PROSPECTUS

DATE: 26 November 2014

in compliance with the Provisions of the Commission Regulation (EC) No 809/2004 (as amended) of the European Union and the Public Offer and Prospectus Law of 2005 (as amended)

Bank of Cyprus Group

PROSPECTUS ISSUED BY THE BANK OF CYPRUS PUBLIC COMPANY LIMITED (THE "**BANK**") FOR:

- THE PUBLIC OFFER TO QUALIFYING SHAREHOLDERS OF UP TO 416,666,667 NEW ORDINARY SHARES AT THE SUBSCRIPTION PRICE OF €0.24 PER NEW ORDINARY SHARE APPROVED AT THE EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS OF THE BANK HELD ON 28 AUGUST 2014 (THE "**RETAIL OFFER**");
- THE APPLICATIONS FOR ADMISSION TO LISTING AND TRADING ON THE MAIN MARKET OF THE CYPRUS STOCK EXCHANGE ("**CSE**") AND THE ATHENS EXCHANGE ("**ATHEX**") OF THE ORDINARY SHARES ISSUED PURSUANT TO THE RECAPITALISATION, THE LAIKI TRANSFER DECREES AND THE PLACING AND OPEN OFFER (THE "**RELEVANT SHARES APPLICATIONS**") AS FOLLOWS:
    - 3,873,269,066 ORDINARY SHARES ISSUED TO BAILED IN HOLDERS OF UNINSURED DEPOSITS AND OTHER PRODUCTS OF THE BANK IN ACCORDANCE WITH THE BAIL-IN DECREES;
    - 5,781,443 ORDINARY SHARES ISSUED TO BAILED IN HOLDERS OF SUBORDINATED DEBT SECURITIES OF THE BANK IN ACCORDANCE WITH THE BAIL-IN DECREES;
    - 858,708,764 ORDINARY SHARES ISSUED TO LAIKI BANK PURSUANT TO THE LAIKI TRANSFER DECREES; AND
    - 4,166,666,667 ORDINARY SHARES ISSUED PURSUANT TO THE PLACING AND OPEN OFFER. THE PLACING AND OPEN OFFER CONSTITUTE PHASES 1 AND 2 OF THE BANK'S SHARE CAPITAL INCREASE WHICH WAS APPROVED AT THE EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS OF THE BANK HELD ON 28 AUGUST 2014,

    (TOGETHER, THE "**RELEVANT SHARES**").
- ASSUMING THERE ARE RETAIL SHARES WHICH ARE VALIDLY SUBSCRIBED FOR UNDER THE RETAIL OFFER, THE APPLICATION FOR ADMISSION TO LISTING AND TRADING ON THE MAIN MARKET OF THE CSE AND ATHEX OF THE RETAIL SHARES ISSUED (THE "**RETAIL SHARES APPLICATION**").

On or about 27 November 2014, the Bank expects to file with the CSE and ATHEX the Relevant Shares Applications. Assuming there are Retail Shares which are validly subscribed for under the Retail Offer, the Bank expects to file the Retail Shares Application with the CSE and ATHEX on or about 14 January 2015.

The Placing, Open Offer and the Retail Offer comprise the three phases of the Bank's Share Capital Increase. For a description of the Share Capital Increase, see Section 4.2 (*Share Capital Increase*) of this Prospectus.

For a description of the Recapitalisation, the Bail-in Decrees and the Laiki Transfer Decrees, see Section 3.3 (*Restructuring of the Bank and Laiki Bank*) of this Prospectus.

Unless otherwise defined, capitalised terms have the meanings ascribed to them in the "*Glossary of Selected Terms*" section of this Prospectus.

THIS IS AN ENGLISH TRANSLATION OF THE PROSPECTUS ISSUED IN GREEK IN THE FORMAT THAT HAS BEEN APPROVED BY THE CYPRUS SECURITIES AND EXCHANGE COMMISSION ("CYSEC") AS THE COMPETENT AUTHORITY. THE GREEK TEXT OF THE PROSPECTUS AS APPROVED BY CYSEC IS BINDING. THE ENGLISH TRANSLATION IS FOR INFORMATION PURPOSES ONLY.

LEAD MANAGER

CISCO

THE CYPRUS INVESTMENT AND SECURITIES CORPORATION LIMITED (CISCO)

IMPORTANT INFORMATION

This Prospectus has been prepared in compliance with the provisions of the Commission Regulation (EC) No 809/2004 (as amended) of the European Union, the Public Offer and Prospectus Law of 2005 (as amended) of the Republic of Cyprus and the Cyprus Companies Law, Cap. 113.

This document is important and requires your immediate attention. If you are in any doubt about the contents of this Prospectus, you should consult the Lead Manager, the Cyprus Investment and Securities Corporation Ltd ("**CISCO**"), or any other professional duly authorised to give such information, bankers, accountants, lawyers, or investment advisors.

The Bank assumes full responsibility for the information contained in this Prospectus and declares that the information contained in the Prospectus is in accordance with the facts and contains no omission likely to affect its import. The Directors of the Bank of Cyprus Public Company Ltd are jointly and severally responsible for the information included in this Prospectus and declare that having taken all reasonable care to ensure that such is the case, the information contained in all parts of this Prospectus is, to the best of their knowledge, in accordance with the facts and that it contains no omission likely to affect its import.

