Bank's lending facilities for these customers comprise overdraft accounts, loans of fixed maturity, invoice discounting, domestic factoring, import and export factoring, hire-purchase financing and leasing, bills discounting and stock financing. The Bank also provides letters of credit and letters of guarantee.

The Bank's corporate and business lending in Cyprus is channelled through 15 Corporate Banking Centres ("CBCs") and 23 Business Centres ("BCs"). The Group has separate CBCs in London, Greece, Australia, Romania, Russia and Ukraine.

Interest rates for corporate advances vary according to each customer's risk premium. Maturities of corporate loans in the Bank's portfolio range from a period of less than one year to ten years depending on the nature and purpose of the facility. In general, security is required in the form of fixed or floating charges on the assets of the borrower, mortgages over real property, pledges of shares, cash collateral and personal and/or corporate guarantees.

#### *Trade Finance*

Imports and exports are a significant feature of the Cyprus economy. In addition, Cyprus has developed into an international business centre for finance, trade and shipping. The Bank specialises in the provision of trade services such as import and export financing and money transmission services. Official banking statistics are not available to be able to provide accurate market share data, but the Bank believes that the nature of its customer base, which includes the majority of Cyprus' major import and export businesses, and the Bank's relationship with its correspondent banks overseas, places it in a strong position in relation to its domestic rivals in this area of business.

In Cyprus, trade finance services are provided by all of the Bank's branches, including the International Banking Units which specialise in servicing International Business Companies ("IBCs"). IBCs are legal entities whose beneficial ownership and business activities lie outside Cyprus. Outside Cyprus, the Bank offers trade finance products via its branch network in Greece, the United Kingdom, Australia, Romania, Russia and Ukraine.

Import and export financing is offered through the opening of letters of credit, the handling of bills of exchange, the issuing of letters of guarantee and standby letters of credit, the discounting of bills, the handling of documentary and other trade collections and the execution of money transfers. In addition, the Group offers credit facilities in the form of pre-export finance and direct and indirect facilities to customers and correspondents. In Cyprus these services are offered to local customers of the Group as well as to IBCs. These services are also offered in all countries where the Group has a banking presence.

The Bank operates the same credit approval and control policies in relation to its trade finance activities as for its other credit businesses (see "Policies for Approving Credit Exposures" and "Review of Credit Exposures"). Amounts outstanding in relation to import and export financing for each customer are aggregated with any other outstandings in relation to such customer in determining credit limits.

The Group's Asset and Liability Committee ("Group ALCO"), on the advice of Group Market Risk Management (see "Asset and Liability Management"), approves country and bank limits in order to manage direct and indirect counterparty risk arising from commercial transactions. Banks in the U.S. and the European Union are placed into categories according to their credit rating and the overall assessment of their financial condition. Transactions can then take place up to specified amounts for each category. For non-rated banks, or for banks located in countries which are considered riskier, there is closer monitoring. In this case, Group Market Risk Management recommends a limit, taking into account the financial statements, ownership structure, other qualitative data and credit ratings (if available) of such banks and the ratings and

reports of the countries in which they are located. These limits are under continuous review by Group Market Risk Management by reference to the reports of rating agencies and/or other public information such as financial statements. The aggregate counterparty exposure for each of these banks and countries is reviewed at the Group ALCO meetings each month.

The following table sets out the amounts of the Group's trade and other guarantee financing outstanding as at the dates indicated.

	<i>As at 31 December</i>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<i>(in thousands of euro)</i>		
Acceptances and endorsements .....	42,387	55,339	29,040
Guarantees.....	1,919,963	1,923,973	2,023,359
Documentary credits.....	42,718	46,192	48,109
<b>Total</b> .....	<u>2,005,068</u>	<u>2,025,504</u>	<u>2,100,508</u>

#### *Sectoral Analysis*

The following table sets out the breakdown of the Group's total credit portfolio by economic sector as at 31 December in each year from 2008 to 2010.

	<i>As at 31 December</i>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<i>(in thousands of euro)</i>		
Trade .....	3,483,250	3,333,762	3,617,946
Manufacturing.....	1,583,127	1,545,488	1,755,320
Hotels and catering .....	1,977,281	2,121,902	2,297,776
Construction .....	2,678,265	2,462,311	2,747,557
Real estate.....	3,029,948	3,331,556	3,866,022
Private individuals.....	7,541,962	8,787,667	8,591,309
Professional and other services.....	3,411,377	3,076,706	4,065,604
Other sectors .....	1,407,398	1,848,656	1,944,316
<b>Total</b> .....	<u>25,112,608</u>	<u>26,508,048</u>	<u>28,885,850</u>

The consolidated loan portfolio of the Bank is concentrated in the areas of trade, which represented 12.5 per cent. as at 31 December 2010 (12.6 per cent. as at 31 December 2009), manufacturing with 6.1 per cent. (5.8 per cent. as at 31 December 2009), real estate with 13.4 per cent. (12.6 per cent. as at 31 December 2009), professional and other services with 14.1 per cent. (11.6 per cent. as at 31 December 2009), private individuals with 29.7 per cent. (33.2 per cent. as at 31 December 2009), hotels and catering with 8.0 per cent. (8.0 per cent. as at 31 December 2009), construction with 9.5 per cent. (9.3 per cent. as at 31 December 2009) and other with 6.7 per cent. (7.0 per cent. as at 31 December 2009).

### Geographical Analysis

During 2008-2010, the Group extended credit to customers in the following principal geographic areas: Cyprus, Greece, Russia, the United Kingdom, Australia, Romania and Ukraine. The following table shows a breakdown of the Group's total credit portfolio by geographical area as at the dates indicated. The analysis is based on the location of the entity recording the transaction.

	<i>As at 31 December</i>		
	<i>2008</i>	<i>2009</i>	<i>2010</i>
	<i>(in thousands of euro)</i>		
Cyprus .....	11,969,118	12,753,230	13,882,964
Greece .....	9,660,974	9,780,263	10,154,385
Russia .....	1,174,298	1,409,405	1,887,215
United Kingdom .....	1,110,568	1,063,252	1,076,814
Australia .....	411,213	618,420	1,011,560
Romania .....	578,449	677,591	624,673
Ukraine .....	207,988	205,887	248,239
<b>Total</b> .....	<b>25,112,608</b>	<b>26,508,048</b>	<b>28,885,850</b>

While credits extended in Cyprus remain central to the Group's business, representing 48.1 per cent. of the Group's total credits as at 31 December 2010, credit extended in Greece grew by 3.8 per cent. during 2010 while growth in Cyprus was 8.9 per cent. over the same period. In the United Kingdom, loans increased by 1.3 per cent. during 2010. Loans extended by the Group in Russia and in the Ukraine grew by 33.9 per cent. and 20.6 per cent. respectively. For a discussion of the Group's operations in each country see "Operations by Geography" below.

### Credit Portfolio Concentration

The Bank's exposure to customer groups who have credit facilities amounting to more than 10 per cent. of the Group's capital base as at 31 December 2010 was €1.4 billion (€1.3 billion as at 31 December 2009).

Total exposure to the Bank's largest customer groups as at 31 December 2010 was 4.8 per cent., of the Group's total consolidated advances.

As at 31 December 2010, the Group had loans and other advances granted to Directors of the Bank, key management personnel and their connected persons of €244.3 million and contingent liabilities in the form of documentary credits, guarantees and commitments to lend of €113.4 million.

There are restrictions on loan concentrations which are imposed under the Banking Law (as defined below) and by the Directive issued under the Banking Law by the Central Bank of Cyprus (the "Central Bank"). According to these restrictions, banks should not lend more than 25 per cent. of their capital to any individual borrower and their connected persons. In addition, total lending to individual borrowers and their connected persons whose borrowings exceed 10 per cent. of a bank's capital base should not in aggregate exceed eight times its capital base. The Bank is in compliance with both of these regulations (see "The Banking Sector in Cyprus – Regulatory Framework"). In addition to the above, the Group's overseas operations have to comply with large exposure guidelines set by the authorities of the countries in which they are based.

The Group's foreign currency lending consists of two types: lending to retail and corporate customers operating in the United Kingdom, Greece, Australia, Romania, Russia and Ukraine out of the branches located there, and foreign currency lending to customers of Cyprus.

## **Credit Risk Management**

The management of credit quality for the whole Group is the primary responsibility of the Group Credit Risk Policy Management Division in co-operation with the Credit Risk (Sanctioning) Division at Head Office.

The primary objective of these divisions is the development and operation of effective and efficient systems for managing and monitoring/controlling the risk profile of the Group's loan portfolio, within the framework of the general strategic objectives of the Group.

The primary functions of the Group Credit Risk Policy Management Division are portfolio management and credit policy development. On the other hand, the primary functions of the Credit Risk (Sanctioning) Divisions in Cyprus, Greece, the United Kingdom, Australia, Romania, Russia and Ukraine are responsible for the implementation of credit risk policy and the monitoring and control of the Bank's advances in those countries.

### ***Portfolio Management and Credit Policy Development***

The Credit Risk Policy Management Division is responsible for: (i) managing the structure of the loan portfolio by setting objectives, priorities and limits on the basis of credit risk, (ii) managing the Group's internal target system in relation to loan portfolio quality (specific quality targets are set by sector, customer group, product, region and banking unit), (iii) developing suitable systems for assessing and measuring credit risk (i.e. a credit rating system for corporate customers and medium-sized businesses and a credit scoring system for the retail sector), (iv) developing the relevant pricing policy for loans (at customer level for the corporate and medium-sized businesses and sectors and at product/customer group level for personal customers and small businesses), and (v) developing human resources, information systems and other resources in order to respond effectively to the changing needs of managing credit risk.

### ***Policies for Approving Credit Exposures***

The Bank's credit approval process takes into account five principal criteria in relation to a prospective borrower: (i) the client's financial position and repayment ability, (ii) the economic sector in which the client operates, (iii) the quality of the client's management, (iv) the proposed security for the facility, and (v) the profitability of the client's bank accounts.

In general, the Bank's credit risk management aims at ensuring an adequately diversified portfolio, in order to avoid over concentration in a small number of sectors or customer groups. Credit sanctioning is based on prudent lending rules. Generally, the Bank lends on the security of a first charge provided the loan to value ratio ("LVR") does not exceed 70 per cent. with the exception of housing loan to first-time home-owners where the LVR can increase to 80 per cent. The Bank takes a second charge only in exceptional circumstances (for example where the Bank's primary security is taken in some other way and the second charge provides additional comfort).

There are no special terms on loans to shareholders. As regards limits on credit facilities granted to individual borrowers or Bank Directors and their connected persons, the Bank complies with the relevant provisions of the Banking Law of 1997 and the relevant exposures are set out in the Group's Consolidated Financial Statements (see "The Banking Sector in Cyprus – Regulatory Framework").

### **Lending Delegations, Approving Responsibilities and Handling of Policy Exceptions**

The Credit Risk (Sanctioning) Division is responsible for credit sanctioning for all the Bank's customers. In order to facilitate and expedite the credit sanctioning process, certain lending authorities and approving responsibilities have been delegated to managers and officers of Branch Banking and Business/Corporate Banking for the approval of low risk facilities.

Loan applications for new or existing customers who are designated "high risk" (on the basis of certain specific criteria described below) are submitted to the Credit Risk (Sanctioning) Division at Head Office, depending on the size of the exposure or security gap. Loans which are assessed to be of higher risk (due to

the total exposure to the client) are reviewed and approved by the two head office Loans Executive Committees.

“High risk” credit facilities are considered to include the following: (i) large exposures or security gaps (beyond discretionary limits), (ii) substantial excesses on approved limits (beyond discretionary limits for excesses), (iii) exposures with a high proportion of arrears, (iv) complex accounts (according to specified criteria), (v) facilities to new customers and (vi) companies with operations in high risk sectors of the economy.

The above criteria together with the relevant specific quantitative parameters are embodied in the Bank’s guidelines for the “Credit Approval Limits” given to the various approving officers.

The exact limits above which credit decisions must be referred vary according to the size of the branch or CBC, the relative seniority and experience of the relevant manager or officer and the particular industry sector of the prospective borrower. Discretionary lending limits are reduced for large gap exposures and new customers. These restrictions do not apply for the top four levels of approving authorities (i.e. Assistant Credit Risk Managers at Head Office, Head Office Credit Risk Managers, the Junior Loans Committee and the Senior Loans Committee).

All applications are submitted directly from the relevant business line unit to the relevant approving authority. No level of authority may overrule a negative recommendation submitted by a level directly below it, without referring the application to a higher level.

In addition to the limits set out by the supervisory authorities mentioned above, the Bank will also occasionally impose its own limits in relation to certain customers or groups of customers or economic sectors and will also sometimes seek to impose restrictions on a customer’s borrowing from other financial institutions.

#### *Corporate Governance and Board Involvement on Credit Issues*

The Group’s Board is extensively involved in all major aspects of credit quality, both at strategic level (policy issues) and practical level (sanctioning for very large customers) as well as applications made by Board members. More specifically, the Risk Committee of the Board reviews and makes recommendations to the Board relating to, inter alia, the Group’s risk management policy and practices and the effectiveness thereof.

#### *Retail Lending to Personal Customers*

The Bank has introduced a system of credit scoring to assess applications for loans by personal customers. Application scoring is used for new customers and the score/decision is based on the customer’s characteristics (demographics such as age, length of employment, salary, years at the same address and, to a lesser extent, the terms of credit of the requested facilities) at the time of the application.

In relation to lending to existing customers, the Bank uses behavioural scoring which takes into account such factors as the conduct of existing accounts and whether the customer has been in arrears. The Bank’s credit assessment takes into account the availability of tangible security from a borrower (see “Lending Policy”).

#### **Credit Rating Systems for Medium-Sized Business and Corporate Lending**

The Credit Rating Systems are well embedded in the operational credit management process of the Bank.

The Credit Rating System (Moody’s Risk Advisor-MRA) is used by the Business and Corporate Banking Centres and is in compliance with the Basel II IRB Foundation Approach.

During 2010, a new upgraded version was formally applied based on the new web based version of MRA - Risk Analyst. The new system calculates the following ratings for such customers:

- (i) Their **financial index** (based on Moody’s MRA). This index will rate the financial position of the customers based on recent audited financial statements (assessing the performance with respect to

operational efficiency, liquidity, debt service and capital structure). This is the index that had been used for assessing financial position/credit worthiness of business/corporate customers.

- (ii) Their **borrower rating** (an assessment of the credit-worthiness of the customer taking into account financial index, account behaviour with the Bank, the directors'/guarantors' account behaviour with the Bank, the Management of the enterprise and sectoral risks as well as the operations liquidity and capital structure).
- (iii) Their **transaction rating** (an overall assessment of the customer taking into account their financial index, their borrower rating as well as the collaterals/ security gap of the Bank *vis-à-vis* the customer). This module will support the creation of Loss Given Default (LGD), Exposure at Default (EAD) and Expected Loss (EL) in compliance with the Basel II IRB Foundation Approach. It has to be noted that the transaction rating module has not become operational yet.

The MRA also has a new archive capability that supports Basel II by providing a way to capture data and create a complete ratings history for all borrowers.

#### *Management of Problematic Accounts*

Problematic accounts with arrears between one and three months are handled by the following centralised specialised departments:

##### *Collections Department for Personal Lending*

This department handles debit accounts from the retail sector with arrears over 15 days for high risk customers (as rated by the Behavioral Scoring System) and over 30 days for low risk customers. If these accounts continue to present arrears for over four to five months, then they are sent to the Recoveries Division for a more specialised treatment (including legal).

##### *Business Support Unit (BSU)*

The BSU department handles accounts from the medium-sized business sector and the corporate sector which present arrears over two months and three months respectively.

Where the accounts are not normalised within a specified period of time (maximum three months from the date of their transfer to BSU/CSU), then BSU/CSU is responsible for sending them to the Recoveries Division for further treatment (e.g. selling the available security to settle the debt, taking legal action etc.).

#### *Review of Credit Exposures*

The Bank's credit review procedures operate as follows:

- *Branch/BC/CBC* – at the branch/BC/CBC level, the relationship officer responsible for the particular customer and the manager conduct an annual review of each facility on the basis of the financial position of the customer. It is then decided whether to renew the facility or refer it to the next level in the credit approval hierarchy. The same officers also conduct regular monitoring of all accounts within their responsibility during the course of the year.
- *Credit Control Department (“CCD”)* – the CCD operates out of the Bank's headquarters and reports directly to the Senior Credit Risk Manager. The department monitors on a continuous basis the quality of the Bank's portfolio for irregularities and other weaknesses such as excesses, arrears, dormant accounts and large security gaps and examines credit sanctioning to ensure compliance with the Bank's credit policy, rules and regulations. This is done through the evaluation of all decisions concerning the granting of credit, the analysis of trends regarding various aspects of the quality of lending, (especially those concerning high risk and problematic accounts) and the review of compliance with all terms and conditions of decisions taken involving the approving/granting of credit.

- *Credit Review Department (“CRD”)* – the CRD also operates out of the Bank’s headquarters but reports directly to the Group’s internal Audit Department. The CRD is an independent department which conducts a separate credit review of each branch/BC/CBC every two years on average. The frequency of the review depends on the findings of the previous review. CRD also conducts an operational audit of the branches’/BC’s/CBC’s credit approval, monitoring and review systems and procedures. The review involves the in-depth investigation of (a) the quality of the branches’/BC’s/CBC’s portfolio of advances and (b) the organisation and overall administration and management of their advances, divisions and function. As a result of the review, CRD assigns its own credit rating to each loan (ranging from A to E). A rating is also assigned with respect to the branches’/BC’s/CBC’s overall credit portfolio management and administration. In carrying out the investigation, the CRD reviews the customers’ files and examines the overall organisation and staff of the advances division of each unit.

## **Provisioning and Loan Loss Experience**

### *Provisioning Policy*

A full review of the Bank’s portfolio is carried out twice a year under the supervision of the Group Credit Risk Policy Department in order to review all loans which meet certain criteria. These criteria are revised regularly to keep up with market developments and are specific to each country. The criteria currently include all non-performing loans, accounts with significant arrears, debit current/ overdraft accounts with no recent credit turnover, customers included in the Special Attention Lists for provisions purposes, customers with a low Credit Review Division credit rating and all Recoveries Division customers.

In addition, loans are reviewed for provisioning at any time if so recommended by branch management, credit officers and customer relationship officers. Guidance is given to the Group’s management and officers in relation to factors affecting loans which should prompt a recommendation that provisioning should be considered. These factors include excesses above certain parameters, delays and overdue liabilities, limited account movement, frequent rescheduling, a negative attitude on the part of the borrower and specific industry problems.

The Group Credit Risk Policy Department reviews each loan satisfying the review criteria to determine the level of provision for impairment required. A key parameter reviewed is the “security gap” (i.e. the difference between the amount owed to the Group and the realisable value of the security held). Outstanding amounts (including guarantees) are reviewed against the value of the security held by the Group in respect of the relevant borrower to identify the present value of the amount which may be recovered in relation to the loan and therefore any unrecoverable and hence provisionable amount.

For significant customers a discounted cash flow exercise is carried out for determining the final provision amount. A number of assumptions are used for the valuation of securities. The future cash flows are discounted back to present values and the specific provision is derived from the difference of the group exposure and the present value of the collateral.

In determining the level of provision for impairment required, other information in addition to the amount of security gap is also considered, for example details of the financial position of personal guarantors, up-to-date valuations of the security, values assigned to fixed and floating charges, an assessment of the borrower’s general financial position, the audited accounts of the borrower, relationships with and amounts owing to other banks, the results of any legal actions against the relevant borrower, the probability of a liability crystallising and the level of non-collectible interest (if any).

On completion of the provision review, the following reports are produced for each of the entities: (i) a summary of the charge for provisions for impairment of loans and advances and accumulated balance sheet provisions, (ii) a Special Attention List, which includes all accounts requiring attention, with a significant unprovided security gap, (iii) the top 20 groups with the highest capital provision, and (iv) large provision charge increases/decreases during the period under review. Every six months, the provisions reports are discussed and approved by different internal committees (which comprise senior officers of the Group) and by the Board of Directors.

In addition to provisions for impairment on an individual basis, the Group also makes collective impairment provisions for loans and advances that are not individually significant and for losses that have been incurred but are not yet identified relating to loans and advances that have been assessed individually and for which no provision has been made.

The Group adopts a formulaic approach for calculating its collective provisions. Loss rates are based on historical experience. Loans are grouped based on similar credit risk characteristics taking into account the type of the loan, past-due days and other relevant factors.

Future cash flows for a group of loans and advances that are collectively evaluated for impairment are estimated on the basis of historical loss experience. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to remove the impact of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### *Provisions and Loan Loss Experience*

The sectors of the economy which have had the most significant problems are described under “Loans and Other Advances to Customers”.

The Group places considerable importance on its “diagnostic” review of major loan accounts, which is carried out with a view to giving borrowers the best possible opportunity to rectify problem loans. These reviews have enabled the Group to correct problems without the need for enforcement of security in a number of cases. The Group’s policy is not to take any equity stake in a work-out as it believes that it could, as a result, incur legal obligations *vis-à-vis* the shareholders and creditors of the borrower.