Shareholders should only rely on the information contained in this Prospectus and contained in any documents incorporated into this Prospectus by reference. No person has been authorised to give any information or make any representations other than those contained in this Prospectus and any document incorporated by reference and, if given or made, such information or representation must not be relied upon as having been so authorised by the Bank or CISCO. Neither the delivery of this Prospectus nor any subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Bank or the Bank and its consolidated subsidiaries (the "**Group**") since the date of this Prospectus or that the information in this Prospectus is correct as at any time after this date.

The contents of this Prospectus or any subsequent communication from the Bank or CISCO or any of their respective affiliates, officers, directors, employees or agents are not to be construed as legal, financial or tax advice. Each Shareholder should consult his, her or its own legal adviser, financial adviser or tax adviser for legal, financial or tax advice.

The Prospectus has been approved by CySEC in its capacity as Cyprus's competent authority, for the purposes of Directive 2003/71/EC of Regulation 809/2004 of the Committee of the European Union for the purposes of the Retail Offer and the Listing Applications. The approval of the Prospectus should not be considered as a recommendation to invest in the Bank. Application has been made by the Bank for a certificate of approval in relation to the Prospectus under Article 18 of Directive 2003/71/EC as implemented in Cyprus to be issued by CySEC to the competent authority in Greece.

As the Bank expects to publish its financial statements for the nine months ended 30 September 2014 (the "**Nine Month Financials**") on or about 27 November 2014, a supplement to this Prospectus incorporating by reference the Nine Month Financials will be published prior to the commencement of the Retail Offer (the "**Prospectus Supplement**").

Admissions and Actions to be Taken by Shareholders Prior to Admissions

The Bank expects to file with the CSE and ATHEX the Relevant Shares Applications on or about 27 November 2014. It is expected that admission of the Relevant Shares to listing and trading on the main market of the CSE and ATHEX (the "**First Admission**") will become effective, and that dealings in the Relevant Shares will commence, on or about 16 December 2014.

Assuming there are Retail Shares which are validly subscribed under the Retail Offer, the Bank expects to file the Retail Shares Application with the CSE and ATHEX on or about 14 January 2015. It is expected that any admission of the Retail Shares to listing and trading on the main market of the CSE and ATHEX (the "**Second**

Admission") will become effective, and that dealings in the Retail Shares will commence, on or about 28 January 2015.

The expected timetable for the Retail Offer, the First Admission and the Second Admission is set out in Section 4.5 (*Expected Timetable for the Retail Offer and Admissions*). All dates given in this timetable, and as reproduced elsewhere in this Prospectus, are based on the Bank's current expectations and may be subject to change. If any of the times or dates given in this timetable change, the Bank will publish an announcement on its website (www.bankofcyprus.com) or will publish a supplement to this Prospectus (as applicable).

Shareholders are required to have an active Investor Share Code and Securities Account with the CSE or the Dematerialised Securities System ("**DSS**") of the Hellenic Exchanges in order for the Ordinary Shares to be credited to their Securities Account so that they will be able to trade these Ordinary Shares on First Admission or Second Admission, as applicable. The Bank encourages all Shareholders that do not have an Investor Share Code and Securities Account with the CSE or the DSS of the Hellenic Exchanges to apply directly to a brokerage firm or custodian ("**Operator**") in Cyprus or Greece in order to proceed with the opening of these accounts and provide the relevant details to the Shares & Loan Stock Department of the Bank (via fax no +35722336258/ +35722336261 or via email at shares@bankofcyprus.com).

It is important to note that, if a Shareholder does not have an Investor Share Code and Securities Account with the CSE or DSS or if the information regarding its Investor Share Code or Securities Account provided to the Bank's Shares & Loan Stock Department is incorrect or incomplete, the Ordinary Shares held by the Shareholder will be credited in its name to an Investor Share Code and Securities Account with the CSE which will be inactive unless and until it takes appropriate action to activate this account and pay the relevant fees. The activation of this Securities Account with the CSE may be difficult and time consuming and will cause delays in a Shareholder's ability to trade the Ordinary Shares on the CSE and ATHEX after First Admission or Second Admission, as applicable.

Offering Restrictions

The release, publication or distribution of this Prospectus in jurisdictions other than Cyprus and Greece may be restricted by law and, therefore, any persons who are subject to the laws of any jurisdiction other than Cyprus and Greece should inform themselves about, and observe, any applicable requirements. Failure to comply with any such restrictions may constitute a violation of the securities laws of any such jurisdiction. In particular, subject to certain exceptions, this Prospectus should not be distributed, forwarded to or transmitted into the United States, Canada, Australia, South Africa or any Excluded Territory.

For a description of the restrictions on offers, sales and transfers of the Retail Shares and the distribution of this Prospectus, see Section 4.3.9 (*Overseas Shareholders*) of this Prospectus.

All Overseas Shareholders and any person (including, without limitation, a nominee, custodian or trustee) who has a contractual or other legal obligation to forward this Prospectus or the Application Form that is found at the end of this document at page A-1 or other documents to a jurisdiction outside Cyprus and Greece, should read Section 4.3.9 (*Overseas Shareholders*) of this Prospectus.

This Prospectus, including the Application Form, does not constitute an offer of Retail Shares to any person with a registered address in, or who is resident in, the United States. The Retail Shares have not been and will not be registered under the Securities Act, or with any regulatory authority or under the applicable securities laws of any state or other jurisdiction of the United States, or the relevant laws of any state, province or territory of any other Excluded Territory and the Retail Shares may not be offered, sold, pledged, or otherwise transferred directly or indirectly, within the United States (as defined In Regulation S under the U.S. Securities Act of 1933, as amended (the "**Securities Act**")), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state or local securities law. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy Retail Shares in any jurisdiction in which such offer or solicitation is unlawful. Neither this Prospectus nor the Application Form will be distributed in or into the United States. There will be no public offering of securities in the United States.

Forward-Looking Statements and Risk Factors

This Prospectus includes forward-looking statements. These statements relate to the Bank's future prospects, developments and business strategies. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will" and similar terms and phrases, including references to assumptions. These forward-looking statements involve risks, uncertainties and other factors that may cause the actual future results or events to be materially different from those suggested or described in this Prospectus. Many of the factors that will determine these results or events are beyond the Bank's control. In view of the risks, uncertainties and assumptions, any projections mentioned herein may not be achieved. The risks described above and in Section 2 (*Risk Factors*) are not comprehensive. New risks, uncertainties and other factors may emerge from time to time and it is not possible for the Bank to predict all such risk factors, to assess the impact of all risk factors on its business or the extent to which any factor or combination of factors, may cause actual results or events to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, the investor should not place undue reliance on forward-looking statements as a prediction or guarantee of actual results or events.

Qualifying Shareholders must carefully consider all the information included or incorporated by reference in this Prospectus before making an investment decision regarding the Retail Offer. More specifically for a discussion of certain risks in relation to an investment in the Ordinary Shares of the Bank, see discussion in Section 2.5 (*Risks Relating to the Ordinary Shares*).

CONTENTS

1 SUMMARY NOTE

Summaries are made up of disclosure requirements known as ‘Elements'. These Elements are numbered as Sections A – E (A.1 – E.7).

This summary contains all the Elements required to be included in a summary for this type of securities and the issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of securities and bank, it is possible that no relevant information can be given regarding the Element. In this case, a short description of the Element is included in the summary with the mention of 'not applicable'.

PART A - INTRODUCTION AND WARNINGS

A.1	Warning: - **This summary should be read as an introduction to this Prospectus;** - **Any decision to invest in the securities should be based on consideration of this Prospectus as a whole by the investor;** - **Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated; and** Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the prospectus or it does not provide, when read together with the other parts of the prospectus, key information in order to aid investors when considering whether to invest in such securities.
A.2	Consent by the issuer Not applicable

PART B - ISSUER AND ANY GUARANTOR

B.1	Legal and Commercial name of the issuer. The Bank's legal name is Bank of Cyprus Public Company Limited and its commercial name is Bank of Cyprus.
B.2	Domicile and legal form of the issuer, the legislation under which the issuer operates and its country of incorporation. Bank of Cyprus Public Company Limited (the "**Bank**", and together with its consolidated subsidiaries, (the "**Group**")) 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, Ayia Paraskevi, Strovolos, 2002 Nicosia, Cyprus, telephone number +357 22 122100. The Bank is a public company limited by shares under the Cyprus Companies Law, Cap. 113 (as amended) (the "**Companies Law**"), and is registered in the companies register of Cyprus with registration number HE 165. The Bank is licensed by the Central Bank of Cyprus and is operating under its regulation and supervision.

<table>
<tr><td>B.3</td><td>
<u>Nature of the issuer's current operations and its principal activities</u>

The Group is the leading banking and financial services group in Cyprus. The Group currently operates through a total of 267 branches, of which 130 operate in Cyprus, 131 in Russia, four in the United Kingdom, one in Romania and one in the Channel Islands. The Group has four representative offices in Russia, Ukraine and China. As of 30 June 2014, the Group employed 6,747 staff worldwide.

The Group offers a wide range of financial products and services which include consumer and small and medium sized enterprise ("**SME**") banking, corporate banking, international banking services, investment banking, brokerage, fund management, private banking, and life and general insurance.

Moody’s upgraded the Bank’s long-term credit rating to Caa3 from Ca with stable outlook. Fitch has affirmed the Bank’s long-term credit rating of CC. The following table presents the most recent credit ratings of the Bank issued by Moody’s (17 November 2014) and Fitch (4 July 2014).

Credit Rating Agency	Rating Assigned
Moody's *(last date of rating 17 November 2014)*	
Long-term Deposit Rating:	Upgraded to "Caa3", with stable outlook on 17 November 2014
Short-term Deposit Rating:	Affirmed at "Not-Prime" on 17 November 2014
Standalone BFSR:	Affirmed at "E" with stable outlook on 17 November 2014
Fitch *(last date of rating 4 July 2014)*	
Long-term Issuer Default Rating:	Upgraded to "CC" on 4 July 2014
Short-term Issuer Default Rating:	Upgraded to "C" on 4 July 2014
Viability Rating:	Affirmed at "CC" on 4 July 2014

The long-term ratings reflects the ability of a particular business to pay off its long-term liabilities and is denoted with a letter from A to C. Within this spectrum, there are different degrees of each rating, which Moody's denotes with a number from 1 to 3 and which Fitch denotes with a positive or negative sign. Credit rating assists investors in their assessment of the market value and the investment risk level of a particular business. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

On 31 October 2011 the European Securities and Markets Authority announced the registration of DBRS, S&P, Moody's and Fitch as credit rating agencies (the "**Credit Rating Agencies**"). Their registration was issued pursuant to the European Regulation No. 1060/2009 on Credit Rating Agencies and is the result of careful and coordinated assessment of the above Credit Rating Agencies applications by the supervisory authorities of all European Union (the "**EU**") member states.
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<tr><td>B.4a</td><td>
<u>The most significant recent trends affecting the issuer and the industries in which it operates</u>.