As described under “–Lending Policy”, most of the Bank’s lending in Cyprus is made on a secured basis, as is usual in Cyprus. In accordance with Central Bank rules, property acquired on enforcement of security or in exchange for the reduction or extinguishment of a debt should be disposed of by the Bank within a maximum of two years unless otherwise approved by the Central Bank. Generally the Bank lends on the security of a first mortgage charge. The Bank takes a second mortgage charge only in exceptional circumstances (for example where the primary security is taken in some other way and the second charge provides additional comfort).

### **Operations by Geography**

#### *Cyprus*

The Bank is the largest financial services organisation in Cyprus, offering a wide range of financial products and services, which include banking, leasing, factoring, brokerage, fund management, general and life insurance and investment banking services.

The Bank’s market share in total banking system deposits and loans in Cyprus, including credit co-operatives, amounted to 31.4 per cent. and 27.5 per cent., respectively (31 December 2010). The Bank operates 143 branches in Cyprus and as at 31 December 2010, the Group employed 3,556 staff in Cyprus.

Cyprus is an international business centre, providing services to international business companies (IBCs). The Bank is a leader in this sector of the market, providing services to IBCs via specialised units called International Business Units (IBUs). The Bank operates four IBUs, which are located in Nicosia, Limassol, Larnaca and Paphos. They are staffed with well-qualified and experienced personnel, including Russian speakers. The IBUs are supported by advanced technological systems, which provide high quality and efficient service on a personal basis. The Bank’s revenue from transactions with such companies is mainly in the form of a margin on deposits and fees from foreign exchange transactions, trade finance and money transmission.

The Bank is aware of the need to monitor its activities closely for possible money laundering transactions. There is an AML Compliance Office in the Group. The head of the AML Compliance Office is the contact

person between the Group and the competent authorities. The AML Compliance Office is responsible among other things for suggesting and ensuring the implementation of the Group AML policy, closely monitoring transactions for possible money laundering activities, reporting any suspicious transactions to the relevant authorities and training the Group staff in relation to AML issues and procedures.

Being the largest bank in Cyprus as at 31 December 2010 in terms of market share in advances and deposits, the Bank is the preferred correspondent for many major international banks for the transmission of funds into Cyprus. The Bank's strength in this area is attractive to customers both in Cyprus and abroad and it means that the Bank generally has an excess of international bank lines available to it.

### **Greece**

The Bank has been operating in Greece since 1991. The dynamic expansion of the Bank's Greek operations started in 1999. The Bank operated 185 branches at 31 December 2010.

Through its wholly-owned Greek subsidiaries, the Bank carries out leasing, brokerage and mutual fund management. In 2001 Kyprou Zois and Kyprou Asfalistiki, the Greek branches of EuroLife Ltd and General Insurance of Cyprus Ltd respectively, were established in Greece. The Bank also offers factoring services in Greece through its specialised unit, Kyprou Factors, which began operations in 2002. The full range of products and services of both the Bank and its subsidiaries are offered through the Bank's branch network.

The market share of the Bank in deposits and loans in Greece at 31 December 2010 amounted to 4.2 per cent. and 4.2 per cent., respectively (based on Bank of Greece information). Kyprou Leasing, a subsidiary of the Bank, which operates in Greece held the second largest market share in the Greek leasing sector.

When the Bank began its operations in Greece in 1991, it focused predominantly on corporate lending. The Bank is now focusing on providing credit to retail, SME and corporate customers through its expanded branch network which covers the whole of Greece.

The table below sets out the Group's Greek operations as at the dates indicated:

	<i>As at 31 December</i>		
	<i>2008</i>	<i>2009</i>	<i>2010</i>
	<i>(in thousands of euro)</i>		
Loans and other advances to customers .....	9,660,974	9,780,263	10,154,385
Customer deposits.....	10,507,701	10,910,747	9,790,616
Total assets .....	14,415,926	16,383,209	14,690,567
Profit after tax .....	73,853	3,062	11,255

As at 31 December 2010, approximately 32 per cent. of lending was to corporates, 37 per cent. to medium-sized businesses and 31 per cent. to retail customers.

### **Russia**

Uniastrum Bank ("Uniastrum") marked its second full year of operation as a member of the Bank of Cyprus Group. As at the end of 2010, Uniastrum's regional network had more than 200 branches, including 43 regional offices in 48 Russian regions.

Year 2010 brought a revival of the Russian economy in general and the banking sector in particular, as the country's business community began to emerge from the recession of 2008-2009. In 2010, Uniastrum has significantly improved its performance indicators in all core business lines, mostly due to higher retail-side demand, the launch of products that were new to the Russian banking market and prudent risk assessment practices.

The Group's Russian loan portfolio has expanded by 34 per cent. reaching €1.9 billion as on 31 December 2010. Sustained loan growth boosted net interest income and profit after tax, which recorded annual increases of 66 per cent. and 116 per cent. respectively.

During 2010, Uniastrum streamlined its retail activities by merging separate business lines (auto finance, personal loans and payment cards), thereby laying the groundwork for optimising procedures governing the design, launch, and marketing of retail products and services, including follow-up and monitoring procedures.

In 2010, Uniastrum's retail lending portfolio expanded by 26 per cent. to €405 million as at the year end, driven primarily by credit cards and personal loans. The total number of retail borrowers rose to more than 74,000. As at the end of 2010, Uniastrum operated an ATM network of 678 cash machines, while its payment kiosk network comprised of 104 terminals.

In 2010, Uniastrum focused on rolling out its product range through joint partnership programs and the introduction of schemes geared towards raising credit limits for loyal customers. Uniastrum optimised its auto finance product range during 2010, targeting selected customer segments with specialised products. The Bank also redesigned its range of retail products for corporate customers and launched a product package which includes payroll cards, auto loans, personal loans and credit cards.

Moreover, during 2010 Uniastrum has further calibrated its loan sanctioning processes, including the adoption of an electronic credit scoring system for assessing the creditworthiness of potential borrowers.

Uniastrum's deposit product mix also underwent significant changes. During autumn, the Bank launched a marketing drive to attract more retail depositors, resulting in a significant increase in household deposits in December 2010.

During the year, Uniastrum introduced its U-Bank Internet Bank, through which customers can pay for housing and utilities, mobile phone services and internet purchases as well as make intra-bank and inter-bank money transfers which could previously only be executed via the Bank's payment kiosks and ATM network.

Uniastrum also offers a broad array of products and services to its corporate clients and is a reliable partner for Russian and foreign companies operating in different sectors of the Russian economy. The Bank's corporate unit provides a diversified range of products and services, designed in collaboration with the Bank of Cyprus Group.

In 2010, Uniastrum's corporate lending portfolio grew by 30 per cent. to €1.3 billion, which is more than double the incremental growth recorded in the same period for the Russian banking sector as whole.

Uniastrum's corporate lending programme is geared towards developing and expanding the clients' existing businesses. The Bank provides credit for working capital, acquisition of property and equipment, upgrading of production facilities, major repairs and maintenance of property and equipment, debt refinancing and trade finance. The Bank also offers more specialised products for corporate borrowers, including trade credit, credit guaranteed by the Moscow Small Enterprise Assistance Fund and financing for government projects.

Support for small and medium-sized businesses ("SMEs") is also a key component of Uniastrum's business strategy. Thanks to their willingness to relocate and a proven ability to adjust quickly to the changes in the economic landscape, SMEs are today one of the Bank's most consistent customer segments. The Bank's SME lending strategy is designed to bolster the Bank's credit portfolio, albeit never at the expense of quality, developing new innovative products and encouraging customisation.

Total loans to SMEs in 2010 amounted to €213 million, covering a wide range of economic sectors including trade, food and processing industries, transport and services. The total number of SME clients increased by 64 per cent. to over 2,000.

### ***United Kingdom***

The Bank has operated in the United Kingdom since 1955. The Bank operates in the United Kingdom through four business centres and banking outlets in London specialising in the provision of banking services to smaller businesses and entrepreneurs). As at 31 December 2010, the Group's total loans in the United Kingdom were €1,077 million (€1,063 million as at 31 December 2009). Bank of Cyprus UK achieved satisfactory profitability in 2010 despite the difficult financial and economic environment. The liquidity

squeeze, which persisted throughout 2010, kept funding costs high as UK banks continued to price retail deposits aggressively to secure funding. In response, Bank of Cyprus UK's efforts focused on improving interest margins and liquidity, ensuring that lending remained economically viable and enabling Bank of Cyprus UK to compete for customer deposits.

Bank of Cyprus UK's credit risk management required a careful balancing act of reducing exposure to least creditworthy borrowers and adapting pricing where appropriate to reflect the prevailing market conditions.

Costs remained flat in 2010 compared to 2009, benefiting from efficiencies achieved through improved use of the online banking offering, the introduction of mobile account payment services and other automations.

Going forward, Bank of Cyprus UK will continue to concentrate on relationship-based business banking, providing its customers with an outstanding service and flexible, transparent and competitive products.

### ***Channel Islands***

In 1996, the Bank established a wholly-owned subsidiary in the Channel Islands, Bank of Cyprus (Channel Islands) Ltd, which is licensed under the Banking Supervision (Bailiwick of Guernsey) Law of 1994, as amended, and the Protection of Investors (Bailiwick of Guernsey) Law of 1987, as amended). As at 31 December 2010, Bank of Cyprus (Channel Islands) Ltd had total assets of €186 million (€196 million as at 31 December 2009). Its main activities are deposit-taking and lending, as well as the provision of private banking and international investment and brokerage services.

### ***Australia***

In 2000, the Bank established its banking subsidiary in Australia, BOC Australia, to serve the local Greek and Cypriot community. It was the first bank established in Australia by a Cypriot or Greek banking institution. BOC Australia has 12 branches.

As at 31 December 2010, BOC Australia had advances of €1,012 million (€618 million as at 31 December 2009) and deposits of €897 million (€511 million as at 31 December 2009). 2010 was Bank of Cyprus Australia's most successful year since beginning full retail banking operations in Australia in 2001. The Bank excelled on a number of key performance indicators and finished the year with its increased net profit.

The Bank continued its focus of providing a very high standard of customer service with a strong emphasis in the Hellenic Community. One of the main priorities for the year was to increase the Bank's deposit and customer base through targeted campaigns, which yielded positive results especially in light of the global financial environment and the highly competitive Australian market place. Specifically, the Bank's deposit portfolio increased by 76 per cent. in 2010 and the number of customer accounts increased by 37 per cent. The significant growth in deposits and customer numbers was a result of specifically targeted campaigns and a growing focus on expanding the Bank's market share.

In 2010, the Bank has opened two new branches in Melbourne, taking the total number of Australian branches to 12. In addition, the Bank's Head Office and Corporate Centre were transferred to the iconic Rialto Towers in the heart of Melbourne's financial district.

The comprehensive and award winning product range currently offered by the Bank will be further enhanced in 2011. This will be achieved through the creation of product packages tailored for consumer and business customers combined with a personalised and targeted marketing effort. In addition to this, the Bank will continue to offer and strengthen its relationship and service culture to existing and prospective customers, a strategy which will cement and reinforce the Bank's reputation as a genuine and positive alternative to the major Australian Banks.

### ***Romania***

The Bank started operations in Romania in mid-2007 through its subsidiary Bank of Cyprus Romania. Currently the Group operates through 12 branches and two outlets, in Bucharest and other major cities.

During 2010, Bank of Cyprus Romania continued offering a wide range of financial products and high quality services. In all branches, dedicated personnel is focused on servicing SME customers, while there is a specialised team at the Head Office which services corporate clients. The Bank places special emphasis on the expansion of the retail sector and the enrichment of its customer portfolio. The launch of Internet Banking and the Debit and Credit Card programme in late 2008 has helped enhance the Bank's penetration in the consumer sector.

The Bank maintained a sound approach in both its business and retail lending activities, thus creating a solid foundation for its future growth. Bank of Cyprus Romania aims to fully exploit its existing branch network in order to enhance its profitability and liquidity, by focussing on sectors which were less affected by the crisis.

In 2010, despite the difficult economic environment, Bank of Cyprus Romania continued to grow in a cautious manner. It achieved a very satisfactory growth in its deposit base, whereas in lending, prudent growth focused on small corporates and large SMEs, resulting in a satisfactory growth of advances. As at 31 December 2010, the Group's loans in Romania amounted to €625 million (€678 million as at 31 December 2009) and deposits to €153 million (€167 million as at 31 December 2009).

### *Ukraine*

In May 2008, the Bank acquired 97.2 per cent. of the share capital of the Ukrainian bank, PJSB Bank of Cyprus. In 2010, Bank of Cyprus Ukraine improved and strengthened its corporate structure while continuing to pursue its prudent lending strategy. It has expanded its product line for SME and corporate clients and it continued its policy to assist customers in overcoming their financial difficulties.

By the end of the year 2010, the network of Bank of Cyprus Ukraine comprised of 27 branches operating under the BOC Ukraine brand in seven of the most popular regions of Ukraine. In 2010, the Bank has been very active in applying the policies and directions of the Bank of Cyprus Group, both with regards to the Bank's strategy and expansion plans as well as for the management of its existing loan portfolio, with results which outperformed other local and foreign banks in Ukraine. It is worth noting that in 2010 nationally recognised credit rating agencies confirmed Bank of Cyprus Ukraine's rating of 'uaA-' with 'stable' outlook.

In 2010, the Group's operations in Ukraine managed to generate a positive result, despite the severe financial problems of the Ukrainian economy. The lending policy of the Bank focused mainly on prudent and balanced lending, to both the retail and SME customer segments. Great emphasis was placed on attracting new customers and increasing the deposit and loan portfolios, especially in the retail sector.

As at 31 December 2010, the Group's loans in Ukraine amounted to €248 million (€206 million as at 31 December 2009), and its deposits were €41 million (€36 million as at 31 December 2009).

The main strategic plans of the Bank for 2011 are as follows:

- Dynamic growth in the corporate and SME business segments;
- Introduction of new products with increased focus on lending to retail businesses;
- Achievement of the planned profit and self-financing targets of the existing branch network;
- Network expansion in seven new major regions (Dnipropetrovsk, Kherson, Poltava, Luhansk, Mykolayiv, Donetsk and Ivano-Frankivsk);
- Improvement of the quality of existing loan-portfolio; and
- Completion of implementation of Group IT systems and introduction of internet banking.

In the next three years, Bank of Cyprus Ukraine aims to establish itself as a major player in the Ukrainian banking market with a presence in all major regions of Ukraine.

## **Asset and Liability Management**

The Group's asset and liability position is managed on a day-to-day basis by the Group's Treasury Division. The main objective of the Group's Treasury Division is to match assets and liabilities with regards to both interest rate repricing and currency. This is achieved through balance sheet restructuring and through the use of derivative instruments. The overall asset/liability position is closely monitored by the Group Market Risk Management ("GMRM").

The GMRM is independent of the Group Treasury Division and comprises qualified risk management professionals located in all banking units of the Group. GMRM reports to the General Manager Risk Management. The GMRM and the Group ALCO have a Group-wide brief and monitor asset and liability management for the Bank and other Group companies including the operations in Greece, the United Kingdom, the Channel Islands, Australia, Russia, Ukraine and Romania. There are also local ALCOs in the other banking units (Greece, the United Kingdom, Australia, Russia, Ukraine and Romania), that monitor the implementation of asset and liability management for their local operations.

## **Liquidity Risk**

Deposits are the main funding source of the Group. The distribution of sources and the maturity of deposits are actively monitored in order to avoid concentration of funding maturing at any point in time or from a small number of depositors. Moreover, the Group monitors the percentage of fixed deposits that are renewed every quarter and aims to ensure that this percentage is maintained at high levels. The Group relies almost exclusively on stable funding sources in order to finance illiquid assets. Moreover its net loans/deposits ratio as at 31 December 2010 was 84.1 per cent. (89.7 per cent. as at 31 December 2009) which indicates that there is low reliance on wholesale funding. There is compliance with all regulatory ratios set by the authorities in the countries where the Group operates.

The liquidity position is assessed under various scenarios, including simulation of Group-specific crisis and market crisis.

The Group maintains at all times a diversified portfolio of highly liquid assets in the principal currencies in which it transacts. Moreover the ratio of liquid assets to total liabilities falling due in the next 12 months is monitored at Group level with the minimum acceptable ratio set at 25 per cent. Liquid assets are defined as cash, interbank deposits maturing within 30 days and debt and equity securities at discounts prescribed by the regulatory authorities.

As at the year ended 31 December 2010 the liquidity ratio amounted to 28.1 per cent. (26.3 per cent. as at the year ended 31 December 2009).

### Foreign Exchange Risk

The table below sets out the Group's foreign exchange risk resulting from its open foreign exchange positions. The analysis assumes reasonably possible changes in the exchange rates of major currencies against the euro, based mainly on past price fluctuations.

<i>Currency</i>	<i>Change in exchange rate</i>	<i>Impact on profit before tax</i>	<i>Impact on equity</i>
	%	€000	€000
<b>2010</b>			
US dollar .....	+8	3,502	–
Russian rouble.....	+8	905	25,014
Romanian leu .....	+8	(340)	908
Ukrainian hryvnia .....	+5	43	5,083
Swiss franc .....	+8	3,050	–
British pound.....	+8	190	–
Australian dollar, Japanese yen .....	+10	1,742	–
Other currencies .....	+8	1,773	–
US dollar .....	-8	(3,502)	–
Russian rouble.....	-8	(905)	(25,014)
Romanian leu .....	-8	340	(908)
Ukrainian hryvnia .....	-20	–	(20,331)
Swiss franc .....	-8	(3,050)	–
British pound.....	-8	(190)	–
Australian dollar, Japanese yen .....	-10	(1,742)	–
Other currencies .....	-8	(1,773)	–

Foreign exchange positions are closely controlled through the use of both position and maximum loss limits. Foreign exchange derivatives, comprising swaps, forwards and options, are employed for hedging the Group's foreign exchange exposure. As at 31 December 2010, the Bank had outstanding forward exchange rate contracts in a nominal amount of €379 million (€179 million as at 31 December 2009), currency swaps amounting to €3,583 million (€2,027 million as at 31 December 2009) and currency options amounting to €55 million (€42 million as at 31 December 2009).

### Interest Rate Risk

The Bank operates modest interest rate maximum loss limits for each main currency (euro, GBP, USD, AUD, CHF and JPY) and an overall maximum loss limit for all currencies for years 1, 2 and 3. There are also small position limits for the more than three-year mis-matches. The banking units of the Group evaluate their position by the use of a "gap" report which indicates a "maximum possible loss in net interest income" for each currency. The total "maximum possible loss in net interest income" for all currencies is calculated on the basis of all interest rates moving simultaneously and materially assuming perfect positive correlation) as well as moving independently (assuming zero correlation). The total "maximum possible loss in net interest income" for all currencies is also calculated using actual correlations between interest rate movements of different currencies. The exposure using the average of positive and zero correlations, as well as the exposure using actual correlations, are compared to limits. Under both methods, the limits are such that the Bank's maximum possible loss would not be significant. Limits are set so as not to exceed 1.5 per cent. of Group net interest income and 5 per cent. of Group capital. Moreover, the position is evaluated on the basis that interest rates will move as suggested by the current yield curve of each currency. The Bank also calculates the potential impact that a 200-basis points movement in interest rates of all currencies would have on its economic value. As at 31 December 2010 the change in the economic value of the Group, as a result of a 200-basis points change in interest rates amounted to 4.26 per cent. of Group capital.

### *Counterparty Risk*

The Group's counterparty risk is limited by Group ALCO limits which allow money market placements mainly with counterparties rated at least "A1" by Moody's. This restriction does not apply to placements with banks in Cyprus, Greece, Russia, Ukraine and Romania.

As a result of the financial crisis and the problems that many banks face, during 2010 the Bank significantly restricted both the number of banks with which it has limits, as well as the duration of the transactions. The Bank no longer follows the internal model that relied mostly on the bank's credit rating. Limits are allocated to banks that have a significant share of their local market, strong financial position and high probability of obtaining support from their government in case of a problem.

The financial developments, changes in ratings and other news are monitored daily, and limits are adjusted, whenever considered necessary.

### **Capital Expenditure**

The Group had capital commitments for the acquisition of property and equipment as at 31 December 2010 of €30.9 million (€11.5 million as at 31 December 2009).

The capital expenditure for the year 2010 amounted to €50.8 million.

### **Group Branch Network**

The following chart sets out the geographical distribution of the Group's network of banking outlets and representative offices as at 31 December 2010.