Economic conditions in Cyprus

The Cypriot economy has faced and continues to face substantial macroeconomic pressures. These pressures derive from the impact of an extremely deep recession on private sector finances and the fiscal effort needed to achieve sustainable primary surpluses in budget of the government of the Republic of Cyprus (the "**Government**") in the years to come. Given its high credit exposure to
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</table>

	Cypriot businesses and households, the Bank's future financial performance is interlinked with the Cypriot economy and is highly correlated with the trajectory of economic activity in Cyprus. The evolution of real gross domestic product ("**GDP**") in Cyprus changed from growth of 1.4% in 2010 to a decline of 2.4% in 2012. The contraction in real GDP increased to 5.4% in 2013, with a decline in all components in domestic demand. The recession is expected to continue through 2014, with the decline in real GDP projected at 3.2% by the International Monetary Fund (the "**IMF**") (Article IV Consultation Country Report for Cyprus, October 2014) and at 2.8% by the European Commission (European Economic Forecast, Autumn 2014). Real GDP in the first nine months of 2014 contracted by 2.5% on average according to the latest flash estimates of the Cyprus Statistical Service. In the labour market, unemployment remains high, with an average unemployment rate of 15.9% in 2013 and 15.9% in the first nine months of 2014 according to Eurostat. Although the recession for 2014 is expected to be less severe than originally anticipated (the IMF for example currently projects the decline in real GDP at 3.2%, as compared to an earlier projection of a 4.2% contraction), the European Commission has emphasised that the economic outlook remains challenging for Cyprus, particularly as a result of continuing high unemployment rates and high levels of indebtedness that will continue to constrain the supply of credit. Accordingly, Cyprus' economic recovery is expected to be more subdued than previously forecast, with growth projected at 0.4% in 2015 compared with an initial forecast of 0.9%. *Memorandum of Understanding* In response to the Cypriot economic crisis, the Government agreed a Memorandum of Understanding (as amended, the "**MoU**") and an Economic Adjustment Programme ("**EAP**") with the European Commission, the IMF and the European Central Bank (the "**ECB**") (together, the "**Troika**") on 2 April 2013. The EAP covers the period from 2013 to 2016 and incorporates a financial assistance package for Cyprus of up to €10 billion. The MoU, which was prepared by the Troika and approved by the European Stability Mechanism (the "**ESM**") on 24 April 2013, specifies the conditions to be met for the first and subsequent disbursements of ESM financial assistance, which include measures related to revenue, public expenditure, as well as pension and health care reform. The MoU sets a number of targets for the Government, including limits on governmental expenditures and debt. Achieving these targets has required, and will continue to require, the Government to implement a number of austerity measures. In addition, the MoU sets out an agenda for privatisation and reforms to the labour market, the pension and welfare systems and foreclosure and insolvency legislation which may prove unpopular and be difficult for the Government to implement. Many of these austerity measures and reforms involve changes to Cypriot legislation which require parliamentary approval and, accordingly, will be subject to debate and intense lobbying by trade unions and other vested interests opposed to these changes. While it is expected that these austerity measures and reforms will ultimately restore the health of the Cypriot economy, in the short to medium term they (as with austerity measures adopted in other countries) may have an adverse impact on growth and public and private expenditure in Cyprus and the Government may engage in other measures aimed at alleviating the economic crisis in general. Failure to comply with the conditions and requirements of the MoU could lead to the Troika withholding the release of funds by the ESM and IMF, which would have a material adverse effect on the Government's ability to meet its debt obligations, on the economy of Cyprus and, consequently, on the Bank. *Exposure to Cypriot residential real estate market* The Group has substantial exposure to the Cypriot real estate market. In the years prior to 2009, population increase, economic growth, declines in unemployment rates and increases in levels of household disposable income, together with low interest rates within the EU and increased foreign demand, led to an increase in the demand for mortgage loans in Cyprus. This increased demand and

the widespread availability of mortgage loans affected housing prices, which rose significantly. After this buoyant period, Cyprus' real estate market began to decline mainly as a result of the global financial crisis from late 2008 onwards. As a result of the Cypriot economic crisis, Cyprus suffered its largest decline in real estate prices in 2013 on an annual basis.

ECB Comprehensive Assessment

On 26 October 2014, the Bank announced the results of the ECB's Comprehensive Assessment, which consisted of both an asset quality review and an EU-wide stress test. The AQR involved a review of the quality of banks' assets, including the adequacy of asset and collateral valuation and related provisions. The stress test examined the resilience of banks' balance sheets to different stress scenarios using a common methodology developed by the EBA and applied across all participating banks. The Comprehensive Assessment was based on a capital benchmark of 8% Common Equity Tier 1 (CET 1) ratio, including transitional arrangements of CRR/CRD IV, for both the AQR and the baseline stress test scenario. For purposes of the stress test the minimum ratios applied across all participating banks were set at 8% CET 1 ratio for the baseline scenario and 6.5% CET 1 ratio for the adverse scenario. As a result of the application of the AQR and the stress test, before giving effect to the Capital Raising, the AQR Adjusted CET 1 ratio (based on transitional arrangements as of 1 January 2014) of the Bank is estimated at 7.28%, the Adjusted CET 1 ratio after the baseline scenario is estimated at 7.73% and the Adjusted CET 1 ratio after the adverse scenario is estimated at 1.51%, resulting in a theoretical aggregated capital shortfall of the Comprehensive Assessment of an estimated €919 million. However, after giving effect to the €1 billion gross proceeds of the Capital Raising in September 2014, the AQR Adjusted CET 1 ratio (based on transitional arrangements as of 1 January 2014) of the Bank increases to 11.53%, the Adjusted CET 1 ratio after the baseline scenario increases to 11.62% and the Adjusted CET 1 ratio after the adverse scenario increases to 5.85%, resulting in a theoretical aggregated capital surplus of €81 million.

The total AQR adjustments as at 31 December 2013 amounted to €731 million, of which €277 million related to specific provisions and €554 million related to collective provisions. These adjustments had a negative impact on the prudential Common Equity Tier 1 (CET1) ratio of the Bank. The Bank considers that the AQR adjustments calculated as part of the Comprehensive Assessment in no way indicate that the Bank was not in compliance with IFRS. Moreover, it is noted that the Bank has not been made aware, in the context of the AQR, of any accounting errors or of any of its accounting policies not being in compliance with IFRS.

Following the Comprehensive Assessment, which was fundamentally a prudential exercise, the SSM has requested the Group to review certain of its accounting estimates relating to provisions in light of the higher degree of conservatism applied in the AQR. If required, any such changes in estimates would be reflected in the Group’s financial statements for year 2014. Further, while the AQR and stress test did not show a capital shortfall for the Group after giving effect to the Capital Raising, in connection with the AQR, the SSM has requested the Bank to review certain of its accounting estimates, such as those relating to provisions, on a prospective basis. This may adversely affect the Bank's capital position and its financial results going forward.

B.5	Group Description

B.5

Group Description

The Bank is the holding company of the Group. The following table indicates the main companies and branches included within the Group as of the date of this Prospectus:

Company	**Country**	**Activities**	**Percentage holding (%)**	**Percentage of voting rights (%)**
Bank of Cyprus Public Company Ltd	Cyprus	Commercial bank	N/A	N/A
The Cyprus Investment and Securities Corporation Ltd (CISCO)	Cyprus	Investment banking, asset management and brokerage	100	100
General Insurance of Cyprus Ltd	Cyprus	General insurance	100	100
EuroLife Ltd	Cyprus	Life insurance	100	100
Kermia Ltd	Cyprus	Property trading and development	100	100
Kermia Properties & Investments Ltd	Cyprus	Property trading and development	100	100
Kermia Hotels Ltd	Cyprus	Hotel business	100	100
BOC Ventures Ltd	Cyprus	Inactive	100	100
Tefkros Investments Ltd	Cyprus	Inactive	100	100
Bank of Cyprus Mutual Funds Ltd	Cyprus	Inactive	100	100
Cytrustees Investment Public Company Ltd	Cyprus	Closed-end investment company	53	53
Diners Club (Cyprus) Ltd	Cyprus	Inactive	100	100
BOC Russia (Holdings) Ltd	Cyprus	Intermediate holding company	80	80
Finerose Properties Ltd	Cyprus	Financing services	100	100
Hydrobius Ltd	Cyprus	Special purpose entity	-	-
Laiki Capital Public Co Ltd	Cyprus	Holding company	67	67
Laiki Financial Services Ltd	Cyprus	Investment banking, asset management and brokerage	67	67
Paneuropean Ltd	Cyprus	Investment company	100	100
Philiki Ltd	Cyprus	Investment company	100	100
Cyprialife Ltd	Cyprus	Investment company	100	100
JCC Payment Systems Ltd	Cyprus	Card processing transaction services	75	75
Bank of Cyprus Public Company Ltd (branch of the Bank)	Greece	Administration of guarantees and holding of real estate properties	N/A	N/A
Kyprou Leasing SA	Greece	Leasing	100	100
Kyprou Commercial SA	Greece	Financing of motor vehicles and other consumer products	100	100
Kyprou Properties SA	Greece	Property management	100	100

Kyprou Zois (branch of EuroLife Ltd)	Greece	Life insurance	100	100
Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd)	Greece	General insurance	100	100
Bank of Cyprus UK Ltd (formerly BOC Advances Ltd)	United Kingdom	Commercial bank	100	100
BOC Financial Services Ltd	United Kingdom	Financial advice on investment products and life insurance	100	100
Misthosis Funding Plc	United Kingdom	Inactive	-	-
Misthosis Funding (Holding) Ltd	United Kingdom	Inactive	-	-
Bank of Cyprus (Channel Islands) Ltd	Bailiwick of Guernsey	Commercial bank	100	100
Tefkros Investments (CI) Ltd	Bailiwick of Guernsey	Investment fund	100	100
Bank of Cyprus Romania (branch of the Bank)	Romania	Commercial bank	N/A	N/A
Cyprus Leasing Romania IFN SA	Romania	Leasing	100	100
CB Uniastrum Bank LLC	Russia	Commercial bank	80	80
Leasing Company Uniastrum Leasing	Russia	Leasing	80	80
MC Investment Assets Management LLC	Russia	Special purpose entity	-	-
Kyprou Finance (NL) B.V.	Netherlands	Financing services	100	100

In addition to the above companies, as of the date of this Prospectus, the Bank had 100% shareholding in the companies below. The main activity of these companies is the ownership and management of immovable property and other assets.