	<i>Number Branches</i>
Cyprus .....	143
Greece .....	185
United Kingdom.....	4
Channel Islands .....	1
Australia .....	12
Romania .....	12
Russia.....	211
Ukraine.....	27
<b>Total</b> .....	<b>595</b>
Representative Offices	
Canada .....	1
Romania .....	1
South Africa .....	1
Russia .....	4
Ukraine.....	1
Serbia .....	1
	<b>9</b>

## **Other Activities**

### ***Insurance***

#### *Life Assurance*

The Group's life assurance business is conducted in Cyprus by EuroLife Ltd ("EuroLife"), a wholly-owned subsidiary of the Bank. For the year ended 31 December 2010, EuroLife's operations generated a profit before tax of €22.4 million (€22.4 million for the year ended 31 December 2009) on an embedded value basis.

The significant tax allowances permitted on life assurance premiums in Cyprus have encouraged the development of the Cypriot life assurance market as an investment market. This development has also traditionally been encouraged by the lack of direct access for Cypriot residents to mutual fund investment products. As a result, EuroLife offers a range of unit-linked savings products, augmented by a number of supplementary benefits which include, amongst others, disability and dread disease cover. EuroLife distributes its products through a network of 225 tied agents and the Bank's branch network. In the year ended 31 December 2010, the Bank estimates that approximately 65 per cent. of EuroLife's new business was exclusively attributable to its agency network and that referrals from the Bank accounted for approximately 35 per cent. of new business. According to official returns to the Cypriot Superintendent of Insurance, EuroLife had a 28 per cent. share of premium income of the Cypriot life assurance market for the year ended 31 December 2010.

Lapse rates on EuroLife's policies have historically been low. This is largely explained by the tax driven nature of the unit-linked investment policies. In the event of a lapse in premiums within the first six years of the life of the policy, investors are required to refund part of the accumulated tax credits accrued since the date of inception of the policy.

EuroLife's risk on individual life insurance policies in excess of €51,258 per life is reinsured with major European reinsurance companies, the main one of which is Munich Re.

As at 31 December 2010, EuroLife had total funds of €561 million, of which €454 million represented funds attributable to unit linked policies where the investment risk is passed on to policyholders. A further €73 million represented the sterling reserve of EuroLife which is invested in short-term money market instruments and government bonds. In addition, €20 million represented funds attributable to group pension contracts under EuroLife's management. The remaining €14 million represented non-unit-linked funds which are invested primarily in government bonds and bank deposits, with relatively small percentages invested abroad or in the Cypriot equity market. EuroLife regards its investment policies as conservative.

EuroLife operates a branch in Greece under the name Kyprou Zois, which offers credit insurance and savings products to the Bank's customers. Distribution is exclusively through the Bank's branch network (bancassurance).

For the year ended 31 December 2010, the branch generated profits before tax of €3.9 million (€3.9 million for the year ended 31 December 2009). The branch's premium income remained at the same level as in 2009 (€6.8 million).

#### *General Insurance*

The Group's general insurance business is conducted in Cyprus by General Insurance of Cyprus Ltd ("General Insurance"), a wholly-owned subsidiary of the Bank. For the year ended 31 December 2010, General Insurance generated a consolidated profit before tax of €9.6 million (€15.1 million for the year ended 31 December 2009). For 2009, General Insurance ranked second in terms of premiums generated in the general insurance market in Cyprus, with a market share of 11.9 per cent. (12.3 per cent. at 31 December 2008), according to the official statistical information of the Insurance Association of Cyprus. Excluding the Motor class, General Insurance ranked first in the Cyprus insurance market.

General Insurance offers its products through the Bank's branch network (49 per cent.), by direct channels (29 per cent.) and to a lesser extent by tied agents (22 per cent.). General Insurance has 149 tied agents who

are paid on a commission basis and also employs a salaried sales force of 22 people who are based in General Insurance's branches throughout Cyprus.

General Insurance possesses a licence and offers insurance cover under the following 15 insurance technical classes:

- Accident
- Sickness
- Land vehicles
- Ships
- Goods in transit
- Fire and natural forces
- Other damage to property
- Motor vehicle liability
- Liability for ships
- General liability
- Credit
- Suretyship
- Miscellaneous financial loss
- Legal expenses
- Miscellaneous

The accounting class of fire and other damage to property is General Insurance's main business and accounts for approximately 50 per cent. of gross premium income. General Insurance has an approximately 23 per cent. share of the fire insurance market in Cyprus.

General Insurance's claims ratio for the fire business is historically very low, with risk being spread across Cyprus. Risks are spread among a large number of smaller policies and General Insurance has a traditionally low maximum retention level. However, because of the low value of much of the property insured, approximately two-thirds of General Insurance's fire policies fall within its retention level. The remaining business is principally reinsured on a treaty and facultative basis with Munich Re and other international reinsurers.

General Insurance sells motor and home insurance to customers directly through its call centre established in 2000 and also through its salaried salesforce and via its agents. Applications for these products are evaluated automatically through the use of a front end system which also determines the premium at the same time. Motor reinsurance is principally carried out through Scor Re and other international reinsurers.

General Insurance's investments amounted to €46.1 million as at 31 December 2010, of which approximately €0.2 million was invested in equities and mutual funds, €6.0 million in non-equities, €11.2 million in properties and the remainder in bank deposits. General Insurance's investment portfolio is managed by CISCO in accordance with conservative investment guidelines.

General Insurance's expansion in Greece via its branch Kyprou Asfalistiki continues very successfully both in terms of premiums and in terms of profitability. In 2010 the branch registered premiums of €11.5 million (2009: €10.0 million) and profits before tax of €3.0 million (2009: €4.1 million).

### **Hire-Purchase/Leasing**

The Group's hire-purchase and leasing operations in Cyprus are conducted by the Bank through its branch network. The hire-purchase and leasing operations in Cyprus focus primarily on financing vehicles and equipment. These products are sold through the Bank's branch network.

Kyprou Leasing SA ("Kyprou Leasing"), a wholly-owned subsidiary of the Bank, was established in Greece in 1997 to offer leasing services in the Greek market, where it has grown to the second largest leasing provider in Greece. Kyprou Leasing's objectives are to develop operations through the Bank's network of customers, establish strategic alliances with equipment suppliers (vendor leasing), and penetrate the property leasing sector. Special attention is paid to the medium-sized business sector and to sole traders, as well as to the development of new leasing products in response to customers' requirements.

Lease contracts written by Kyprou Leasing during the year ended 31 December 2010 amounted to €170 million (compared to €281 million for the year ended 31 December 2009), while profit before tax for the year ended 31 December 2010 amounted to €5.3 million (loss of €5.8 million for the year ended 31 December 2009).

## **Factoring**

The Group's factoring operations in Cyprus are conducted by the Factoring Division of the Bank. The Bank offers factoring, invoice and cheque discounting services for domestic and international transactions. In addition to providing working capital finance, the Bank also provides specialised sales ledger administration and debt collection services, non-recourse factoring and advisory services covering credit policy and working capital management.

The Bank also operates a factoring unit in Greece.

## **Investment Banking, Brokerage and Fund Management**

The Cyprus Investment and Securities Corporation Ltd ("CISCO") was established in 1982 as the first investment and securities house in Cyprus. Since 1988, CISCO has been a wholly-owned subsidiary of the Group. CISCO provides a range of specialised financial services encompassing securities brokerage, fund management and corporate finance services. CISCO has a financial service provider licence from the Cyprus Securities and Exchange Commission and is a member of the Cyprus Stock Exchange, and a remote member of the Athens Exchange. Its market share for brokerage activities on the Cyprus Stock Exchange reached 22.0 per cent. in 2010 (2009: 17.9 per cent.). CISCO's investment banking department was very active in local fixed income offerings and M&A advisory services during 2010, whilst contributing extensively in the successful rights issue of the Bank of Cyprus. The fund management department continued to expand its clientele and assets under management especially using institutional investors such as pension funds. The recent enactment of legislation for the management of pension funds and the taxation framework for mutual funds present opportunities for further growth in the current year.

Kyprou Securities SA provides brokerage services in Greece and is a member of the Athens Exchange and the Athens Derivatives Exchange. The company offers all primary and ancillary services provided by brokerage companies, including but not limited to share dealing, custody, margin accounts, portfolio management, market research and analysis.

## **Private Banking**

In 1995, Bank of Cyprus was the first bank in Cyprus to introduce private banking services for its high net worth customers. The Bank's Private Banking Division has offices in Cyprus, Greece, Russia and the Channel Islands. Private Banking offers an integrated range of international investment and financial services to Group clients on an advisory and/or execution basis. The products and services are provided to high net worth individuals and institutional investors through co-operation with international investment firms abroad.

The products and services offered include a wide range of deposits in all major currencies in Cyprus, Greece, Russia, the United Kingdom and the Channel Islands, structured and capital guaranteed products with innovative investment mechanisms, mutual funds with geographical, currency and other forms of investment diversification and global brokerage services in shares and bonds.

## **Mutual Fund Management**

Kyprou Asset Management Mutual Fund Management Company S.A. (previously Kyprou AEDAK) began operations in Greece in June 1998 with the scope to manage, promote and sell mutual funds, thus meeting the increasing demand of Greek investors for investment solutions and proposals. The Company currently offers a complete range of eight mutual funds, investing in the Money Market, Bond and Equity sectors in the local capital markets and abroad. Funds under management as at 31 December 2010 amounted to €59 million. In addition, the Company also provides investment advice and discretionary portfolio management.

## **Property**

Kermia Ltd ("Kermia") and Kermia Properties & Investments Ltd ("KPI") are the Group's two property development companies in Cyprus. Both are wholly-owned, direct subsidiaries of the Bank.

Kermia and KPI had total assets as at 31 December 2010 of €33.2 million and €26.2 million, respectively (€32.4 million and €27.5 million as at 31 December 2009). Kermia specialises in the development, trading and management of property and owns Kermia Hotels Ltd, which manages the Kermia Beach Bungalow Hotel, a tourist complex in Ayia Napa, Cyprus. KPI is mainly engaged in the development and management of property. Kermia also provides property advice and project management services to the other Group companies.

### **Charitable and Cultural Foundations**

The Bank has established the Bank of Cyprus Cultural Foundation, a non-profit making organisation. Its objective is to preserve and promote the cultural and natural heritage of Cyprus, and to promote the arts, archaeology, history and literature. The Foundation also manages the Museum of the History of Cypriot Coinage and the Archaeological Museum of the George and Nefeli Giabra Pieridis Collection. The Cultural Foundation is an active publisher, with over 170 publications which have enriched Cypriot bibliography and research in the fields of coinage, map-making, history, archaeology, Cypriot art and literature and literature for children and young people. It also organises periodic exhibitions, lectures, workshops, educational programmes, publications, and research programmes.

The Bank also established the Bank of Cyprus Medical Foundation, a charitable institution, which constructed and equipped the Bank of Cyprus Oncology Centre (the “Centre”) in Nicosia. The Centre is an independent medical unit, furnished with technologically advanced medical equipment donated by the Bank and it aims to become a regional medical centre for cancer patients. The operating costs of the Centre are met by the Cyprus government, while capital expenditure is met by the Bank of Cyprus Medical Foundation. The centre provides services to on average 300-400 patients each day.

### **Management**

In February 2011, the Cyprus Stock Exchange (“CSE”) issued the third revised edition of the Corporate Governance Code (the “Code”). As a company listed on the CSE, Bank of Cyprus Public Company Ltd (“the Bank”, “the Company”) has adopted the Code and applies its principles.

The Group complies with the provisions of the Code except for provision A.2.3. This provision requires that at least 50 per cent. of the Board of Directors, excluding the Chairman, be independent non-executive Directors. If the 50 per cent. rule is not met, then at least one-third of the Directors must be independent and a relevant application must be submitted to the Council of the CSE to grant a reasonable time period for compliance. As at 31 December 2010, seven Directors were considered independent, representing 44 per cent. of the Board of Directors excluding the Chairman. It should be noted that the Group satisfies the minimum proportion for independent Directors of one-third and the Council of the CSE has granted a reasonable time period for compliance, specifically by 31 December 2011. The new edition of the Code includes new provisions which are effective from 2011 and will be reflected in the Annual Corporate Governance Report of the Bank for the year 2011.

As a company listed on the Athens Exchange, the Bank follows the provisions for the corporate governance of listed companies, as set out in law L3016/2002 of the Hellenic Republic.

The Board of Directors currently comprises 15 non-executive Directors and three executive Directors.

The Board of Directors meets at least once every month and has a formal schedule of matters for consideration. During 2010, 21 Board meetings were held, including a meeting at which the Group’s strategic plans were discussed. All Directors have access to the advice and services of the Company Secretary. Independent professional advice is also available to the Directors in accordance with the internal policy that was formulated and approved by the Board of Directors.

At each Annual General Meeting, one third of the Directors retire and are able to stand for re-election. In practice, this means that every Director stands for re-election at least once every three years.

Each subsidiary company has its own Board of Directors which is the highest authority of the company, except for matters that relate to Group policy, which are referred to the main Board of Directors of the Bank.

The Group Executive Committee comprises the Group Chief Executive Officer, the First Deputy and Deputy Chief Executive Officers, the Group Chief General Manager and the Senior Group General Managers.

Important issues relating to different areas of responsibility are managed through Board committees, as follows:

- *Group Audit Committee* – The Group Audit Committee comprises five non-executive Directors, the majority being independent. The Group Audit Committee reviews and assesses, inter alia, the Group’s financial statements, and the adequacy and effectiveness of the system of internal controls based on the reports prepared by Group Internal Audit. The Committee is also responsible for recommending the appointment or retirement of the Group’s external auditors and oversees their relationship with the Group, including the monitoring of the balance between audit and auxiliary non-audit services.
- *Remuneration Committee* – The Remuneration Committee comprises five non-executive Directors, the majority being independent. The Remuneration Committee considers and makes recommendations to the Board of Directors on matters relating to the remuneration of executive Directors and the Executive Management Team as well as the overall Group remuneration policy. The Remuneration Committee also reviews matters relating to the remuneration of non-executive Directors and makes recommendations to the Board, which in turn makes recommendations to the shareholders at the Annual General Meeting.
- *Nominations Committee* – The Nominations Committee comprises five non-executive Directors. The Nominations Committee makes recommendations to the Board for the appointment of new Directors in order to fill vacant positions on the Board. The Board in turn makes recommendations to the shareholders at the Annual General Meeting. In addition, the Nominations Committee reviews the Group’s corporate governance policy and practices.
- *Risk Committee* – The Risk Committee comprises six Directors (the majority being non-executive). The Risk Committee reviews and makes recommendations to the Board for matters relating to, *inter alia*, the Group’s risk appetite policy and systems and assesses annually the adequacy and effectiveness of the risk management policy.

The Bank of Cyprus Group applies the provisions regarding the remuneration of Directors and Senior Executive Management that are included in the Code, as well as the High-Level Guidelines for Remuneration Policies issued by the Central Bank of Cyprus. The new Capital Requirements Directive (“CRD3”) and the Guidelines on Remuneration Policies and Practices issued by the Committee of European Banking Supervisors (now the European Banking Authority) have imposed new, demanding requirements which came into effect from 1 January 2011. Within this context, the Group aims to review its remuneration policies and practices and amend them where necessary, with the aim of ensuring that they are consistent with and promote sound and effective risk management. As a first step in this process, the Group has applied the policies described below to the variable remuneration of executive Directors for the year 2010.

The Board of Directors sets the remuneration of executive Directors, following the recommendations of the Remuneration Committee. The remuneration comprises a salary, adjusted annually, taking into account the prevailing economic and labour market conditions, and a variable element, the level of which depends on the Group’s performance. The maximum variable remuneration that can be granted to executive Directors, based on their contracts of employment, is set at 50 per cent. of an executive Director’s salary. As a result, the maximum variable remuneration that can be granted to an executive Director represents only one-third of the executive Director’s total remuneration. The variable remuneration is calculated based on the achievement of the Group’s targets for profitability and key performance indicators as well as its performance relative to its peers. Other qualitative criteria as well as the executive Director’s evaluation are also taken into account. The Group does not grant guaranteed variable remuneration.

The Board of Directors approved variable remuneration for Messrs Andreas Eliades and Yiannis Kypri of 50 per cent. of their salary for the year 2010. All of the variable remuneration is in the form of shares of the Bank, purchased immediately and bestowed to a trust that will transfer the shares to the beneficiaries provided all specified conditions are satisfied. One-third of the variable remuneration was granted upfront while the remaining two thirds was deferred. The deferred element of the variable remuneration will vest on

a *pro rata* basis at the end of 2011 and 2012, provided the Group achieves the targets set with respect to profitability and key performance indicators, taking into account the performance of other peer banks. On vesting, the shares were subject to a retention period of one year. This retention period also applied to the variable remuneration granted upfront. In addition, 25 per cent. of the shares granted to executive directors must be kept until their retirement or the expiry of their employment contracts.

In April 2010, the Board of Directors of the Company approved the recommendation of the Remuneration Committee to adopt the proposal of the Group Chief Executive Officer to extend the retention period for the shares awarded to executive directors and key management personnel as a bonus for 2010 until 31 December 2015 (from a one year retention period previously).

In addition, the Board of Directors also accepted the proposal of the Group Chief Executive Officer, Mr. Andreas Eliades, and the Deputy Group Chief Executive Officer, Mr. Yiannis Kypri, given the current economic conditions, to waive the bonus for 2010 immediately payable to them.

Messrs Andreas Eliades and Yiannis Kypri participate in the main retirement benefit plan for the Group's employees in Cyprus, which is a defined benefit plan. Mr Yiannis Pehlivanides participates in the retirement benefit plans for the Group's employees in Greece, which are a defined contribution plan and a defined benefit plan for retirement benefits which are required by the law.

During 2010, no share options were granted to executive Directors. On 28 May 2008, share options were granted to executive Directors within the context of the Group's Share Options 2008/2010 scheme granted to employees of the Group. In total, 2,000,000 Share Options 2008/2010 were granted to executive Directors. In addition, 12,000 Share Options 2008/2010 were granted to a non-executive Director in his capacity as an employee of the Group. The Options were issued under the scope of the special resolution approved at the Annual General Meeting of the shareholders of the Company on 14 May 2008. On 23 June 2009, the Extraordinary General Meeting of the shareholders of the Company approved the amendment of the terms of the Share Options 2008/2010, modifying their exercise price and exercise period. Each Share Option 2008/2010 gave its holder the right to purchase one share of the Company at the price of €5.50 per share. As a result of the rights issue to the Company's shareholders and the special distribution of interim dividend in the form of shares during 2010, the exercise price of the Share Options 2008/2010 has been adjusted in accordance with the relevant terms of issue from €5.50 to €4.24 per share. On 23 March 2011, the Extraordinary General Meeting of the shareholders of the Company approved the amendment of the terms of the Share Options 2008/2010, modifying their exercise price to €3.30 per share.

On 31 December 2009, two-thirds of the Share Options 2008/2010 granted had vested to the beneficiaries; the remaining one-third of the share options vested on 31 December 2010. The Share Options 2008/2010 can be exercised by their holders from 1 January to 31 March of 2011, 2012 and 2013 and from 1 November to 31 December of 2012 and 2013. The Share Options 2008/2010 are not transferable and are unlisted. As at 31 December 2010, the executive Directors did not hold any other share options nor did they exercise any share options during 2010.

The employment contracts of the Group Chief Executive Officer and the Deputy Group Chief Executive Officer have a five-year duration. The compensation payable in the event of a non-justified early termination is two annual salaries. During 2009, the Board of Directors decided to amend these employment contracts until 31 December 2013 with effect from 1 January 2009. The contracts were amended so as to be in line with the relevant Principles of the Committee of European Banking Supervisors as reflected in the High-Level Guidelines for Remuneration Policies of the Central Bank of Cyprus issued during 2009. On 15 April 2010, Mr Yiannis Pehlivanides was appointed as an executive member of the Board of Directors and from 1 May 2010 as First Deputy Group Chief Executive Officer. Mr Pehlivanides' contract of employment has a three-year duration and provides for compensation payable in the event of a non-justified early termination of one annual salary.