Cyprus: Timeland Properties Ltd, Cobhan Properties Ltd, Bramwell Properties Ltd, Elswick Properties Ltd, Birkdale Properties Ltd, Newington Properties Ltd, Innerwick Properties Ltd, Lameland Properties Ltd, Longtail Properties Ltd, Citlali Properties Ltd, Endar Properties Ltd, Ramendi Properties Ltd, Ligisimo Properties Ltd, Thames Properties Ltd, Moonland Properties Ltd, Polkima Properties Ltd, Nalmosa Properties Ltd, Smooland Properties Ltd, Emovera Properties Ltd, Estaga Properties Ltd, Skellom Properties Ltd, Blodar Properties Ltd, Spaceglowing Properties Ltd, Threefield Properties Ltd, Guarded Path Properties Ltd, Lepidoland Properties Ltd, Stamoland Properties Ltd, Ecunaland Properties Ltd, Tebane Properties Ltd, Cranmer Properties Ltd, Calomland Properties Ltd, Vieman Ltd, Les Coraux Estates Ltd, Natakon Company Ltd, Karmazi (Apartments) Ltd, Kermia Palace Enterprises Ltd, Oceania Ltd, Dominion Industries Ltd, Ledra Estates Ltd, EuroLife Properties Ltd, Elias Houry Estates Ltd, Auction Yard Ltd, Laiki Bank (Nominees) Ltd, Laiki Lefkothea Center Ltd, Labancor Ltd, Imperial Life Assurance Ltd, Philiki Management Services Ltd, Laiki EDAK Ltd, Nelcon Transport Co. Ltd, Steparco Ltd, Joberco Ltd, Zecomex Ltd, Domita Estates Ltd, Memdes Estates Ltd, Obafemi Holdings Ltd, Pamaco Platres Complex Ltd, Gosman Properties Ltd, Odaina Properties Ltd, Vameron Properties Ltd, Thryan Properties Ltd, Icecastle Properties Ltd, Otoba Properties Ltd, Edoric Properties Ltd, Belvesi Properties Ltd, Ingane Properties Ltd, Indene Properties Ltd, Canosa Properties Ltd, Silen Properties Ltd, Kernland Properties Ltd, Unduma Properties Ltd, Iperi Properties Ltd, Warmbaths

Properties Ltd, Salecom Ltd, Melsolia Properties Ltd, Nimoland Properties Ltd, Lozzaria Properties Ltd, Danoma Properties Ltd, Kimrar Properties Ltd, Jobelis Properties Ltd, Rimokin Properties Ltd, Tavoni Properties Ltd, Pekiro Properties Ltd, Limestone Properties Ltd, Turnmill Properties Ltd, Fairford Properties Ltd and Metin Properties Ltd.

Romania: Otherland Properties Dorobanti SRL, Pittsburg Properties SRL, Battersee Real Estate SRL, Trecoda Real Estate SRL, Green Hills Properties SRL, Bocaland Properties SRL, Buchuland Properties SRL, Commonland Properties SRL, Romaland Properties SRL, Janoland Properties SRL, Blindingqueen Properties SRL, Fledgego Properties SRL, Hotel New Montana SRL, Loneland Properties SRL, Unknownplan Properties SRL and Frozenport Properties SRL.

In addition, as of the date of this Prospectus, the Bank had 100% shareholding in the intermediate holding companies below.

Cyprus: Otherland Properties Ltd, Pittsburg Properties Ltd, Battersee Properties Ltd, Trecoda Properties Ltd, Bonayia Properties Ltd, Bocaland Properties Ltd, Buchuland Properties Ltd, Commonland Properties Ltd, Romaland Properties Ltd, BC Romanoland Properties Ltd, Blindingqueen Properties Ltd, Fledgego Properties Ltd, Janoland Properties Ltd, Threerich Properties Ltd, Loneland Properties Ltd, Unknownplan Properties Ltd, Frozenport Properties Ltd, Zunimar Properties Ltd, Melgred Properties Ltd, Imoreth Properties Ltd, Tantora Properties Ltd and Imroda Properties Ltd.

Ukraine: Leasing Finance LLC, Corner LLC and Omiks Finance LLC.

Investments in associates and joint ventures

The following table sets out the Group's associates and joint ventures as of the date of this Prospectus which are accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary company nor a joint venture.

Company	**Country of incorporation**	**Interest held by Group (%)**	**Reported book value (€000)**
CNP Cyprus Insurance Holdings Ltd	Cyprus	49.9	106,264
Marfin Diversified Strategy Fund plc	Isle of Man	90.0 approximately of the units of the fund	101,553
Byron Capital Partners Ltd	United Kingdom	70.0	5,322
Interfund Investments Plc	Cyprus	23.1	2,961
Aris Capital Management LLC	United States	30.0	-
Rosequeens Properties SRL	Romania	33.3	-

CNP Cyprus Insurance Holdings Ltd

As part of the acquisition of certain operations of Cyprus Popular Bank Public Co Ltd ("**Laiki Bank**") pursuant to certain decrees issued by the Central Bank of Cyprus (the "**CBC**"), in its capacity as resolution authority (the "**Resolution Authority**"), 49.9% of CNP Cyprus Insurance Holdings Ltd ("**CNP**"), the parent company of a group of insurance companies in Cyprus and Greece, was acquired by the Group. CNP holds deposits with companies within the Group amounting to €16.7 million as at 30 June 2014.