## Board of Directors of the Bank

The Board of Directors of the Bank, which is also the Group's main Board of Directors, currently has 18 members. The business address of each of the Directors in their capacity as directors of the Bank is 51 Stassinou Street, Ay. Paraskevi, Strovolos, 2002 Nicosia, Cyprus and their respective roles and principal outside activities are as follows:

<b>Name</b>	<b>Role and principal outside activities</b>
Theodoros Aristodemou (Chairman)	Director since 1991 and Chairman since May 2008. He is a property developer and the founder and Chairman of the Aristo Developers Group of companies with activities in Cyprus and overseas.
Andreas Artemis (Vice-Chairman)	Director since 2000 and Vice-Chairman since May 2005. He is Chairman of Kermia, Bank of Cyprus Australia and the Divisional Board of Russia. He is also a member of the Regional Boards for Romania, Ukraine and the United Kingdom. He is Chairman of the Board of Directors of the Commercial General Insurance Group and he is also a member of the Board of Directors of the Cyprus Employers and Industrialists Federation.
Christakis Christofides	Director since 1994. He is a Director of General Insurance of Cyprus, EuroLife, and Kermia and a member of the Divisional Board for the United Kingdom. He is a businessman, supplying raw materials to industries in Cyprus and Greece.
Stavros Constantinides	He was appointed to the Board of Directors on 10 June 2010. He is a member of the Regional Board of Russia. He is a businessman.
Anna Diogenous (Senior Independent Director)	Director since 2002. She is Vice Chairperson of the Divisional Board for Romania. She is also a Director of the Cyprus Investment and Securities Corporation (CISCO) and Bank of Cyprus Australia and a member of the Divisional Board for Ukraine. She is Executive Chairperson of P.M. Tseriotis Ltd (the holding company of the Tseriotis Group of Companies).
George Georgiades	Director since 2002. He is Chairman of General Insurance of Cyprus and Vice Chairman of the Divisional Board for Russia. He is also a member of the Divisional Boards for Romania and Ukraine. He is a businessman and a business consultant for the hotels and tourism sector. He is Vice-Chairman of the Cyprus Association of Directors and he is also a member of the Board of the Limassol Chamber of Commerce and Industry. He is Honorary Chairman of the Cyprus Hotel Managers Association.
Costas Hadjipappas	Director since 2007. He is also an employee of the Bank.
Irene Karamanou	Director since 8 April 2011. She is an Assistant Professor in the Department of Public and Business Administration of the University of Cyprus since 2005. In the past, she has worked at an audit firm as a Senior Auditor and also for a banking organisation. She holds a PhD in Business Administration, a MBA in Marketing and Management, a BBA in Accounting and she is a Certified Public Accountant.
Andreas Jacovides	Director since 2003. He is a Director of Bank of Cyprus Australia and member of the Divisional Boards for Russia and for the United Kingdom. He is an international lawyer and consultant and an arbitrator with the World Bank and other international bodies.

<b>Name</b>	<b>Role and principal outside activities</b>
Manthos Mavrommatis	Director since December 2005. He is Vice-Chairman of the Divisional Board for Ukraine. He is also a Director of Mortgage Bank of Cyprus and a member of the Divisional Boards for Russia and Romania. He is the Chairman of the Cyprus Chamber of Commerce and Industry and he is also a member of the Executive Committee of Eurochambers and of the Balkan Chambers. He is a businessman.
Christos Mouskis	Director since 2003. He is Chairman of the Divisional Boards for Romania and Ukraine. He is also a Director of EuroLife, General Insurance of Cyprus and a member of the Regional Board for Russia. He is Executive Chairman of Muskita Holdings Ltd holding company of the Muskita Group, which is a diversified group of companies whose activities include aluminium manufacturing, the hotel industry and the real estate sector in Cyprus and Europe.
Vassilis Rologis	Director since 1988. He was Chairman of the Group from May 2005 until September 2006 and Vice-Chairman from May 2004 until May 2005. He is Chairman of Bank of Cyprus Channel Islands and the Divisional Board for the United Kingdom. He is also a member of the Divisional Board for Russia. He is a member of the Board of Directors of Eurochambers, based in Brussels. He is a member of the Finance Advisory Committee, the Commerce and Industry Advisory Committee and the Cyprus delegation at the International Labour Organisation. He is Chairman of the International Chamber of Commerce Cyprus and Honorary Chairman of the Cyprus Chamber of Commerce and Industry.
Costas Severis	Director since 1991. He is Chairman of EuroLife and Vice-Chairman of the Divisional Board for the United Kingdom. He is also a Director of the Cyprus Investment and Securities Corporation (CISCO). He is also a member of the Board of Directors of the Cyprus Employers and Industrialists Federation. He is a businessman.
Nikolas Tsakos	Director since 2008. He is a member of the Divisional Board for Russia. He is the founder President and CEO of Tsakos Energy Navigation (TEN) Limited, which operates in the Greek shipping sector. He is an active member of the Hellenic Marine Environment Protection Association, the Union of Greek Shipowners, the Greek Shipping Co-operation Committee, the Greek Committee of Det Norske Veritas, the American Bureau of Shipping, the Bureau Veritas, the UK P&I Club and he is a member of the Executive Committee of the Independent Tanker Owners Organisation.
Evdokimos Xenophontos	Director since 1998. He was the Group Chief General Manager from 1993 until 2004. He is a member of the Divisional Boards for Romania and Ukraine. He is Chairman of the Board of Directors of the Cyprus branch of the UK Institute of Directors and JCC Payment Systems. He is a chartered accountant.
Andreas Eliades (Executive Director)	Group Chief Executive Officer. He is a member of the Board of Directors since 2006. He is an economist.
Yiannis Pechlivanides (Executive Director)	First Deputy Chief Executive Officer. He was appointed to the Board of Directors on 15 April 2010. He is an economist.

<b>Name</b>	<b>Role and principal outside activities</b>
Yiannis Kypri (Executive Director)	Deputy Group Chief Executive Officer. He is a member of the Board of Directors since 2006. Company Secretary of the Bank. He is a chartered accountant.
<b>Group General Managers</b>	
Vassos Shiarly	Group Chief General Manager – Domestic Banking. He is a chartered accountant.
Christis Hadjimitsis	Senior Group General Manager. He is a chartered accountant.
Nicolas Karydas	Senior Group General Manager. He is a chartered accountant.
<b>General Managers</b>	
Yiannis Seiradakis	General Manager Bank of Cyprus Greece
Aristos Stylianou	General Manager Operations
Leonidas Isodiou	General Manager Information and Organisation & Methods
Christakis Patsalides	General Manager Group Markets
Charis Pouangare	General Manager Retail Banking Cyprus
George Christodoulides	General Manager Human Resource Management
Phivos Stasopoulos	General Manager Corporate Banking Cyprus
Athanasios Andreadakis	General Manager Risk Management
Constantinos Tsolakkis	Group Internal Auditor

## Related Party Transactions

	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	<i>Number of Directors</i>		<i>(in thousands of euro)</i>	
Loans and other advances to members of the Board of Directors and connected persons:				
– more than 1 per cent. of the Group’s net assets per Director .....	1	3	184,753	187,737
– less than 1 per cent. of the Group’s net assets per Director .....	16	12	57,821	23,454
	<u>17</u>	<u>15</u>	<u>242,574</u>	<u>211,191</u>
Loans and advances to key management personnel and connected persons .....			1,769	2,581
Total loans and advances.....			<u>244,343</u>	<u>213,772</u>
Loans and advances:				
– members of the Board of Directors and key management personnel .....			7,330	8,576
– connected persons .....			237,013	205,196
			<u>244,343</u>	<u>213,772</u>
Interest income ... ..			<u>10,641</u>	<u>9,551</u>
Deposits:				
– members of the Board of Directors and key management personnel.....			71,069	82,906
– connected persons .....			25,568	42,787
			<u>96,637</u>	<u>125,693</u>
Interest expense on deposits.....			<u>4,607</u>	<u>6,274</u>
Debt securities in issue and subordinated loan stock:				
– members of the Board of Directors and key management personnel... ..			17,133	17,508
– connected persons .....			2,401	3,615
			<u>19,534</u>	<u>21,123</u>
Interest expense on debt securities in issue and subordinated loan stock... ..			<u>1,086</u>	<u>1,094</u>

In addition to the loans and advances, there were contingent liabilities in respect of members of the Board of Directors and their connected persons, mainly in the form of documentary credits, guarantees and commitments to lend amounting to €113,102 thousand (2009: €58,094 thousand). Of these €86,928 thousand (2009: €55,473 thousand) relate to Directors and their connected persons, whose total credit facilities exceed 1 per cent. of the net assets of the Group per Director. There were also contingent liabilities and commitments to Group key management personnel and their connected persons amounting to €327 thousand (2009: €512 thousand). Using forced-sales values, the total unsecured amount of the loans and advances and contingent liabilities and commitments in respect of related parties at 31 December 2010 amounted to €8,065 thousand (2009: €27,086 thousand).

During 2010 the Group also had the following transactions with connected persons: reinsurance premiums amounting to €283 thousand (2009: €303 thousand) to companies of the Commercial General Insurance Group in which Mr Andreas Artemis holds an indirect interest; purchases of equipment and services amounting to €541 thousand (2009: €400 thousand) from Pylones SA Hellas and Unicars Ltd in which Mrs Anna Diogenous holds an indirect interest; purchases of equipment amounting to €855 thousand (2009: €324 thousand) from Mellon Cyprus Ltd which is significantly influenced by a person connected to Mrs Anna Diogenous; and insurance commissions amounting to €149 thousand (2009: €144 thousand) to D. Severis and Sons Ltd which is owned by Mr Costas Z. Severis.

Connected persons include spouses, minor children and companies in which Directors or key management personnel hold, directly or indirectly, at least 20 per cent. of the voting shares in a general meeting or act as directors or exercise control of the entities in any way.

All transactions with members of the Board of Directors and their connected persons are made on normal business terms as for comparable transactions with customers of a similar credit standing. A number of credit facilities have been extended to key management personnel and their connected persons on the same terms as those applicable to the rest of the Group's employees.

There are no potential conflicts of interest between the duties to the Issuer of the members of the Board of Directors and their private interests and other duties.

#### **Fees and Emoluments of Members of the Board of Directors and Key Management Personnel**

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of euro)</i>	
<b>Directors' emoluments</b>		
<i>Executives</i>		
Salaries and other short term benefits .....	1,749	1,543
Employer's contributions .....	58	57
Retirement benefit plan costs .....	381	182
	<u>2,188</u>	<u>1,782</u>
Share options .....	486	1,944
<i>Non executives</i>		
Fees.....	813	822
Emoluments of a non-executive director who is also an employee of the Company.....	154	142
Total director emoluments .....	<u>3,641</u>	<u>4,690</u>
<b>Key management personnel emoluments</b>		
Salaries and other short term benefits .....	901	1,218
Employer's contributions .....	51	59
Retirement benefit plan costs .....	123	153
Share options .....	182	972
Total key management personnel emoluments .....	<u>1,257</u>	<u>2,402</u>
Total .....	<u><u>4,898</u></u>	<u><u>7,092</u></u>

*Fees and emoluments of non-executive directors*

	2010	2009
	(€000)	
Theodoros Aristodemou .....	171	171
Andreas Artemis .....	85	85
Vassilis G. Rologis .....	58	58
Costas Z. Severis .....	57	58
Christakis G. Christofides .....	49	48
Evdokimos Xenophontos .....	39	42
Anna Diogenous .....	51	56
George M. Georgiades .....	63	68
Andreas J. Jacovides.....	49	44
Christos Mouskis .....	55	61
Manthos Mavrommatis.....	51	59
Costas Hadjipapas .....	35	39
Nikolas P. Tsakos .....	32	33
Stavros J. Constantinides .....	18	–
	<u>813</u>	<u>822</u>

Mr Costas Hadjipapas, a non-executive director, had emoluments during 2010 amounting to €154 thousand (2009: €142 thousand), which includes €3 thousand (2009: €12 thousand) relating to 12 thousand Share Options 2008/2010 which were granted to him in 2008 in his capacity as employee of the Company.

The fees of the non executive directors include fees as members of the Board of Directors of the Company, the committees of the Board and the Boards of subsidiary companies.

*Fees and emoluments of executive directors*

During 2010 there were three executive directors (2009: two).

The salaries and other short term benefits of executive directors amounting to €1,749 thousand (2009: €1,543 thousand) relate to Mr Andreas Eliades €898 thousand (2009: €980 thousand), Mr Yiannis Kypri €517 thousand (2009: €563 thousand) and Mr Yiannis Pehlivanides €334 thousand (2009 Nil).

The salaries and other short term benefits of executive directors include a bonus which is determined by the Board of Directors based on the recommendation of the Remuneration Committee. The maximum bonus for each executive director is specified in his contract of employment with the Group. For 2010, the Board of Directors, having considered the performance of the Group regarding the achievement of its goals and profitability, has approved a total bonus of €341 thousand (2009: €327 thousand) for Mr Andreas Eliades and €195 thousand (2009: €187 thousand) for Mr Yiannis Kypri. The bonus will be paid in the form of shares of the Company, which will be purchased immediately and will be bestowed to a trust that will transfer the shares to the beneficiaries provided all specified conditions are satisfied.

One third of the bonus has vested and will be paid immediately, while the remaining two thirds will vest equally at the end of 2011 and 2012, provided the Group achieves the goals set with respect to profitability and key performance indicators, taking into account the performance of other peer banks. After vesting, the shares awarded will be subject to a retention period of one year. Additionally, 25 per cent. of the shares granted to executive directors must be kept until their retirement or the expiry of their contracts of employment.

Based on the above terms, the cost recognised in the financial statements in relation to the 2010 bonus is €209 thousand for Mr Andreas Eliades and €119 thousand for Mr Yiannis Kypri.

In April 2010, the Board of Directors of the Company approved the recommendation of the Remuneration Committee to adopt the proposal of the Group Chief Executive Officer to extend the retention period for the

shares awarded to executive directors and key management personnel as a bonus for 2010 until 31 December 2015 (from a one year retention period previously).

In addition, the Board of Directors also accepted the proposal of the Group Chief Executive Officer, Mr. Andreas Eliades, and the Deputy Group Chief Executive Officer, Mr. Yiannis Kypri, given the current economic conditions, to waive the bonus for 2010 immediately payable to them.

The bonus for 2009 was paid 50 per cent. in cash and 50 per cent. in shares of the Company in the name of the executive directors, which are subject to a retention period of three years.

The retirement benefit plan costs amounting to €381 thousand (2009: €182 thousand) relate to Mr Andreas Eliades €133 thousand (2009: €118 thousand), Mr Yiannis Kypri €73 thousand (2009: €64 thousand) and Mr Yiannis Pehlivanides €175 thousand (2009: zero).

In the context of the Share Options 2008/2010 granted by the Company on 28 May 2008 to the Group's employees, 1,500 thousand share options were granted to Mr Andreas Eliades and 500 thousand options were granted to Mr Yiannis Kypri. The cost of share options granted to Messrs Andreas Eliades and Yiannis Kypri amounted to €364 thousand (2009: €1,458 thousand) and €122 thousand (2009: €486 thousand) respectively. Each Share Option 2008/2010 gives its holders the right to purchase one share of the Company at €4.24 per share. The theoretical fair value of the Share Options 2008/2010 granted on 28 May 2008 was measured at the grant date and amounted to €1.17 per option. As a result of the amendment of the terms of the Share Options 2008/2010 on 23 June 2009, the Share Options were revalued and the additional cost amounted to €0.42 per option. On 23 March 2011, the Extraordinary General Meeting of the shareholders of the Company approved the amendment of the terms of the Share Options, modifying their exercise price to €3.30 per share.

Mr Andreas Eliades and Mr Yiannis Kypri participate in the main retirement benefit plan for the Group's employees in Cyprus, which is a defined benefit plan. Mr Yiannis Pehlivanides participates in the retirement benefit plans of the Group's employees in Greece, specifically the defined contribution plan and the defined benefit plan for retirement benefits, required by law. The total retirement benefits of the executive directors increased during 2010 by €800 thousand (2009: €771 thousand).

#### *Fees and emoluments of key management personnel*

The fees and emoluments of the three key management personnel (2009: four) comprise the amounts of the Group Chief General Manager and the two Senior Group General Managers and include the bonus that has been approved by the Board of Directors. The bonus will be paid in the form of shares of the Company, which will be purchased immediately and will be bestowed to a trust that will transfer the shares to the beneficiaries provided all specified conditions are satisfied. One third of the bonus has vested and will be paid immediately, while the remaining two thirds will vest in equal parts at the end of 2011 and 2012, provided the Group achieves the goals set with respect to profitability and key performance indicators, taking into account the performance of other peer banks. After vesting, the shares awarded will be subject to a retention period of one year.

In the context of the Share Options 2008/2010 granted by the Company to Group employees on 28 May 2008, 750 thousand (2009: 1,000 thousand) options were granted to Group key management personnel the total cost of which amounted to €182 thousand (2009: €972 thousand).

## Employees

As at 31 December 2010, the Group had 12,009 employees, the majority of whom are employed by the Bank in Cyprus, Greece and Russia.

The following table sets out the Group's employees as at the dates indicated:

	<i>As at 31 December</i>		
	<i>2008</i>	<i>2009</i>	<i>2010</i>
Banking companies.....	11,805	11,798	11,681
Non-banking companies .....	322	329	328
<b>Total</b> .....	<b>12,127</b>	<b>12,127</b>	<b>12,009</b>

The following table sets out the Group's employees by geographical region as at the dates indicated:

	<i>As at 31 December</i>		
	<i>2008</i>	<i>2009</i>	<i>2010</i>
Cyprus.....	3,608	3,568	3,556
Greece .....	3,183	3,148	3,148
Russia .....	4,354	4,497	4,343
Other countries .....	982	914	962
<b>Total</b> .....	<b>12,127</b>	<b>12,127</b>	<b>12,009</b>

The Group's personnel in Cyprus and the United Kingdom is unionised, with the exception of the senior executives. Some of the Group's personnel in Greece is unionised and personnel in other countries is not unionised.

The Bank's Employees Union in Cyprus entered a collective agreement with the Cyprus Federation of Banking Employers (of which the Bank is a member) under the auspices of the industrial relations department of the Ministry of Labour and Social Security. The current collective agreement was signed in 2008 and applies to the period from 1 January 2008 to 31 December 2010. The Bank fulfils all its obligations under the terms of the collective agreement and has adopted the salary scales agreed for the year 2008. The Bank has good relations with its staff and has never suffered industrial action other than actions directed at the banking sector in general in Cyprus.

The Group operates several retirement benefit plans in Cyprus, Greece and the United Kingdom.

### *Cyprus*

The main retirement plan for the Group's permanent employees in Cyprus covers 27 per cent. of total Group employees and is a defined benefit plan. The plan provides for a lump sum payment on retirement or death in service of up to 78 final average monthly salaries depending on the length of service. A small number of employees who do not participate in the main retirement plan are members of a pension scheme that is closed to new entrants and may receive part or all of their retirement benefit entitlement by way of a pension for life.

### *Greece*

The Group's employees in Greece (26 per cent. of total Group employees) are covered by two defined benefit plans and one defined contribution plan.

All employees are entitled by law to compensation in case of dismissal or a lump sum payment upon normal retirement, under a defined benefit plan, at rates specified in the Greek legislation. All the benefits paid from statutory retirement indemnities are payable out of the Company's assets because these plans are unfunded.

In addition, a number of employees recruited up to 31 December 2002 (8 per cent. of total Group employees) participate in a defined benefit plan which provides for the payment of a lump sum on retirement of up to approximately 50 monthly salaries depending on the length of service.

The third plan applies to employees recruited after 31 December 2002 and is a defined contribution plan.

#### *United Kingdom*

The Group's employees in the United Kingdom (1 per cent. of total Group employees) are covered by a defined benefit plan and a defined contribution plan.

A number of employees recruited up to 31 March 2003 (1 per cent. of total Group employees) participated in a defined benefit plan which provided for the payment of a pension for life, based on the final employee salary prior to retirement and the years of service. With effect from 1 January 2009, the plan was closed to future accrual of benefits for active members. The salary link for these members is broken such that these active members had benefits calculated as though they are leavers from the plan on 31 December 2008.

The second plan applies to all employees and is a defined contribution plan.

#### **Litigation**

Neither the Bank nor any of its respective subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Group, except as disclosed below.

In September 2009, an action was filed against the Company in Cyprus by the Trustees of the AremisSoft Corporation Liquidating Trust, which is similar in substance to the one filed in New York, in 2006. In the detailed statement of claim filed in October 2010 by the Trustees, on behalf of the investors of AremisSoft, claim the amount of US\$550 million (€441 million) plus interest and costs in damages, which according to their allegations, have resulted from, inter alia, an alleged conspiracy between the Company and two of the major shareholders of AremisSoft, alleged fraudulent transactions through bank accounts held with the Company in Cyprus and in the United Kingdom, alleged breach of contract and alleged negligence. The Group does not expect to have any material financial impact as a result of this action.