	Interfund Investments Plc The Group has a 23.1% interest in Interfund Investments Plc, which is a closed-end investment company in Cyprus, listed on the CSE. *Aris Capital Management LLC* The Group's holding in Aris Capital Management LLC of 30.0% was transferred to the Group following the acquisition of certain operations of Laiki Bank. *Rosequeens Properties SRL* The Group owns 33.3% of the share capital of Rosequeens Properties SRL which owns a shopping mall in Romania. The shareholding was acquired after the Bank took part in a public auction for the settlement of due balances. *Marfin Diversified Strategy Fund plc and Byron Capital Partners Ltd* The Group's investments in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc were acquired by the Group as part of the acquisition of certain operations of Laiki Bank pursuant to decrees issued by the Resolution Authority. The management shares of the Marfin Diversified Strategy Fund Plc are 100% owned by Byron Capital Partners Ltd. The Group is a party to a shareholder agreement with the other shareholder of Byron Capital Partners Ltd and this agreement stipulates a number of matters which require consent by both shareholders. Significant management judgement is required in interpreting the provisions of this shareholder agreement and concluding whether matters requiring the consent by both shareholders are substantive with respect to directing the relevant activities of the two investee entities or convey rights that are of a protective nature.
B.6	<u>Major Shareholders</u> The table below shows the shareholding of shareholders who hold, directly or indirectly, more than 5% of the Bank's share capital as of the date of this Prospectus. **Name** — **Percentage of issued share capital (%)** Cyprus Popular Bank Public Co Ltd — 9.624 Renova Group — 5.455 TD Asset Management Inc — 5.232 European Bank of Reconstruction and Development — 5.021 All issued Ordinary Shares of the Bank rank *pari passu* amongst them, thus any shareholder who owns more than 5% of the issued share capital has the same voting rights as all other shareholders and no additional rights exist in favour of any holder of Ordinary Shares.
B.7	Historical key financial information accompanied by a narrative description of significant change to the issuer's financial condition and operating results during or subsequent to the period covered by the historical key financial information. The following condensed financial information relating to the years ended 31December 2011, 2012 and 2013 are based on the annual audited consolidated financial statements for the years ended 31 December 2011, 2012 and 2013 which have been audited by the Group's independent auditors, Ernst & Young Cyprus Ltd. These financial statements are incorporated by reference in this Prospectus. The interim condensed consolidated financial statements for the six months ended 30 June 2014 are based on the interim condensed consolidated financial statements of the Group for the six months ended 30 June 2014 which have not been audited by the external auditors of the Group. The independent external auditors of the Group, Ernst & Young Cyprus Ltd, have conducted a review of these financial statements in accordance with International Standards on

Review Engagements 2410. The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2014 are incorporated in this Prospectus by reference.

The consolidated balance sheet as at 31 December 2013, which is presented as comparatives in the interim condensed consolidated financial statements for the six months ended 30 June 2014, has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki Bank acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc acquired as part of the Laiki Bank acquisition.

The interim consolidated income statement for the six months ended 30 June 2013 and the consolidated income statement for the year ended 31 December 2013 include the results of the assets and liabilities acquired from Laiki Bank from the date of acquisition as well as the results of the Greek operations sold to Piraeus Bank until the date of sale, both of which occurred in March 2013. The interim consolidated income statement for the six month period ended 30 June 2013, which is presented as comparative information in the interim condensed consolidated financial statements for the six months ended 30 June 2014, has been re-presented to reflect the reclassification of the Group's operations in Ukraine as discontinued operations and restated to reflect final adjustments on the acquisition date fair values related to the Laiki Bank acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc acquired as part of the Laiki Bank acquisition.

The financial information for the year ended 31 December 2012, which is presented as comparatives in the consolidated financial statements for the year ended 31 December 2013, has been re-presented to present the reclassification of the Group's operations in Greece from continuing to discontinued operations and restated to reflect the adoption of IAS 19 (Revised 2011).

The financial information for the year ended 31 December 2011, which is presented as comparatives in the consolidated financial statements for the year ended 31 December 2012, has been restated to reflect the change in accounting policy with respect to IAS 19 "Employee Benefits" and the recognition of actuarial gains or losses arising from defined benefit plans adopted by the Group from 1 January 2012. The consolidated income statement for the year ended 31 December 2011 has not been re-presented to reflect the Group's operations in Ukraine and Greece as discontinued operations.

As a result of the above restatements, the balance sheet information in this Prospectus relating to the year ended 31 December 2013, has been extracted from the comparative financial information included in the interim condensed consolidated financial statements for the six months ended 30 June 2014 as included in the Mid-Year Financial Report 30 June 2014 of the Group and is therefore different from the consolidated financial statements for the year ended 31 December 2013 as included in the 2013 Annual Financial Report of the Group.