**EXTRACTS FROM THE BANK OF CYPRUS GROUP'S  
FINANCIAL STATEMENTS 2010**

**BANK OF CYPRUS GROUP  
CONSOLIDATED INCOME STATEMENT**

**for the year ended 31 December 2010**

		<u>2010</u>	<u>2009</u>
	<i>Notes</i>	€000	€000
Turnover .....		2,577,028	2,481,561
Interest income .....	4	2,091,794	1,997,034
Interest expense.....	5	(1,051,375)	(1,149,204)
Net interest income.....		1,040,419	847,830
Fee and commission income.....	6	244,589	257,658
Fee and commission expense .....	6	(13,410)	(14,286)
Foreign exchange income .....	7	38,634	28,589
Net gains on sale, revaluation and impairment of investments, directive financial instruments and subsidiaries .....	8	71,380	87,111
Insurance income .....	9	175,435	227,509
Insurance expense .....	9	(116,074)	(164,674)
Other income.....	10	8,916	16,761
		<u>1,449,889</u>	<u>1,286,498</u>
Staff costs .....	11	(430,208)	(413,933)
Other operating expenses .....	12	(294,717)	(260,319)
<b>Profit before provisions</b> .....		724,964	612,246
Provisions for impairment of loans and advances .....	41	(374,497)	(247,935)
<b>Profit before share of profit of associate</b> .....		350,467	364,311
Share or (loss)/profit of associate .....	13	(1,953)	910
<b>Profit before tax</b> .....		348,514	365,221
Taxation.....	14	(45,989)	(43,227)
<b>Profit after tax</b> .....		<u>302,525</u>	<u>321,994</u>
Attributable to:			
Non-controlling interests ((loss)/profit) .....		(3,664)	8,850
<b>Owners of the Company</b> .....		<u>306,189</u>	<u>313,144</u>
<b>Basic earnings per share (cent)</b> .....	15	40.5	45.0
<b>Diluted earnings per share (cent)</b> .....	15	37.3	41.4

**EXTRACTS FROM THE BANK OF CYPRUS GROUP'S  
FINANCIAL STATEMENTS 2010  
BANK OF CYPRUS GROUP  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

**for the year ended 31 December 2010**

	<u>2010</u>	<u>2009</u>
	€000	€000
Profit after tax.....	302,525	321,994
Other comprehensive income		
<b>Foreign currency translation reserve</b>		
Profits/(loss) on translation of net investment in subsidiaries and overseas branches .....	53,930	(10,867)
Loss on hedging of net investments .....	(18,705)	(19,759)
Transfer to the consolidated income statement on reduction of capital/disposal of subsidiary .....	362	18,732
	<u>35,587</u>	<u>(11,894)</u>
<b>Available-for-sale investments</b>		
(Loss)/profit from revaluation before tax .....	(300,495)	116,223
Transfer to the consolidated income statement on impairment .....	23,770	361
Transfer to the consolidated income statement on sale .....	11,737	(6,909)
Taxation .....	2,571	(2,804)
	<u>(262,417)</u>	<u>106,871</u>
<b>Cash flow hedges</b>		
Profit/(loss) from revaluation before tax .....	1,407	(2,287)
Transfer to the consolidated income statement on termination of hedge accounting .....	–	(5,280)
Taxation .....	(148)	757
	<u>1,259</u>	<u>(6,810)</u>
<b>Property revaluation</b>		
(Loss) from revaluation before tax .....	–	(4,011)
Taxation .....	192	921
	<u>192</u>	<u>(3,090)</u>
<b>Other comprehensive (expense)/income after tax .....</b>	<u>(225,379)</u>	<u>85,077</u>
<b>Total comprehensive income for the year .....</b>	<u>77,146</u>	<u>407,071</u>
Attributable to:		
Non-controlling interests ((expense)/income) .....	(1,456)	9,362
<b>Owners of the Company .....</b>	<u>78,602</u>	<u>397,709</u>

**EXTRACTS FROM THE BANK OF CYPRUS GROUP'S  
FINANCIAL STATEMENTS 2010**

**BANK OF CYPRUS GROUP  
CONSOLIDATED BALANCE SHEET**

**as at 31 December 2010**

		2010	2009
	<i>Notes</i>	€000	€000
<b>Assets</b>			
Cash and balances with central banks .....	16	2,241,825	1,043,791
Placements with banks .....	16	5,264,628	5,947,768
Reverse repurchase agreements .....		120,166	120,137
Investments .....	17	5,345,594	4,928,113
Derivative financial assets.....	18	76,278	60,739
Loans and advances to customers.....	20	27,725,451	25,635,780
Life insurance business assets attributable to policyholders .....	22	561,695	541,574
Property and equipment .....	23	418,781	406,272
Intangible assets .....	24	479,058	453,141
Other assets .....	25	400,459	267,534
Investment in associate .....	48	3,805	6,552
<b>Total assets</b> .....		<b>42,637,740</b>	<b>39,411,401</b>
<b>Liabilities</b>			
Obligations to central banks and amounts due to banks .....	26	3,706,975	5,290,897
Repurchase agreements.....		913,109	494,806
Derivative financial liabilities .....	18	240,412	139,551
Customer deposits.....	27	32,952,567	28,584,561
Insurance liabilities .....	28	658,309	618,097
Debt securities in issue .....	29	83,957	519,111
Other liabilities .....	30	323,120	332,037
Subordinated loan stock .....	31	930,942	946,843
<b>Total liabilities</b> .....		<b>39,809,391</b>	<b>36,925,903</b>
<b>Equity</b>			
Share capital .....	32	894,948	598,197
Share premium .....		1,159,819	712,170
Revaluation and other reserves .....		(186,253)	28,613
Retained earnings .....	34	868,531	1,084,132
<b>Equity attributable to the owners of the Company</b> .....		<b>2,737,045</b>	<b>2,423,112</b>
<b>Non-controlling interests</b> .....		<b>91,304</b>	<b>62,386</b>
<b>Total equity</b> .....		<b>2,828,349</b>	<b>2,485,498</b>
<b>Total liabilities and equity</b> .....		<b>42,637,740</b>	<b>39,411,401</b>

<b>Th. Aristodemou</b>	Chairman
<b>A. Artemis</b>	Vice-Chairman
<b>A. Eliades</b>	Group Chief Executive Officer
<b>Y. kypri</b>	Deputy Group Chief Executive Officer
<b>Chr. Hadjimitsis</b>	Senior Group General Manager

**EXTRACTS FROM THE BANK OF CYPRUS GROUP'S  
FINANCIAL STATEMENTS 2010**

**BANK OF CYPRUS GROUP  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
for the year ended 31 December 2010**

	Attributable to the owners of the Company										Non-controlling interests	Total equity	
	Share capital (Note 32)	Share premium	Retained earnings (Note 34)	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Cash flow hedge reserve	Life insurance in-force business reserve	Equity component of convertible loan stock	Foreign currency translation reserve	Shares of the Company			Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
<b>1 January 2010</b>	<b>598,197</b>	<b>712,170</b>	<b>1,084,132</b>	<b>101,583</b>	<b>(8,537)</b>	<b>32</b>	<b>74,599</b>	<b>12,420</b>	<b>(138,138)</b>	<b>(13,346)</b>	<b>2,423,112</b>	<b>62,386</b>	<b>2,485,498</b>
Reattribution of reserves due to change in ownership percentage of subsidiary (Note 47)	-	-	(29,824)	-	-	-	-	-	-	-	(29,824)	29,824	-
Cost of share-based payments	-	-	3,079	-	-	-	-	-	-	-	3,079	-	3,079
Transfer of realised profits on sale of property	-	-	1,446	(1,446)	-	-	-	-	-	-	-	-	-
Purchase of shares of the Company by subsidiaries and associates	-	-	-	-	-	-	-	-	-	(3,754)	(3,754)	-	(3,754)
Disposal of shares of the Company by subsidiaries and associates	-	-	(4,524)	-	-	-	-	-	-	8,823	4,299	-	4,299
Defence contribution on deemed dividend distribution	-	-	(570)	-	-	-	-	-	-	-	(570)	-	(570)
Increase in value of in-force life insurance policies	-	-	(10,071)	-	-	-	10,071	-	-	-	-	-	-
Tax on increase in value of in-force life insurance policies	-	-	973	-	-	-	(973)	-	-	-	-	-	-
Conversion of Convertible Bonds and Convertible Capital Securities	23	112	-	-	-	-	-	-	-	-	135	-	135
Issue of shares	172,630	172,630	-	-	-	-	-	-	-	-	345,260	-	345,260
Costs relating to the issue of shares	-	(1,244)	-	-	-	-	-	-	-	-	(1,244)	-	(1,244)
Dividend in the form of shares (Note 33)	113,199	254,697	(388,430)	-	-	-	-	-	-	-	(20,534)	-	(20,534)
Dividend paid and reinvested (Note 33)	10,899	21,454	(93,869)	-	-	-	-	-	-	-	(61,516)	-	(61,516)
Change in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	620	620
Dividend paid by subsidiaries net of reinvestment	-	-	-	-	-	-	-	-	-	-	-	(70)	(70)
Total comprehensive income/ (expense) for the year	-	-	306,189	192	(262,475)	1,259	-	-	33,437	-	78,602	(1,456)	77,146
<b>31 December 2010</b>	<b>894,948</b>	<b>1,159,819</b>	<b>868,531</b>	<b>100,329</b>	<b>(271,012)</b>	<b>1,291</b>	<b>83,697</b>	<b>12,420</b>	<b>(104,701)</b>	<b>(8,277)</b>	<b>2,737,045</b>	<b>91,304</b>	<b>2,828,349</b>



**EXTRACTS FROM THE BANK OF CYPRUS GROUP'S  
FINANCIAL STATEMENTS 2010**

**BANK OF CYPRUS GROUP  
CONSOLIDATED STATEMENT OF CASH FLOWS**

**for the year ended 31 December 2010**

		2010	2009
	<i>Notes</i>	€000	€000
<b>Net cash flow from operating activities</b> .....	37	816,369	2,173,527
<b>Cash flows used in investing activities</b>			
Purchases of investments:			
– debt securities .....		(4,203,037)	(5,673,891)
– equity securities .....		(5,213)	(59,980)
Proceeds on disposal/redemption of investments:			
– debt securities .....		3,640,374	5,262,324
– equity securities .....		108	869
Interest on debt securities .....		176,026	185,588
Dividend income from equity securities.....		2,859	1,659
Dividends received from associates .....		314	392
Cash acquired on acquisition of subsidiary .....		4,571	–
Proceeds on disposal of subsidiary.....		2,892	–
Purchase of property and equipment .....		(40,598)	(29,965)
Proceeds on disposal of property and equipment.....		4,228	1,954
Purchase of intangible assets .....		(10,152)	(8,023)
Purchase of investment properties .....		(63,456)	(16,187)
Proceeds on disposal of investment properties.....		2,135	214
<b>Net cash flow used in investing activities</b> .....		(488,949)	(335,046)
<b>Cash flows used in financing activities</b>			
Issue of share capital net of issue costs paid .....		344,016	–
Issue of subordinated loan stock.....		–	118,161
Redemption of subordinated loan stock .....		–	(50,284)
Issue of senior debt.....		14,517	4,852
Redemption of senior debt .....		(449,671)	(444,910)
Dividend payment net of reinvestment.....		(82,050)	(70,955)
Dividend paid by subsidiaries to non-controlling interests net of reinvestment .....		(70)	(1,439)
Increase of capital of subsidiary attributed to non-controlling interests .....		620	6,982
Interest on subordinated loan stock .....		(43,669)	(46,919)
Acquisition of own shares .....		(3,754)	(423)
Disposal of own shares .....		4,299	1,516
<b>Net cash flow used in financing activities</b> .....		(215,762)	(483,419)
<b>Net increase in cash and cash equivalents for the year</b> .....		111,658	1,355,062
<b>Cash and cash equivalents</b>			
1 January .....		6,156,656	4,787,851
Exchange adjustments.....		71,453	13,743
Net increase in cash and cash equivalents for the year .....		111,658	1,355,062
<b>31 December</b> .....	38	6,339,767	6,156,656

1 Source: Department of Research and Statistics or the Ministry of Finance and Central Bank of Cyprus

## THE REPUBLIC OF CYPRUS

### Background<sup>1</sup>

Cyprus lies in the eastern part of the Mediterranean sea at the crossroads of Europe, Asia and Africa. It is the third largest island in the Mediterranean with a land area of 9,251 square kilometres. The island's population of 892,400 at the end of 2009 consisted of 75.4 per cent. Greek Cypriots and 10.0 per cent. Turkish Cypriots, while the remaining 14.6 per cent. is accounted for by Armenians and others.

Cyprus has developed over the past 20 years into an important regional centre for finance, commerce and transport, mainly due to a thriving entrepreneurial culture and its proximity to the oil-producing countries of the Middle East. The country's per capita income is estimated by the Central Bank at €21,235 in 2009, which is comparable to that of other West European countries, and Cyprus benefits from other positive socio-economic indicators such as long life expectancy, good housing conditions and high standards of health and education.

Owing to its strategic location, the island has been the object of interest and expansionism for many foreign powers during its long history. The last country to rule Cyprus was Great Britain, which left its mark on the commercial, banking, administrative and legal systems, and English is widely spoken and used. In 1960, Cyprus was declared an independent Republic.

Since 1974, however, part of the island has been occupied by Turkish armed forces and is not under the control of the internationally recognised government of the Republic of Cyprus. Since 1975, negotiations have been taking place under the auspices of the Secretary-General of the United Nations for the reunification of the country.

Cyprus' constitution is modelled on Western democratic systems. It secures internal stability, guarantees individual rights and promotes private initiative. The three powers - executive, legislative and judicial - are separate. The president, who is the head of state and the supreme executive authority, is elected by universal suffrage and appoints the Council of Ministers. Members of the House of Representatives, the primary legislative body, are elected in separate elections under a system of proportional representation. At present, six parties have seats in the House, thus reflecting a wide spectrum of political opinion. The administration of justice is assigned to an entirely independent body and the legal system is substantially based on English law.

Cyprus maintains diplomatic relations with most countries of the world and is a member of the United Nations, the British Commonwealth, the Council of Europe, the International Bank for Reconstruction and Development, the International Monetary Fund and the European Bank for Reconstruction and Development. Cyprus became a member of the European Union in the wave of enlargement on 1 May 2004 and has been a member of the Eurozone from 1 January 2008. See “– Currency”.

### Cyprus's Economy<sup>1</sup>

From 1960 until the invasion of the northern part of Cyprus by Turkey in 1974, Cyprus' annual rate of economic growth averaged 2.8 per cent. The Turkish invasion involved the expropriation of approximately 70 per cent. of the productive capacity of Cyprus at that time. The economy recovered and during the period from 1975 to 1978 GDP exhibited an average annual growth rate of 13.9 per cent. During the period between 1979 and 1998, GDP grew at a real annual rate of 5.7 per cent.

The performance of the Cypriot economy between 2001 and 2010 resulted in an average annual real rate of growth of 2.8 per cent., unemployment levels of around 4.6 per cent. and an average inflation rate of 2.6 per cent. The contribution of agriculture, historically a major sector of the Cypriot economy, was approximately 2.0 per cent. of GDP for the year ended 31 December 2010 compared with 16 per cent. for the year ended 31 December 1976.

Manufacturing is relatively more important than agriculture to the Cypriot economy, accounting for approximately 7.2 per cent. of GDP in 2009. Due to the small size of the Cypriot market, the manufacturing

sector is dominated by relatively small family-owned units and is highly reliant on exports. Production is mainly concentrated on traditional consumer industries such as food and beverages. In recent years some investment has been made in capital-intensive methods of production.

Current government industrial policy aims to promote the restructuring of the manufacturing sector by emphasising the upgrading of technology, quality of production and improving management and marketing methods.

The fastest growing sector of the Cypriot economy is the service sector, which accounted for over 79 per cent. of GDP in 2009. The growth of this sector is attributable to tourism and the development of Cyprus as a commercial, financial and maritime centre.

Cyprus has developed as an international business centre since 1976, when the government introduced the first incentives for the establishment of International Business Centres (IBCs). In addition to these financial incentives, this development was also encouraged by a good telecommunications network, a developed financial and business sector, excellent transport connections, an educated workforce and good quality housing.

The fiscal balance was in a surplus of 1.0 per cent. of GDP in 2008 from a surplus of 3.4 per cent. of GDP in 2007 and a deficit of 1.2 per cent. of GDP in 2006. Due to the world financial crisis the fiscal balance deteriorated sharply in 2009, ending the year with a deficit of approximately -6.0 per cent. of GDP. In mid-July 2010, it was announced by the EU Economic and Financial Affairs Council (ECOFIN), that Cyprus, along with another three countries, was placed under the excessive deficit procedure. The ECOFIN announced that the Cyprus government is given a grace period until the end of 2012 in order to bring the deficit below 3 per cent. of GDP. By the end of 2010, the fiscal deficit was contained at 4.9 per cent. of GDP.

## **Ratings**

As at the date of this Prospectus the Republic of Cyprus has been rated by Standard and Poor's, Moody's and Fitch. Standard and Poor's has rated the foreign currency short-term obligations of the Republic of Cyprus A1 and the long term obligations A with a negative outlook, Moody's has rated the Republic of Cyprus's short- and long-term obligations P-1 and A2 with a stable outlook, respectively. Fitch has rated the Republic's short-term foreign currency obligations F1+ and its longterm obligations AA-.

## **Currency**

On 29 April 2005, following a decision by the European Central Bank and the 11 countries of the Eurozone, the Cyprus pound joined the European Rate Mechanism II (ERM II). The central parity of the Cyprus pound remained at 0.585274 (as prior to its entry in to the ERM II), with fluctuating bounds set at +/-15 per cent.

On 13 February 2007, Cyprus applied to join the Eurozone and on 10 July 2007 the official conversion rate of EUR/C£ was set at 0.585274. On 1 January 2008, Cyprus adopted the euro as its official currency.

## Main Economic Indicators

The following table summarises the main economic indicators for the period 2004-2009:

	2004	2005	2006	2007	2008	Est. 2009
<b>NATIONAL ACCOUNTS</b>						
GDP (at current prices (€ million).....	12,653.6	13,462.3	14,435.2	15,879.1	17,286.8	16,946.5
GDP (real rate of change) (%)	4.2	3.9	4.1	5.1	3.6	(1.7)
GDP per capita (€) .....	17,104	17,765.6	18,684	20,254	21,747	21,235
<b>EMPLOYMENT AND PRICES</b>						
Unemployment rate (% change) .....	4.7	5.3	4.5	3.9	3.7	5.3
Inflation rate HCPI (%) .....	1.9	2.0	2.2	2.2	4.4	0.2
<b>FISCAL SECTOR</b>						
Fiscal balance (€ million) .....	(515.6)	(325.5)	(172.5)	537.4	157.6	(1,011.1)
Fiscal balance/GDP (%) .....	(4.1)	(2.4)	(1.2)	3.4	0.9	(6.0)
Public debt (€ million) .....	8,882.6	9,299.8	9,330.9	9,261.5	8,346.0	9,826.13
Public debt/GDP (%) .....	70.2	69.1	64.6	58.3	48.3	58.0
<b>BALANCE OF PAYMENTS</b>						
Exports of goods and services (€ million).....	6,046.2	6,504.9	6,929.6	7,612.5	7,720.4	6,669.9
Imports of goods and services (€ million).....	6,357.0	6,850.5	7,471.0	8,605.7	9,701.6	7,654.7
Current account balance (€ million).....	(630.1)	(787.8)	(1,005.3)	(1,865.0)	(2,907.4)	(1,318.8)
Current account balance/GDP (%) .....	(5.0)	(5.9)	(7.0)	(11.7)	(16.9)	(7.8)
<b>FOREIGN DEBT</b>						
Total foreign debt (€ million) <sup>(1)</sup> .....	25,041.0	33,783.2	41,007.5	51,918.9	68,843.2	81,786.1
Total foreign debt/GDP (%) ..	197.9	250.9	284.1	327.0	398.2	482.6

Notes:

(1) As from 2005 data is compiled based on the new definition of residents as per BPM5.

## THE BANKING SECTOR IN CYPRUS

The banking system can be viewed as being segmented into three different categories:

### Domestic banks

The first category comprises domestic banks, which can be considered as universal banks, catering for domestic retail and corporate clients, and the international business segment. In addition, they offer non-bank services, such as insurance, brokerage, asset management, leasing and factoring.

The three largest domestic banks (BOC, MPB and Hellenic Bank), are listed on the Cyprus Stock Exchange and controlled 55.9 per cent. of the banking system's total deposits and 48.5 per cent. of the banking system's total loans as at 31 December 2010.

### Domestic cooperative credit institutions ("CCIs")

The second category comprises co-operative credit institutions, a less sophisticated segment of the market offering basic banking products, usually geared towards retail and small and medium enterprises.

Following intense consolidation efforts due to EU harmonisation directives, the number of CCIs dropped to around 113, based on the latest estimates, from around 300 previously. CCIs controlled 19.3 per cent. of the banking system's total deposits and 20.4 per cent. of the banking system's total loans as at 31 December 2010.

### Subsidiaries or branches of foreign banks

The third category comprises foreign banks' subsidiaries, or branches that have up to recent years focused on corporate banking. This focus, however, has started to change in the last four to five years, following the entrance and re-focus of Greek banks in the market catering for domestic retail and corporate clients as well as for the international business segment.

The largest entities in this category are subsidiaries of Greek banks. Alpha, EFG Eurobank, National Bank of Greece and Piraeus controlled 11.7 per cent. of the banking system's total deposits and 14.6 per cent. of the banking system's total loans as at 31 December 2010.

### Cyprus Banking System Structure

	<i>Assets</i> <i>€ million</i>
Domestic commercial banks .....	92.396
Domestic CCIs .....	15.886
Subsidiaries of Foreign Banks .....	60.873
EU Branches .....	1.188
Non-EU Branches .....	5.996
Total Banking System .....	<u>176.339</u>

Source: IMF Country report, September 2010

### Regulatory Standards

#### Banking regulation

Banking regulation is in line with the EU banking directive.

The Central Bank of Cyprus is responsible for supervising the banking system. CCIs are not, however, supervised by the Central Bank of Cyprus (refer to the next section for CCIs regulation).

Under the Banking Law, an initial capital outlay of €5,125,000 is required to establish a bank. A detailed three-year business plan describing the activities of the credit institution as well as the persons running it, must be submitted to the Central Bank of Cyprus. All major and/or controlling shareholders (defined as either persons with 10 per cent. ownership or above or the ability of any person to determine the majority of persons elected to the board) must be presented to the regulator. An initial “fit and proper test” is conducted at the time of the application and is regularly reassessed. Furthermore, as per Cyprus Stock Exchange regulations, any listed entity must disclose shareholders that own 5 per cent. or more.

The main prudential requirements are outlined below:

**Capital Adequacy:** Banks were required to adopt the Basel II guidelines as of 1 January 2007. Domestic banks have chosen to adhere to the standardised approach for credit risk and the basic indicator approach for operational risk. As per the Basel II recommendation, the minimum Capital Adequacy Ratio for banks is 8 per cent, while the minimum Tier 1 ratio is 4 per cent. In terms of capital quality, capital treatment is similar to that proposed under Basel III. Hybrid capital and innovative Tier 1 instruments should not exceed 35 per cent. of the banks’ core Tier 1 (recently changed from 15 per cent.), while the inclusion of revaluation reserves to Tier 2 is subject to the restriction that Tier 2 should not exceed Tier 1 capital. The regulator can impose capital add-ons to cover risks that are not fully captured.

**Liquidity:** Different liquidity ratios are given for local-currency and foreign-currency deposits. The Central Bank requires that 70 per cent. of foreign currency deposits, including interbank deposits, are kept in a list of qualifying liquid assets — plain vanilla instruments — while the corresponding ratio for local currency deposits is 20 per cent.

**Concentrations:** The Central Bank’s definition of a large exposure is an exposure equal to or greater than 10 per cent. of a bank’s capital. As such, any large exposure cannot exceed 25 per cent. of a bank’s capital, while the sum of large exposures cannot exceed 800 per cent. of a bank’s capital.

**Related party lending:** Exposures to directors (on aggregate) cannot exceed 20 per cent. of a bank’s capital. Total unsecured lending to directors cannot exceed 2 per cent. of capital.

**Asset Quality:** A 90 days-past-due of both interest and principal classification on a borrower base is followed. Rescheduled loans must remain classified as non-performing for six months following the restructuring and can exit the NPL list at the end of the six-month period, provided servicing is not interrupted. No minimum provisioning requirements are imposed by the central bank – either for NPLs or general provisions. The banks apply IFRS guidelines. The Central Bank reviews the banks’ provisioning policies and may require additional provisions where it sees fit.

### **Regulation of CCIs**

Different regulatory standards are applied to banks and to CCIs. CCIs fall outside the official banking regulation system. They are supervised by the Commissioner of Co-operatives and Co-operative Development under the Ministry of Commerce, Industry and Tourism.

### **Competition and Bank of Cyprus’ position in the market**

Banks in Cyprus and their operations are subject to the provision of the Protection of Competition Law 13(I) of 2008, which prohibits any actions of conduct which have as their object or effect the restriction or distortion of competition. In addition, the Control of Concentrations between Enterprises Law 22(I) of 1999 (as amended) regulates significant concentrations in the banking sector.

The table below presents the market shares of the five largest banks operating in Cyprus as at the end of December 2010:

	<i>Market share (as a % of total commercial banks)</i>		<i>Market share (as a % of total banking system)</i>	
	<i>Deposits</i>	<i>Loans</i>	<i>Deposits</i>	<i>Loans</i>
Bank of Cyprus .....	39.9	35.7	28.3	24.3
Marfin Popular Bank.....	26.5	25.0	18.8	17.0
Hellenic Bank .....	12.4	10.6	8.8	7.2
Alpha Bank .....	7.2	11.2	5.1	7.6
EFG Eurobank.....	5.0	5.4	3.6	3.7

## THE BANKING SECTOR IN GREECE<sup>1</sup>

In total, 63 credit institutions operate in Greece, comprising (i) 19 domestic commercial banks; (ii) 27 foreign banks (including 22 EU-based banks) that operate branches; (iii) 16 cooperative banks; and (iv) one specialised credit institution (the Loans and Consignment Fund).

As of September 2010, total banking system assets stood at €526 billion; there were more than 4,000 operational branches and 7,500 ATMs, with 65,000 personnel. Asset concentration in the Greek banking market is moderate, with the market share of the five largest banks at an estimated 70 per cent.

The four largest domestic banks (NBG, EFG Eurobank, Alpha and Piraeus), are listed on the Athens Stock Exchange and controlled about 62 per cent. of the banking system's total deposits and about 63 per cent. of the banking system's total loans as at 31 December 2010.

### Banking regulation

Banking regulation is in line with the EU banking directive.

The Bank of Greece is responsible for the licensing of credit institutions in Greece and also has regulatory and supervisory powers over their operations.

Under the Banking Law, an initial capital outlay of €18 million is required to establish a bank. A detailed three-year business plan describing the activities of the credit institution – as well as the persons running it – must be submitted to the Bank of Greece. All shareholders owning more than 5 per cent. either directly or indirectly via related physical or legal persons (as well as the top 10 shareholders of the institution) must be presented to the Bank of Greece. The Bank of Greece has the discretion to ask for relevant information pertaining to any holding above 1 per cent. An initial “fit and proper test” is conducted, which the Bank of Greece periodically reassesses.

Existing laws and regulations ensure the Bank of Greece's independence from political or industry influence and also empower the regulator to impose and enforce regulatory standards.

The main prudential requirements are outlined below:

**Capital Adequacy:** Maintain a minimum capital ratio of 8 per cent., of which at least 50 per cent. must be Tier 1. The Bank of Greece also has the discretion to impose capital add-ons.

**Liquidity:** Banks need to observe the Bank of Greece's prescribed liquidity ratios, including a 2 per cent. reserve requirement, a 20 per cent. liquidity ratio (liquid assets maturing within 30 days over the cumulative balance of a bank's borrowed funds maturing within 12 months) and a maturity mismatch ratio of -20 per cent. (the difference of a bank's total assets and total liabilities maturing in up to 30 days over the cumulative balance of borrowed funds maturing in up to 12 months).

**Concentrations:** The Bank of Greece's definition of a large exposure is an exposure equal to or greater than 10 per cent. of a bank's capital. As such, any large exposure cannot exceed 20 per cent. of a bank's capital (25 per cent. for intra-group exposures), while the sum of large exposures cannot exceed 800 per cent. of a bank's capital.

**Related party lending:** Exposures to directors (on aggregate) cannot exceed 10 per cent. of a bank's capital.

**Asset Quality:** A 90 days-past-due classification is followed. In terms of loan-loss provisioning, the Bank of Greece has issued a schedule for supervisory provision requirements based on a loan's classification (i.e., the loan type, loan to value ratios and delinquency periods). There is a 10 per cent. provisioning requirement for “restructured loans”.

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<sup>1</sup> Source: Moody's Investor Service, Bank of Cyprus

## Competition and Bank of Cyprus' position in the market

The table below presents the market shares of the ten largest banks operating in Greece as at end of December 2010:

	<i>Market share</i>	
	<i>Loans</i>	<i>Deposits</i>
National Bank of Greece .....	19.3%	23.4%
EFG Eurobank .....	15.8%	14.0%
Alpha Bank.....	15.7%	14.0%
Piraeus Bank.....	12.0%	10.8%
Emporiki Bank .....	9.4%	6.3%
Agricultural Bank of Greece .....	8.8%	8.7%
Marfin Popular Bank .....	5.2%	4.4%
Bank of Cyprus.....	3.8%	4.4%
Postbank .....	2.9%	5.0%
Millenium .....	1.9%	1.4%

## TAXATION

### Cyprus Taxation

*The following is a general description of certain tax aspects of the Notes under Cypriot law as at the date of this Prospectus and does not purport to be a comprehensive description of all tax aspects relating to the Notes. Prospective investors should consult their tax and other professional advisers as to the specific tax consequences of acquiring, holding and disposing of the Notes.*

#### Income Tax

With effect from 1 January 2003, amendments were introduced to the tax system in Cyprus pursuant to which the basis of the taxation is now one of tax on worldwide income on the basis of residency. For the purposes of establishing residency under the provisions of the Income Tax Law, Law 118(I) of 2002 (as amended) (the "Income Tax Law") a person is resident for tax purposes in Cyprus where in the case of a natural person that person is present in Cyprus for at least 183 days in the tax year and in the case of a company its management and control is exercised in Cyprus. The tax year for the purpose of the Income Tax Law coincides with the calendar year.

Under the provisions of the Income Tax Laws, an individual who is tax resident in the Republic of Cyprus and who receives or is credited with interest, is exempt from income tax, but he is subject to 10 per cent. withholding pursuant to the provisions of the Special Contribution for the Defence Fund of the Republic Laws, Law 117(I) of 2002 (as amended) (the "SCDF Law").

#### Interest Income

##### *Non-Cyprus Tax Residents*

Persons (natural and legal) who are not resident for tax purposes pursuant to the provisions of the Income Tax Law will not be liable to any charge to income tax or the special contribution for defence tax.

##### *Cyprus tax resident individuals*

Under the provisions of the Income Tax Laws, an individual who is tax resident in the Cyprus and who receives or is credited with interest in the ordinary course of business will be liable to tax under the Income Tax Law at the rate of 10% and will not be liable to tax under the SCDF Law. Where the interest is not earned in the ordinary course of business, it is exempt from income tax, but is subject to 10 per cent withholding tax pursuant to the provisions of the SCDF Law.

##### *Cyprus tax resident companies*

The interest received by a resident company is subject to 10 per cent. tax pursuant to:

- (a) the Income Tax Law, if it receives or is credited with that interest from the ordinary carrying on of its business or receives interest closely connected with the carrying on of its business; or
- (b) the SCDF Law, if that interest is not derived from the ordinary carrying on of its business and is not closely connected with the carrying on of its business.

#### Profit from the Disposal of the Notes

Any gains derived from the disposal of the Notes by a Cyprus resident individual or company is exempt from income tax in Cyprus.

Any gains from the disposal of the Notes is not subject to Cyprus income tax, irrespective of trading nature of the gain, the number of Notes held or the period for which the Notes were held. Any gain is also outside the scope of application of the Capital Gains Tax Law 1980-2002 (as amended).

## **Savings Directive**

Cyprus has enacted into Cyprus law EU Directive 2003/48/EC relating to the taxation of savings by virtue of the provisions of the Assessment and Collection of Taxes (Amendment) Law 146(I) of 2004. Pursuant to this law, the Cypriot Council of Ministers issued the Assessment and Collection of Tax (Provision of Information Regarding Interest Payments) Regulations of 2005. These regulations impose Savings Directive standards on Cypriot financial institutions making EU cross-border savings interest payments to individuals resident in other EU Member States, such as automatic reporting to the tax authorities of the other Member State of (a) an individual's identity and permanent address, (b) the name and address of the paying agent and (c) the bank account details.

## **Stamp Duty**

Following the enactment of the Stamp Duty (Amendment) (No.2) Law 222(I) of 2002, section 4 of the Stamp Duty Law 19 of 1963 (as amended) provides that:

“(1) every instrument specified in the First Schedule shall be chargeable with duty of the amount specified in the said Schedule as the proper duty therefor respectively if it relates to any asset situated in the Republic or to matters or things which shall be performed or done in the Republic irrespective of the place where the document is made”.

Furthermore, pursuant to the Stamp Duty (Amendment) (No. 2) Law 152(I) of 2007, the First Schedule was amended to provide a stamp duty of 0.15 per cent. for amounts up to €170,860 and 0.2 per cent. plus €256 for amounts above €170,860 with a maximum flat stamp duty of €17,086.

On the basis of certain rulings from the Commissioner of Stamp Duty, the issue of the Notes will not be liable to stamp duty where the Notes are issued to non-residents, the proceeds of the issue are kept outside Cyprus, the Notes are listed on a foreign stock exchange and the repayment obligations are effected from foreign funds. If the Notes are issued to residents of Cyprus, there may be a chargeability to stamp duty under section 4 of the Stamp Duty Law.

The transfers of the Notes effected outside of Cyprus between non-residents of Cyprus do not attract stamp duty in Cyprus, provided that the transferor and the transferee are not tax residents of Cyprus.

## **Greece Taxation**

The following is a general description of certain tax aspects of the Notes under Greek law as at the date of the Prospectus and does not purport to be a comprehensive description of all tax aspects relating to the Notes. Prospective investors should consult their tax and other professional advisers as to the specific tax consequences of acquiring, holding and disposing of the Notes.

The Bank is for the purposes of the Cyprus income tax law a tax resident in Cyprus for tax purposes. Any business carried on by the Bank in Greece is carried on through its Branch which for the purposes of the Greek income tax laws constitutes a permanent establishment. The income of the Bank's branch in Greece is liable to tax in Greece.

With respect to any Notes issued out of the Bank's operations in Greece:

- (i) There is no Greek withholding tax on the payment of interest to the Noteholders (individuals or corporations) who are not resident in Greece.
- (ii) Greece will levy a 10 per cent. withholding tax on the payment of interest to the Noteholders (individuals or corporations) who are resident in Greece, which include other Greek resident banks, insurance companies or financial institutions. In the case of an individual or a bank or insurance company, the 10 per cent. withholding tax is a final tax, whereas in the case of a corporation (other than a bank) the interest received is taxable and a credit is given for the withholding tax.
- (iii) In case of payments of interest to EU resident individuals, Greece will provide the information to the respective tax authority of the interest paid in accordance with the EU Savings Directive.

- (iv) The issue of the Notes by the Bank is not subject to Greek registration fees or other types of taxes in Greece.

With respect to any Notes issued out of the Bank's operations in Cyprus, Greece will levy a 10 per cent. withholding tax on the payment of interest to the Noteholders (individuals or corporations) who are resident in Greece. In the case of individuals, banks or insurance companies, such 10 per cent. withholding tax is final, whereas in the case of corporations (other than banks or insurance companies), the interest received is taxable at the appropriate rates and a credit is given for the withholding tax. Such treatment applies to income received from 1 January 2007 onwards and the tax is withheld by the bank, which acts as a "payment agent" for the income in question. The above said 10 per cent. withholding tax is also levied on any interest accrued upon the transfer of the foreign bond or coupon.

### **United States Taxation**

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

*The following is a summary of certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of Registered Notes by a U.S. Holder (as defined below). This summary deals only with purchasers of Registered Notes that are U.S. Holders and that will hold the Registered Notes as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Registered Notes by particular investors, and does not address state, local, foreign or other tax laws. In particular, this summary does not address tax considerations applicable to investors that own (directly or indirectly) 10 per cent. or more of the voting stock of the Bank, nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar). Moreover, the summary deals only with Registered Notes that are Senior Notes with a term of 30 years or less. The U.S. federal income tax consequences of owning Subordinated Notes, or Senior Notes with a term of more than 30 years, will be discussed in the applicable Final Terms.*

*As used herein, the term "U.S. Holder" means a beneficial owner of Registered Notes that is (i) a citizen or resident of the United States for U.S. federal income tax purposes, (ii) a corporation, or other entity treated as a corporation, created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or the trust has elected to be treated as a domestic trust for U.S. federal income tax purposes.*

*The U.S. federal income tax treatment of a partner in a partnership that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships should consult their tax adviser concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of Notes by the partnership.*

*The summary is based on the tax laws of the United States including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.*

*Bearer Notes (including Exchangeable Bearer Notes while in bearer form) are not being offered to U.S. Holders. A U.S. Holder who owns a Bearer Note may be subject to limitations under United States income tax laws including the limitations provided in sections 165(j) and 1287(a) of the United States Internal Revenue Code.*

**THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE REGISTERED NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.**

### ***Payments of Interest***

#### *General*

Interest on a Note, whether payable in U.S. dollars or a currency, composite currency or basket of currencies other than U.S. dollars (a “foreign currency”), other than interest on a “Discount Note” that is not “qualified stated interest” (each as defined below under “Original Issue Discount – General”), will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder’s method of accounting for tax purposes. Interest paid by the Bank on the Notes and OID, if any, accrued with respect to the Notes (as described below under “Original Issue Discount”) generally will constitute income from sources outside the United States. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Notes.

### **Original Issue Discount**

#### *General*

The following is a summary of the principal U.S. federal income tax consequences of the ownership of Notes issued with original issue discount (“OID”). The following summary does not discuss Notes that are characterised as contingent payment debt instruments for U.S. federal income tax purposes. In the event the Bank issues contingent payment debt instruments the applicable Final Terms will describe the material U.S. federal income tax consequences thereof.

A Note, other than a Note with a term of one year or less (a “Short-Term Note”), will be treated as issued with OID (a “Discount Note”) if the excess of the Note’s “stated redemption price at maturity” over its issue price is equal to or more than a *de minimis* amount (0.25 per cent. of the Note’s stated redemption price at maturity multiplied by the number of complete years to its maturity). An obligation that provides for the payment of amounts other than qualified stated interest before maturity (an “instalment obligation”) will be treated as a Discount Note if the excess of the Note’s stated redemption price at maturity over its issue price is equal to or greater than 0.25 per cent. of the Note’s stated redemption price at maturity multiplied by the weighted average maturity of the Note. A Note’s weighted average maturity is the sum of the following amounts determined for each payment on a Note (other than a payment of qualified stated interest): (i) the number of complete years from the issue date until the payment is made multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the Note’s stated redemption price at maturity. Generally, the issue price of a Note will be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers. The stated redemption price at maturity of a Note is the total of all payments provided by the Note that are not payments of “qualified stated interest”. A qualified stated interest payment is generally any one of a series of stated interest payments on a Note that are unconditionally payable at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods), or a variable rate (in the circumstances described below under “Variable Interest Rate Notes”), applied to the outstanding principal

amount of the Note. Solely for the purposes of determining whether a Note has OID, the Bank will be deemed to exercise any call option that has the effect of decreasing the yield on the Note, and the U.S. Holder will be deemed to exercise any put option that has the effect of increasing the yield on the Note.

U.S. Holders of Discount Notes must include OID in income calculated on a constant-yield method before the receipt of cash attributable to the income, and generally will have to include in income increasingly greater amounts of OID over the life of the Discount Notes. The amount of OID includible in income by a U.S. Holder of a Discount Note is the sum of the daily portions of OID with respect to the Discount Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Discount Note (“accrued OID”). The daily portion is determined by allocating to each day in any “accrual period” a *pro rata* portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Note as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the Discount Note’s adjusted issue price at the beginning of the accrual period and the Discount Note’s yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Note allocable to the accrual period. The “adjusted issue price” of a Discount Note at the beginning of any accrual period is the issue price of the Note increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Note that were not qualified stated interest payments.

#### *Acquisition Premium*

A U.S. Holder that purchases a Discount Note for an amount less than or equal to the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, but in excess of its adjusted issue price (any such excess being “acquisition premium”) and that does not make the election described below under “Election to Treat All Interest as Original Issue Discount”, is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder’s adjusted basis in the Note immediately after its purchase over the Note’s adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, over the Note’s adjusted issue price.

#### *Market Discount*

A Note, other than a Short-Term Note, generally will be treated as purchased at a market discount (a “Market Discount Note”) if the Note’s stated redemption price at maturity or, in the case of a Discount Note, the Note’s “revised issue price”, exceeds the amount for which the U.S. Holder purchased the Note by at least 0.25 per cent. of the Note’s stated redemption price at maturity or revised issue price, respectively, multiplied by the number of complete years to the Note’s maturity (or, in the case of a Note that is an instalment obligation, the Note’s weighted average maturity). If this excess is not sufficient to cause the Note to be a Market Discount Note, then the excess constitutes “*de minimis* market discount”. For this purpose, the “revised issue price” of a Note generally equals its issue price, increased by the amount of any OID that has accrued on the Note and decreased by the amount of any payments previously made on the Note that were not qualified stated interest payments.

Under current law, any gain recognised on the maturity or disposition of a Market Discount Note (including any payment on a Note that is not qualified stated interest) will be treated as ordinary income to the extent that the gain does not exceed the accrued market discount on the Note. Alternatively, a U.S. Holder of a Market Discount Note may elect to include market discount in income currently over the life of the Note. This election will apply to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies. This election may not be revoked without the consent of the Internal Revenue Service (the “IRS”). A U.S. Holder of a Market Discount Note that does not elect to include market discount in income currently will generally be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Note that is in excess of the interest and OID on the Note includible in the U.S. Holder’s income, to the extent that this excess

interest expense does not exceed the portion of the market discount allocable to the days on which the Market Discount Note was held by the U.S. Holder.

Under current law, market discount will accrue on a straight-line basis unless the U.S. Holder elects to accrue the market discount on a constant-yield method. This election applies only to the Market Discount Note with respect to which it is made and is irrevocable.

#### *Election to Treat All Interest as Original Issue Discount*

A U.S. Holder may elect to include in gross income all interest that accrues on a Note using the constant-yield method described above under “Original Issue Discount - General,” with certain modifications. For purposes of this election, interest includes stated interest, OID, de minimis OID, market discount, de minimis market discount and unstated interest, as adjusted by any amortisable bond premium (described below under “Notes Purchased at a Premium”) or acquisition premium. This election will generally apply only to the Note with respect to which it is made and may not be revoked without the consent of the IRS. If the election to apply the constant-yield method to all interest on a Note is made with respect to a Market Discount Note, the electing U.S. Holder will be treated as having made the election discussed above under “Market Discount” to include market discount in income currently over the life of all debt instruments with market discount held or thereafter acquired by the U.S. Holder. U.S. Holders should consult their tax advisers concerning the propriety and consequences of this election.

#### *Variable Interest Rate Notes*

Notes that provide for interest at variable rates (“Variable Interest Rate Notes”) generally will bear interest at a “qualified floating rate” and thus will be treated as “variable rate debt instruments” under Treasury regulations governing accrual of OID. A Variable Interest Rate Note will qualify as a “variable rate debt instrument” if (a) its issue price does not exceed the total non-contingent principal payments due under the Variable Interest Rate Note by more than a specified *de minimis* amount, (b) it provides for stated interest, paid or compounded at least annually, at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate, and (c) it does not provide for any principal payments that are contingent (other than as described in (a) above).

A “qualified floating rate” is any variable rate where variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Variable Interest Rate Note is denominated. A fixed multiple of a qualified floating rate will constitute a qualified floating rate only if the multiple is greater than 0.65 but not more than 1.35. A variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate, will also constitute a qualified floating rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Variable Interest Rate Note (e.g., two or more qualified floating rates with values within 25 basis points of each other as determined on the Variable Interest Rate Note’s issue date) will be treated as a single qualified floating rate. Notwithstanding the foregoing, a variable rate that would otherwise constitute a qualified floating rate but which is subject to one or more restrictions such as a maximum numerical limitation (i.e., a cap) or a minimum numerical limitation (i.e., a floor) may, under certain circumstances, fail to be treated as a qualified floating rate.

An “objective rate” is a rate that is not itself a qualified floating rate but which is determined using a single fixed formula and which is based on objective financial or economic information (e.g., one or more qualified floating rates or the yield of actively traded personal property). A rate will not qualify as an objective rate if it is based on information that is within the control of the Bank (or a related party) or that is unique to the circumstances of the Bank (or a related party), such as dividends, profits or the value of the Bank’s stock (although a rate does not fail to be an objective rate merely because it is based on the credit quality of the Bank). Other variable interest rates may be treated as objective rates if so designated by the IRS in the future. Despite the foregoing, a variable rate of interest on a Variable Interest Rate Note will not constitute an objective rate if it is reasonably expected that the average value of the rate during the first half of the Variable

Interest Rate Note's term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Variable Interest Rate Note's term. A "qualified inverse floating rate" is any objective rate where the rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. If a Variable Interest Rate Note provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period and if the variable rate on the Variable Interest Rate Note's issue date is intended to approximate the fixed rate (e.g., the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 25 basis points), then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be.

A qualified floating rate or objective rate in effect at any time during the term of the instrument must be set at a "current value" of that rate. A "current value" of a rate is the value of the rate on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

If a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof qualifies as a "variable rate debt instrument", then any stated interest on the Note which is unconditionally payable in cash or property (other than debt instruments of the Bank) at least annually will constitute qualified stated interest and will be taxed accordingly. Thus, a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof and that qualifies as a "variable rate debt instrument" will generally not be treated as having been issued with OID unless the Variable Interest Rate Note is issued at a "true" discount (i.e., at a price below the Note's stated principal amount) in excess of a specified *de minimis* amount. OID on a Variable Interest Rate Note arising from "true" discount is allocated to an accrual period using the constant yield method described above by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate, the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate, or (ii) in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note. In general, any other Variable Interest Rate Note that qualifies as a "variable rate debt instrument" will be converted into an "equivalent" fixed rate debt instrument for purposes of determining the amount and accrual of OID and qualified stated interest on the Variable Interest Rate Note. Such a Variable Interest Rate Note must be converted into an "equivalent" fixed rate debt instrument by substituting any qualified floating rate or qualified inverse floating rate provided for under the terms of the Variable Interest Rate Note with a fixed rate equal to the value of the qualified floating rate or qualified inverse floating rate, as the case may be, as of the Variable Interest Rate Note's issue date. Any objective rate (other than a qualified inverse floating rate) provided for under the terms of the Variable Interest Rate Note is converted into a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note. In the case of a Variable Interest Rate Note that qualifies as a "variable rate debt instrument" and provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate, the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Variable Interest Rate Note provides for a qualified inverse floating rate). Under these circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of the Variable Interest Rate Note as of the Variable Interest Rate Note's issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the qualified floating rate or qualified inverse floating rate rather than the fixed rate. Subsequent to converting the fixed rate into either a qualified floating rate or a qualified inverse floating rate, the Variable Interest Rate Note is converted into an "equivalent" fixed rate debt instrument in the manner described above.

Once the Variable Interest Rate Note is converted into an "equivalent" fixed rate debt instrument pursuant to the foregoing rules, the amount of OID and qualified stated interest, if any, are determined for the "equivalent" fixed rate debt instrument by applying the general OID rules to the "equivalent" fixed rate debt instrument and a U.S. Holder of the Variable Interest Rate Note will account for the OID and qualified stated interest as if the U.S. Holder held the "equivalent" fixed rate debt instrument. In each accrual period, appropriate adjustments will be made to the amount of qualified stated interest or OID assumed to have been accrued or paid with respect to the "equivalent" fixed rate debt instrument in the event that these amounts

differ from the actual amount of interest accrued or paid on the Variable Interest Rate Note during the accrual period.

If a Variable Interest Rate Note, such as a Note the payments on which are determined by reference to an index, does not qualify as a “variable rate debt instrument”, then the Variable Interest Rate Note will be treated as a contingent payment debt obligation. The proper U.S. federal income tax treatment of Variable Interest Rate Notes that are treated as contingent payment debt obligations will be more fully described in the applicable Final Terms.

#### *Short-Term Notes*

In general, an individual or other cash basis U.S. Holder of a Short-Term Note is not required to accrue OID (as specially defined below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Notes on a straight-line basis or, if the U.S. Holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realised on the sale or retirement of the Short-Term Note will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or retirement. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Notes will be required to defer deductions for interest on borrowings allocable to Short-Term Notes in an amount not exceeding the deferred income until the deferred income is realised.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Note are included in the Short-Term Note’s stated redemption price at maturity. A U.S. Holder may elect to determine OID on a Short-Term Note as if the Short-Term Note had been originally issued to the U.S. Holder at the U.S. Holder’s purchase price for the Short-Term Note. This election will apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

#### *Notes Purchased at a Premium*

A U.S. Holder that purchases a Note for an amount in excess of its principal amount or, for a Discount Note, its stated redemption price at maturity, may elect to treat the excess as “amortisable bond premium”, in which case the amount required to be included in the U.S. Holder’s income each year with respect to interest on the Note will be reduced by the amount of amortisable bond premium allocable (based on the Note’s yield to maturity) to that year. Any election to amortise bond premium will apply to all bonds (other than bonds the interest on which is excludable from gross income for U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. See also “Original Issue Discount - Election to Treat All Interest as Original Issue Discount”.

#### *Purchase, Sale and Retirement of Notes*

A U.S. Holder’s tax basis in a Note will generally be its cost, increased by the amount of any OID or market discount included in the U.S. Holder’s income with respect to the Note and the amount, if any, of income attributable to *de minimis* OID and *de minimis* market discount included in the U.S. Holder’s income with respect to the Note, and reduced by (i) the amount of any payments that are not qualified stated interest payments, and (ii) the amount of any amortisable bond premium applied to reduce interest on the Note.

A U.S. Holder will generally recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and the tax basis of the Note. The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. Except to the extent described above under “Original Issue Discount – Market Discount” or “Original Issue Discount – Short Term Notes” or attributable to changes in exchange rates (as discussed below), gain or loss recognised on the sale or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder’s holding period in the Notes

exceeds one year. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source.

### ***Foreign Currency Notes***

#### ***Interest***

If an interest payment is denominated in, or determined by reference to, a foreign currency, the amount of income recognised by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

Upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Note) denominated in, or determined by reference to, a foreign currency, the U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

#### ***OID***

OID for each accrual period on a Discount Note that is denominated in, or determined by reference to, a foreign currency, will be determined in the foreign currency and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above. Upon receipt of an amount attributable to OID (whether in connection with a payment on the Note or a sale or disposition of the Note), a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

#### ***Market Discount***

Market discount on a Note that is denominated in, or determined by reference to, a foreign currency, will be accrued in the foreign currency. If the U.S. Holder elects to include market discount in income currently, the accrued market discount will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. Holder's taxable year). Upon the receipt of an amount attributable to accrued market discount, the U.S. Holder may recognise U.S. source exchange gain or loss (which will be taxable as ordinary income or loss) determined in the same manner as for accrued interest or OID. A U.S. Holder that does not elect to include market discount in income currently will recognise, upon the disposition or maturity of the Note, the U.S. dollar value of the amount accrued, calculated at the spot rate on that date, and no part of this accrued market discount will be treated as exchange gain or loss.

### *Bond Premium*

Bond premium (including acquisition premium) on a Note that is denominated in, or determined by reference to, a foreign currency, will be computed in units of the foreign currency, and any such bond premium that is taken into account currently will reduce interest income in units of the foreign currency. On the date bond premium offsets interest income, a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) measured by the difference between the spot rate in effect on that date, and on the date the Notes were acquired by the U.S. Holder. A U.S. Holder that does not elect to take bond premium (other than acquisition premium) into account currently will recognise a market loss when the Note matures.

### *Sale or Retirement*

As discussed above under “Purchase, Sale and Retirement of Notes”, a U.S. Holder will generally recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and its tax basis in the Note. A U.S. Holder’s tax basis in a Note that is denominated in a foreign currency will be determined by reference to the U.S. dollar cost of the Note. The U.S. dollar cost of a Note purchased with foreign currency will generally be the U.S. dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase.

The amount realised on a sale or retirement for an amount in foreign currency will be the U.S. dollar value of this amount on the date of sale or retirement or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

A U.S. Holder will recognise U.S. source exchange rate gain or loss (taxable as ordinary income or loss) on the sale or retirement of a Note equal to the difference, if any, between the U.S. dollar values of the U.S. Holder’s purchase price for the Note (or, if less, the principal amount of the Note) (i) on the date of sale or retirement and (ii) the date on which the U.S. Holder acquired the Note. Any such exchange rate gain or loss will be realised only to the extent of total gain or loss realised on the sale or retirement (including any exchange gain or loss with respect to the receipt of accrued but unpaid interest).

### *Disposition of Foreign Currency*

Foreign currency received as interest on a Note or on the sale or retirement of a Note will have a tax basis equal to its U.S. dollar value at the time the foreign currency is received or at the time of the sale or retirement. Foreign currency that is purchased will generally have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

### ***Backup Withholding and Information Reporting***

In general, payments of interest and accruals of OID on, and the proceeds of a sale, redemption or other disposition of, the Notes, payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding will apply to these payments, including payments of OID, if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

## ***Reportable Transactions***

A U.S. taxpayer that participates in a “reportable transaction” will be required to disclose this participation to the IRS. Under the relevant rules, if the Notes are denominated in a foreign currency, a U.S. Holder may be required to treat a foreign currency exchange loss from the Notes as a reportable transaction if the loss exceeds the relevant threshold in the regulations (U.S.\$50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amounts for other non-individual U.S. Holders), and to disclose its investment by filing Form 8886 with the IRS. A penalty in the amount of U.S.\$10,000 in the case of a natural person and U.S.\$50,000 in all other cases is generally imposed on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules to the acquisition, holding or disposition of Notes.

Legislation enacted in March 2010 imposes new reporting requirements on the holding of certain foreign financial assets, including debt of foreign entities, if the aggregate value of all of these assets exceeds \$50,000. The Notes are expected to constitute foreign financial assets subject to these requirements unless the Notes are regularly traded on an established securities market and held in an account at a domestic financial institution. U.S. Holders should consult their tax adviser regarding the application of this legislation.

## **EU Savings Directive**

The EU Savings Directive requires Member States to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual resident in or certain limited types of entity established in another Member State, except that Austria and Luxembourg may instead apply a withholding system for a transitional period unless during such period they elect otherwise (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). A number of third countries and territories including Switzerland have adopted similar measures to EU Savings Directive (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments of the EU Savings Directive which may, if implemented, amend or broaden the scope of requirements described above.

## **Luxembourg**

*The comments below are intended as a basic summary of certain tax consequences in relation to the purchase, ownership and disposition of the Notes under Luxembourg law. Persons who are in any doubt as to their tax position should consult a professional tax adviser.*

### **Withholding tax**

Under Luxembourg tax law currently in effect and with the possible exception of interest paid to certain individual Noteholders and to certain entities, there is no Luxembourg withholding tax on payments of interest (including accrued but unpaid interest). There is also no Luxembourg withholding tax, with the possible exception of payments made to certain individual Noteholders and to certain entities, upon repayment of principal in case of reimbursement, redemption, repurchase or exchange of the Notes.

#### *Luxembourg non-resident individuals*

Under the Luxembourg laws dated 21 June 2005 implementing the European Council Directive 2003/48/EC on the taxation of savings income (the “Savings Directive”) and several agreements concluded between Luxembourg and certain dependent or associated territories of the European Union (“EU”), a Luxembourg based paying agent (within the meaning of the Savings Directive) is required since 1 July 2005 to withhold tax on interest and other similar income paid by it to (or under certain circumstances, to the benefit of) an individual resident in another Member State or in certain EU dependent or associated territories, unless the beneficiary of the interest payments elects for the procedure of exchange of information or for the tax

certificate procedure. The same regime applies to payments of interest and other similar income made to certain “residual entities” within the meaning of Article 4.2 of the Savings Directive established in a Member State or in certain EU dependent or associated territories (i.e., entities which are not legal persons (the Finnish and Swedish companies listed in Article 4.5 of the Savings Directive are not considered legal persons for this purpose), whose profits are not taxed under the general arrangements for the business taxation, that are not UCITS recognised in accordance with the Council Directive 85/611/EEC or similar collective investment funds located in Jersey, Guernsey, the Isle of Man, the Turks and Caicos Islands, the Cayman Islands, Montserrat or the British Virgin Islands and have not opted to be treated as UCITS recognised in accordance with the Council Directive 85/611/EEC).

The withholding tax rate is 20 per cent. increasing to 35 per cent. as from 1 July 2011. The withholding tax system will only apply during a transitional period, the ending of which depends on the conclusion of certain agreements relating to information exchange with certain third countries.

#### *Luxembourg resident individuals*

Interest payments made by Luxembourg paying agents (defined in the same way as in the Savings Directive) to Luxembourg individual residents or to certain residual entities that secure interest payments on behalf of such individuals (unless such entities have opted either to be treated as UCITS recognised in accordance with the Council Directive 86/611/EEC or the exchange of information regime) are subject to a 10 per cent. withholding tax.

Pursuant to the Luxembourg law of 23 December 2005 as amended by the law of 17 July 2008, Luxembourg resident individuals, acting in the course of their private wealth, can opt to self-declare and pay a 10 per cent. tax on interest payments made after 31 December 2007 by paying agents (defined in the same way as in the Savings Directive) located in an EU Member State other than Luxembourg, a Member State of the European Economic Area other than an EU Member State or in a State or territory which has concluded an international agreement directly related to the Savings Directive.

## SUBSCRIPTION AND SALE

### Summary of Dealer Agreement

Subject to the terms and on the conditions contained in a dealer agreement dated 11 September 2003 as amended and restated on 17 May 2011 (the “Dealer Agreement”) between the Bank, the Permanent Dealers and the Arranger, the Notes will be offered on a continuous basis by the Bank to the Permanent Dealers. However, the Bank has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Bank through the Dealers, acting as agents of the Bank. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The Bank will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Bank has agreed to reimburse the Arranger for its expenses incurred in connection with the update of the Programme and the Dealers for certain of their activities in connection with the Programme. The commissions in respect of an issue of Notes on a syndicated basis will be stated in the relevant Final Terms.

The Bank has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Bank.

### Selling Restrictions

#### *United States*

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealer Agreement, they have not offered, sold or delivered and will not offer, sell or, in the case of Notes in bearer form, deliver the Notes of any identifiable Tranche, (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of such Tranche as determined, and certified to the Bank, by the Issuing and Paying Agent or, in the case of Notes issued on a syndicated basis, the Lead Manager, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period (other than resales pursuant to Rule 144A) a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S.

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. The Dealer Agreement provides that the Dealers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes within the United States only to qualified institutional buyers in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

This Prospectus has been prepared by the Bank for use in connection with the offer and sale of the Notes outside the United States and for the resale of the Notes in the United States. The Bank and the Dealers

reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States or to any U.S. person, other than any qualified institutional buyer within the meaning of Rule 144A to whom an offer has been made directly by one of the Dealers or its U.S. broker-dealer affiliate. Distribution of this Prospectus by any non-U.S. person outside the United States or by any qualified institutional buyer in the United States to any U.S. person or to any other person within the United States, other than any qualified institutional buyer and those persons, if any, retained to advise such non-U.S. person or qualified institutional buyer with respect thereto, is unauthorised and any disclosure without the prior written consent of the Bank of any of its contents to any such U.S. person or other person within the United States, other than any qualified institutional buyer and those persons, if any, retained to advise such non-U.S. person or qualified institutional buyer, is prohibited.

### **Public Offer Selling Restriction Under the Prospectus Directive**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (i) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a “Non-exempt Offer”), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (ii) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (iii) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors, as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer;
- (iv) at any time if the denomination per Note being offered amounts to at least €100,000; or
- (v) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (ii) to (iv) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive and the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73 EU.

### *United Kingdom*

Each Dealer has represented and agreed that:

- (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Bank; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### *Cyprus*

Each Dealer has represented and agreed that:

- (a) it has not made and will not make an offer for sale or sell any Securities to any person within the Republic of Cyprus other than to qualified investors within the meaning of the Public Offer and Prospectus Law, Law 114(I)/2005 (the “Prospectus Law”) or to other persons to whom such an offer may be lawfully made pursuant to the provisions of the Prospectus Law;
- (b) it has complied and will comply with all applicable provisions of the Prospectus Law with respect to anything done by it in relation to the Securities in, from or otherwise involving Cyprus;
- (c) it has complied and will continue to comply with the provisions of the Investment Services and Activities and Regulated Markets Law, Law 144(I)/2007 with respect to any offer or sale of the Securities in Cyprus.

### *Greece*

Within the jurisdiction of Greece, the Notes shall be offered or sold only to sophisticated investors and institutional investors. Furthermore, no Greek resident shall be allowed to purchase any Notes unless the consideration for acquiring the Notes exceeds €50,000.

### *Japan*

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the “Financial Instruments and Exchange Act”) and, accordingly, each Dealer has represented and each further Dealer appointed under the Programme will be required to represent and agree that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person except under circumstances which will result in compliance with the Financial Instruments and Exchange Act and other relevant laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For the purpose of this paragraph, “Japanese Person” shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

### *The Republic of Italy*

The offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* (“CONSOB”) pursuant to Italian securities legislation and, accordingly, each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it has not offered, sold or distributed, and will not offer, sell or distribute, any Notes or any copy of this Prospectus or any other document relating to the Notes in the Republic of Italy (“Italy”) except:

- (a) to qualified investors (*investitori qualificati*), pursuant to Article 100 of Legislative Decree no. 58 of 24 February 1998 (the “Consolidated Financial Services Act”) and Article 34-ter, paragraph 1, letter (b) of CONSOB regulation No. 11971 of 14 May 1999 (“Regulation 11971”), all as amended; or
- (b) in any other circumstances where an express exemption from compliance with the restrictions on offers to the public applies, as provided under Article 100 of the Consolidated Financial Services Act and Article 34-ter of the Regulation 11971.

Moreover, and subject to the foregoing, any offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in Italy under (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Consolidated Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the “Banking Act”), CONSOB Regulation No. 16190 of 29 October 2007, all as amended; and
- (ii) in compliance with any securities, tax, exchange control and any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time, *inter alia*, by CONSOB or the Bank of Italy.

Any investor purchasing the Notes in this offering is solely responsible for ensuring that any offer or resale of the Notes it purchased in this offering occurs in compliance with applicable laws and regulations.

#### *Switzerland*

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it has not offered or sold and will not offer or sell any Notes to the public in Switzerland and each Dealer has represented and agreed that Notes denominated in Swiss Francs will be offered and sold in accordance with practices and documentation customary in Switzerland.

#### **General**

These selling restrictions may be modified by the agreement of the Bank and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Prospectus.

No representation is made that any action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that it will, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Prospectus, any other offering material or any Final Terms and neither the Bank nor any other Dealer shall have responsibility therefor.

## TRANSFER RESTRICTIONS

### Rule 144A Notes

Each Purchaser of Restricted Notes issued by the Bank pursuant to Rule 144A, by accepting delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged that:

- (1) It is (a) a qualified institutional buyer within the meaning of Rule 144A, (b) acquiring such Notes for its own account or for the account of a qualified institutional buyer and (c) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.
- (2) It understands that such Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a qualified institutional buyer purchasing for its own account or for the account of a qualified institutional buyer, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any state of the United States.
- (3) It understands that such Notes, unless otherwise determined by the Bank in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144A UNDER THE SECURITIES ACT FOR REALES OF THIS NOTE.

- (4) The Bank, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Notes for the account of one or more qualified institutional buyers, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.
- (5) It understands that the Notes offered in reliance on Rule 144A will be represented by one or more Restricted Global Certificates. Before any interest in a Restricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.
- (6) Distribution of this Prospectus, or disclosure of any of its contents to any person other than such purchaser and those persons, if any, retained to advise such purchaser with respect thereto is unauthorised, and any disclosure of any of its contents, without the prior written consent of the Bank, is prohibited.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

### **Regulation S Notes**

Each purchaser of Registered Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period (as used in “Subscription and Sale”), by accepting delivery of this Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) It is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Bank or a person acting on behalf of such an affiliate.
- (2) It understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, or in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a qualified institutional buyer purchasing for its own account or the account of a qualified institutional buyer, in each case in accordance with any applicable securities laws of any state of the United States.
- (3) It understands that such Notes, unless otherwise determined by the Bank in accordance with applicable law, will bear a legend to the following effect:

“THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.”
- (4) It understands that the Bank, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.
- (5) It understands that the Notes offered in reliance on Regulation S will be represented by one or more Unrestricted Global Certificates. Prior to the expiration of the distribution compliance period, before any interest in an Unrestricted Global Certificate representing Notes issued by the Bank may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Restricted Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.
- (6) Delivery of the Notes may be made against payment therefor on or about a date which will occur more than three business days after the date of pricing of the Notes which date may be specified in the Final Terms. Pursuant to Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes may initially settle on or about a date which will occur more than three business days after the date of pricing of the Notes, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of Notes who wish to trade Notes on the date of pricing or the next succeeding business day should consult their own adviser.

## FORM OF FINAL TERMS

### Final Terms dated [●]

#### BANK OF CYPRUS PUBLIC COMPANY LIMITED (the “Bank”)

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
under the **€4,000,000,000 Euro Medium Term Note Programme**

#### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 17 May 2011 [and the supplement to the Prospectus dated [●]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “Prospectus Directive”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Bank and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus. [The Prospectus [and the supplement to the Prospectus] [is] [are] available for viewing at, and copies may be obtained from, the office of the Issuing and Paying Agent. and [www.bourse.lu](http://www.bourse.lu).]

*The following alternative language applies if the first tranche of an issue which is being increased was issued under a [Prospectus] with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “Conditions”) contained in the Trust Deed dated [original date] and set forth in the Prospectus dated 17 May 2011 [and the supplement to the Prospectus dated [\*]]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “Prospectus Directive”) and must be read in conjunction with the Prospectus dated [current date] [and the supplement to the Prospectus dated [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the [Prospectus] dated 17 May 2011 [and the supplement to the Prospectus dated [●]] and are attached hereto. Full information on the Bank and the offer of the Notes is only available on the basis of the combination of these Final Terms and the [Prospectuses] dated [original date] and 17 May 2011 [and the supplements to the Prospectus dated [●] and [●]]. [The [Prospectuses] [and the supplements to the Prospectus] are available for viewing at, and copies may be obtained from, the office of the Issuing and Paying Agent. and [www.bourse.lu](http://www.bourse.lu).]

*[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote guidance for completing the Final Terms.]*

*[When completing final terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]*

1. Issuer: Bank of Cyprus Public Company Limited
2. [(i)] Series Number: [●]  
[(ii)] Tranche Number: [●]  
(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).]
3. Specified Currency or Currencies: [●]

4. Aggregate Nominal Amount of Notes admitted to trading:
- [(i)] Series:
- [(ii)] Tranche:
5. Issue Price:  per cent of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
6. Specified Denominations:
- [Note – where multiple denominations above €100,000 (or equivalent) are being used the following sample wording should be followed:*
- €100,000] and integral multiples of [€1,000] in excess thereof [up to and including [€199,000], No notes in definitive form will be issued with a denomination above [€199,000]]]*
- (ii) Calculation Amount: *[If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor] [Note: There must be a common factor in the case of two or more Specified Denominations]*
7. [(i)] Issue Date:
- [(ii)] Interest Commencement Date
8. Maturity Date: *[specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]*
9. Interest Basis:  % Fixed Rate]  
 *[specify reference rate]* +/-  % Floating Rate]  
 Zero Coupon]  
 Index Linked Interest]  
 Other (*specify*)]  
(further particulars specified below)
10. Redemption/Payment Basis:  Redemption at par]  
 Index Linked Redemption]  
 Dual Currency]  
 Partly Paid]  
 Instalment]  
 Other (*specify*)]
11. Change of Interest or Redemption/Payment Basis: *[Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis]*
12. Put/Call Options:  Investor Put]  
 Issuer Call]  
 *[(further particulars specified below)]*
13. Status of the Notes:  Senior/[Dated/Perpetual]/ Subordinated]
14. Method of distribution:  Syndicated/Non-syndicated]

## PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. **Fixed Rate Note Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate[(s)] of Interest: [●] per cent. per annum [payable [annually/semiannually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [●] in each year adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"/not adjusted*]
- (iii) Fixed Coupon Amount[(s)]: [●] per Calculation Amount
- (iv) Broken Amount(s): [●] per Calculation Amount on the Interest Payment Date falling [in/on] [●]  
*[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)]]*
- (v) Day Count Fraction: [30/360/Actual/Actual (ICMA)/ISDA] / other]
- (vi) Determination Dates: [\*] in each year (insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/give details]
16. **Floating Rate Note Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Interest Period(s): [●]
- (ii) Specified Interest Payment Dates: [●]
- (iii) Interest Period Date: [●]
- (iv) First Interest Payment Date: [●]  
*(Not applicable unless different from Interest Payment Date)*
- (v) Business Day Convention: [Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other(give details)]
- (vi) Business Centre(s): [●]
- (vii) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/other (*give details*)]

- (viii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Agent]):
- (ix) Screen Rate Determination:
- Reference Rate:
  - Interest Determination Date(s):
  - Relevant Screen Page:
- (x) ISDA Determination:
- Floating Rate Option:
  - Designated Maturity:
  - Reset Date:
- (xi) Margin(s): [+/-][ ] per cent per annum
- (xii) Minimum Rate of Interest:  per cent per annum
- (xiii) Maximum Rate of Interest:  per cent per annum
- (xiv) Day Count Fraction:
- (xv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:
17. **Zero Coupon Note Provisions**  [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Amortisation Yield:  per cent per annum
  - (ii) Any other formula/basis of determining amount payable:
18. **Index Linked Interest Note/other variable linked interest Note Provisions**  [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Index/Formula/other variable:  [give or annex details]
  - (ii) Calculation Agent responsible for calculating the interest due:
  - (iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:
  - (iv) Interest Determination Date(s):

- (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [●]
- (vi) Interest Period(s): [●]
- (vii) Specified Interest Payment Dates: [●]
- (viii) Business Day Convention: [Floating Rate Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ other (*give details*)]
- (ix) Business Centre(s): [●]
- (x) Minimum Rate of Interest [●] per cent per annum
- (xi) Maximum Rate of Interest: [●] per cent per annum
- (xii) Day Count Fraction: [●]
- (xiii) Market or settlement disruption events affecting the underlying: [●]
- (xiv) Adjustment rules affecting the underlying: [●]
- (xv) Date of underwriting agreement: [●]
19. **Dual Currency Note Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate of Exchange/method of calculating Rate of Exchange: [*give details*]
- (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due: [●]
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [●]
- (iv) Person at whose option Specified Currency(ies) is/are payable: [●]

## PROVISIONS RELATING TO REDEMPTION

20. **Call Option** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [●]

- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):  per Calculation Amount
  - (iii) If redeemable in part:
    - (a) Minimum Redemption Amount:  per Calculation Amount
    - (b) Maximum Redemption Amount:  per Calculation Amount
  - (iv) Notice period: [\*]
21. **Put Option**  per Calculation Amount  
 [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Optional Redemption Date(s):
  - (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):  per Calculation Amount
  - (iii) Notice period:
22. **Final Redemption Amount of each Note**  per Calculation Amount
- In cases where the Final Redemption Amount is Index Linked or other variable-linked:
- (i) Index/Formula/variable: *[give or annex details]*
  - (ii) Calculation Agent responsible for calculating the Final Redemption Amount:
  - (iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:
  - (iv) Determination Date(s):
  - (v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:
  - (vi) Payment Date:
  - (vii) Minimum Final Redemption Amount:  per Calculation Amount
  - (viii) Maximum Final Redemption Amount:  per Calculation Amount
23. **Early Redemption Amount**  per Calculation Amount
- Early Redemption Amount(s) of each Note payable on redemption for taxation reasons or on event of default or other early

redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):

## GENERAL PROVISIONS APPLICABLE TO THE NOTES

- |   |  |
|---|--|
| 24. Form of Notes:  | <b>Bearer Notes:</b><br><br>[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]<br><br>[Temporary Global Note exchangeable for Definitive Notes on [ ] days' notice]<br><br>[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]<br><br>(N.B. The exchange upon notice/at any time option should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]")<br><br>[Registered Notes – <i>Specify whether the Notes will be represented by Restricted or Unrestricted Global Certificate</i> ] |
| 25. New Global Note:  | [Yes][No]  |
| 26. Financial Centre(s) or other special provisions relating to payment dates:  | [Not Applicable/give details. Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub-paragraphs 16(iv) and 18(ix) relate]  |
| 27. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):   | [Yes/No. If yes, give details]   |
| 28. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Bank to forfeit the Notes and interest due on late payment: | [Not Applicable/give details]  |
| 29. Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:  | [Not Applicable/give details]  |
| 30. Redenomination, renominatisation and reconventioning provisions:  | [Not Applicable/The provisions [in Condition [●] apply]  |
| 31. Consolidation provisions:   | [Not Applicable/The provisions [in Condition [●] apply]  |

32. Other final terms: [Not Applicable/give details]

*(When adding any other final terms consideration should be given as to whether such terms constitute a “significant new factor” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)*

## **DISTRIBUTION**

33. (i) If syndicated, names of Managers: [Not Applicable/give names]

(ii) Stabilising Manager(s) (if any): [Not Applicable/give name]

34. If non-syndicated, name of Dealer: [Not Applicable/give name]

35. U.S. Selling Restrictions: [Reg. S Compliance Category; TEFRA C/TEFRA D/TEFRA not applicable]

36. Additional selling restrictions: [Not Applicable/give details]

## **[LISTING AND ADMISSION TO TRADING APPLICATION**

These Final Terms comprise the final terms required for issue and admission to trading on the London/Luxembourg/Dublin/other stock exchange (specify) of the Notes described herein pursuant to the €4,000,000,000 Euro Medium Term Note Programme of Bank of Cyprus Public Company Limited.]

## **RESPONSIBILITY**

The Bank accepts responsibility for the information contained in these Final Terms. Relevant third party information has been extracted from specify source. The Bank confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of the Bank

By: \_\_\_\_\_

Duly authorised

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (i) Listing: [Official List of the Luxembourg Stock Exchange/ other (specify)/None]
- (ii) Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the Regulated Market of the Luxembourg Stock Exchange/Other] with effect from [ ].] [Not Applicable.]  
[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on (●) with effect from (●).]  
*(where documenting a fungible issue need to indicate that original Notes are already admitted to trading.)*
- (iii) Estimate of total expenses related to admission to trading: [●]

### 2. RATINGS

- Ratings: The Notes to be issued have been rated:
- [S & P: [ ]]  
[Moody's: [ ]]  
[Fitch: [ ]]  
[[Other]: [ ]]
- [and endorsed by *[insert details]*]<sup>1</sup>
- [[*Name of credit rating agency(ies)*] [is/is not] established in the European Union and [has not/has applied to be/is/is not] registered under the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies[, although the result of such application(s) has not yet been determined].]<sup>2</sup>
- (The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

### 3. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

“Save as discussed in “Subscription and Sale”, so far as the Bank is aware, no person involved in the offer of the Notes has an interest material to the offer.”]

<sup>1</sup> Insert this wording where one or more of the ratings included in the Final Terms has been endorsed by an EU registered credit rating agency for the purposes of Article 4(3) of the CRA Regulation.

<sup>2</sup> Insert for Instruments which are admitted or to be admitted to trading on a regulated market within the EEA and which have been assigned a rating.

**[4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

[(i) Reasons for the offer: [ ]  
(See “Use of Proceeds” wording in Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]

[(ii)] Estimated net proceeds: [●]  
(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)

[(iii)] Estimated total expenses: [●] [Include breakdown of expenses.]

**5. [Fixed Rate Notes only – YIELD**

Indication of yield: [●]  
The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield. ]

**6. [Index Linked or other variable-linked Notes only – PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING**

*Need to include details of where past and future performance and volatility of the index/formula/ other variable can be obtained. Where the underlying is an index need to include the name of the index and a description if composed by the Bank and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.]*

**7. [Dual Currency Notes only – PERFORMANCE OF RATE[S] OF EXCHANGE**

*Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained. Where the underlying is not specificable, need to include equivalent information.]*

**8. OPERATIONAL INFORMATION**

ISIN Code: [ ]

Common Code: [ ]

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s) [and address(es)]]

Delivery: Delivery [against/free of] payment

Names and addresses of initial Paying Agent(s): [ ]

Names and addresses of additional Paying Agent(s) (if any): [ ]

[Names (and addresses) of Calculation Agent(s):

[Deutsche Bank AG, London Branch, Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom]/[Specify other]

Intended to be held in a manner which would allow Eurosystem eligibility:

[Yes][No] [Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognized as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.][include this text if “yes” selected in which case the Notes must be issued in NGN form]

ISIN Code of underlying security (if Index Linked Note):

[ ] [Not Applicable]

## 9 GENERAL

Applicable TEFRA exemption: [C Rules/D Rules/ Not Applicable]

## GENERAL INFORMATION

- (1) Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to the Official List and traded on the Luxembourg Stock Exchange Regulated Market.
- (2) The Bank has obtained all necessary consents, approvals and authorisations in Cyprus in connection with the establishment of the Programme. The establishment of the Programme was authorised by resolution of the Board of Directors of the Bank passed on 4 September 2003. The resolution of the Board of Directors passed on 4 September 2003, authorising the establishment and subsequent updates of the Programme, was amended by resolutions of the Board of Directors passed on 24 May 2005 and on 9 March 2006. The update and increase in the size of the Programme from €1,500,000,000 to €2,000,000,000 was authorised by a resolution of the Board of Directors of the Bank passed on 12 April 2007, the update and increase in the size of the Programme from €2,000,000,000 to €4,000,000,000 was authorised by a resolution of the Board of Directors of the Bank passed on 14 February 2008 and the update of the Programme was authorised by a resolution of the Board of Directors of the Bank passed on 11 March 2010 and thereafter on 8 April 2011.
- (3) Except as disclosed in this Prospectus, there has been no significant change in the financial or trading position of the Bank or of the Group since 31 December 2010 and no material adverse change in the prospects of the Bank or of the Group since 31 December 2010.
- (4) Except as disclosed in this Prospectus (see page 107), neither the Bank nor any of its respective subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Group.
- (5) Where information in this Prospectus has been sourced from third parties this information has been accurately reproduced and as far as the Bank is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.
- (6) Each Bearer Note having a maturity of more than one year, Receipt, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".
- (7) Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems. In addition, the Bank may make an application with respect to any Restricted Notes of a Registered Series to be accepted for trading in book-entry form by DTC. Acceptance by DTC of Registered Notes of each Tranche of a Registered Series issued by the Bank will be confirmed in the applicable Final Terms. The Common Code, the International Securities Identification Number (ISIN), the Committee on the Uniform Security Identification Procedure (CUSIP) number and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg and the address of DTC is 55 Water Street, New York, New York 10041. The address of any alternative clearing system will be specified in the applicable Final Terms.
- (8) The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms of each Tranche, based on the prevailing market conditions. The Bank will not provide any post-issuance information, except if required by any applicable laws and regulations.

- (9) For so long as Notes may be issued pursuant to this Prospectus, the following documents (or copies thereof) will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the specified offices of each of the Paying Agents:
- (i) the Trust Deed (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons, the Receipts and the Talons);
  - (ii) the Dealer Agreement and the Agency Agreement;
  - (iii) the Memorandum and Articles of Association of the Bank;
  - (iv) the audited consolidated financial statements of the Bank for the financial years ended 31 December 2010 and 2009;
  - (v) each Final Terms (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Bank and the Issuing and Paying Agent as to its holding of Notes and identity);
  - (vi) a copy of this Prospectus together with any Supplement to this Prospectus or further Prospectus; and
  - (vii) all reports, letters and other documents, balance sheets, historical financial information, valuations and statements by any expert any part of which is extracted or referred to in this Prospectus.

The Prospectus and the Final Terms for Notes that are listed on the Official List and admitted to trading on the Luxembourg Stock Exchange Regulated Market will be published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

- (10) The Bank is a corporation organised under the laws of Cyprus. None of the directors and executive officers of the Bank are residents of the United States, and all or a substantial portion of the assets of the Bank and such persons are located outside the United States.
- (11) Ernst & Young Cyprus Limited, member of the Institute of Chartered Accountants in England and Wales and the Institute of Certified Public Accountants of Cyprus, has audited, and rendered unqualified audit reports on, the accounts of the Group for the two years ended 31 December 2009 and 31 December 2010.

**REGISTERED OFFICE OF THE BANK**

**Bank of Cyprus  
Public Company Limited**

51 Stassinou Street  
Ayia Paraskevi  
Strovolos  
2002 Nicosia  
Cyprus

**DEALERS**

**Bank of Cyprus Public Company Limited**

51 Stassinou Street  
Ayia Paraskevi  
Strovolos  
2002 Nicosia  
Cyprus

**Barclays Bank PLC**

5 The North Colonnade  
Canary Wharf  
London E14 4BB  
United Kingdom

**Citigroup Global Markets Limited**

Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

**Credit Suisse Securities (Europe) Limited**

One Cabot Square  
London E14 4QJ  
United Kingdom

**Deutsche Bank AG, London Branch**

Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

**Goldman Sachs International**

Peterborough Court  
133 Fleet Street  
London EC4A 2BB  
United Kingdom

**HSBC Bank plc**

8 Canada Square  
London E14 5HQ  
United Kingdom

**ING Bank N.V.**

foppingadreef 7  
1102 BD Amsterdam  
The Netherlands

**J.P. Morgan Securities Ltd.**

125 London Wall  
London EC2Y 5AJ  
United Kingdom

**Merrill Lynch International**

2 King Edward Street  
London EC1A 1HQ  
United Kingdom

**Natixis**

30 avenue Pierre Mendès France  
75013 Paris  
France

**Société Générale**

29, boulevard Haussmann  
75009 Paris  
France

**UBS Limited**

1 Finsbury Avenue  
London EC2M 2PP  
United Kingdom

**UniCredit Bank AG**

Arabellastrasse 12  
D-81925 Munich  
Federal Republic of Germany

**TRUSTEE**

**Deutsche Trustee Company Limited**

Winchester House 1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

**ISSUING AND PAYING AGENT AND CALCULATION AGENT**

**Deutsche Bank AG, London Branch**

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1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

**PAYING AGENT, TRANSFER AGENT AND REGISTRAR**

**Deutsche Bank Luxembourg S.A.**

2 boulevard Konrad Adenauer  
L-1115 Luxembourg

**EXCHANGE AGENT, REGISTRAR, TRANSFER AGENT AND PAYING AGENT**

**Deutsche Bank Trust Company Americas**

60 Wall Street  
Corporate Trust and Agency Services  
New York, NY 10005  
United States of America

**ARRANGER**

**Merrill Lynch International**

2 King Edward Street  
London EC1A 1HQ  
United Kingdom

**LUXEMBOURG LISTING AGENT**

**Deutsche Bank Luxembourg S.A.**

2 boulevard Konrad Adenauer  
L-1115 Luxembourg

**AUDITORS**

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Cyprus

**LEGAL ADVISERS**

**To the Bank**

*As to Cyprus law*

**Chryssafinis & Polyviou LLC**

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Nicosia  
Cyprus

**To the Dealers and the Trustee**

*As to Cyprus law*

**Chrysses Demetriades & Co. LLC**

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Limassol  
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*As to English law*

**Linklaters LLP**

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