As a result of the above restatements, the financial information in this Prospectus relating to the year ended 31 December 2012, has been extracted from the comparative financial information included in the consolidated financial statements for the year ended 31 December 2013 as included in the 2013 Annual Financial Report of the Group and is therefore different from the consolidated financial statements for the year ended 31 December 2012 as included in the 2012 Annual Financial Report of the Group.

The financial information in this Prospectus relating to the year ended 31 December 2011 has been extracted from the comparative financial information included in the consolidated financial statements for the year ended 31 December 2012 as included in the 2012 Annual Financial Report of the Group and is therefore different from the consolidated financial statements for the year ended 31 December 2011 as included in the 2011 Annual Financial Report of the Group.

Comparability of Results

The changes carried out in the Recapitalisation and the disposals carried out by the Group thereafter have significantly transformed the operations of the Group, resulting in the sale of a substantial portion of the Group's international operations, the conversion of a significant proportion of its liabilities into equity and the acquisition of certain operations of Laiki Bank.

In addition, the Group's audited consolidated financial statement for the years ended 31 December 2011, 2012 and 2013 each contain restated information in respect of prior periods. The financial information in this Prospectus relating to the year ended 31 December 2012 has been extracted from the comparative financial information included in the consolidated financial statements for the year ended 31 December 2013 and not from the consolidated financial statements for the year ended 31 December 2012. The financial information in this Prospectus relating to the year ended 31 December 2011 has been extracted from the comparative financial information included in the consolidated financial statements for the year ended 31 December 2012 and not the consolidated financial statements for the year ended 31 December 2011.

As a result of the factors discussed below, the Group's operating results for certain of the financial periods discussed in this Prospectus are not directly comparable to the operating results for other financial periods discussed herein, and may not be directly comparable with the operating results for future financial periods.

On 26 March 2013, the Group’s loans, fixed assets and deposits of the banking and leasing operations of the Group in Greece were sold to Piraeus Bank in accordance with a decree issued by the Resolution Authority. As a result, the main banking and leasing operations in Greece, are presented as discontinued operations.

Based on the above, the results of the Group's operations in Greece for the years 2012 and 2013 are presented in this Prospectus after reclassification as discontinued operations and are presented in the income statement of the Group for the reporting years, at the "Loss after tax from discontinued operations". The consolidated results for the year 2011 as presented in the Prospectus have not been reclassified and as a result are not considered comparable to the years 2012 and 2013.

Consolidated Income Statement Data

	Year ended 31 December			Six months ended 30 June	
	2011(1)	**2012**(1)	**2013**(1)	**2013**(1)	**2014**(1)
			(€'000)		
Continuing operations					
Turnover	2,808,300	1,859,797	1,966,621	1,174,199	969,243
Interest income	2,295,116	1,415,611	1,660,461	834,675	786,044
Interest expense	(1,127,443)	(713,835)	(661,030)	(416,011)	(240,076)
Net interest income	1,167,673	701,776	999,431	418,664	545,968
Fee and commission income	247,044	191,566	193,458	93,869	93,304
Fee and commission expense	(14,679)	(18,881)	(24,639)	(10,231)	(5,526)
Net foreign exchange gains/(losses)	45,178	24,948	(5,148)	(16,699)	(2,379)
Net gains/(losses) on financial instrument transactions and disposal of subsidiaries	3,571	(27,899)	10,589	(9,307)	160,523
Insurance income net of claims and commissions	61,190	62,972	64,956	38,864	25,048
Other income/(expense)	31,329	(15,099)	(64,282)	(28,118)	7,602
Total income	**1,541,306**	**919,383**	**1,174,365**	**487,042**	**824,540**
Staff costs	(431,774)	(293,556)	(442,797)	(192,322)	(135,398)
Other operating expenses	(311,722)	(260,553)	(277,196)	(120,226)	(130,769)
Profit before impairment of loans and advances and goodwill and intangible assets	**797,810**	**365,274**	**454,372**	**174,494**	**558,373**
Provisions for impairment of loans and advances	(426,287)	(1,339,269)	(1,067,345)	(532,496)	(329,120)
Impairment of goodwill and intangible assets	–	(359,746)	–	–	–
Impairment of Greek Government Bonds and change in fair value of related hedging derivatives	(1,729,261)	–	–	–	–
(Loss)/profit before share of profit from associates and joint ventures	**(1,357,738)**	**(1,333,741)**	**(612,973)**	**(358,002)**	**229,253**
Share of (loss)/profit from associates and joint ventures	(1,441)	222	1,885	353	4,111
(Loss)/profit before tax	**(1,359,179)**	**(1,333,519)**	**(611,088)**	**(357,649)**	**233,364**
Tax	(7,234)	43,463	5,184	2,489	(9,591)
(Loss)/profit after tax	**(1,366,413)**	**(1,290,056)**	**(605,904)**	**(355,160)**	**223,773**
Loss after tax from					

discontinued operations	–	(932,290)	(1,455,604)	(1,456,804)	(150,215)
(Loss)/profit for the year/period	**(1,366,413)**	**(2,222,346)**	**(2,061,508)**	**(1,811,964)**	**73,558**
Attributable to:					
Owners of the Bank – continuing operations	(1,359,340)	(1,280,825)	(593,898)	(349,818)	231,600
Owners of the Bank – discontinued operations	–	(932,290)	(1,455,604)	(1,456,804)	(150,176)
Total (loss)/profit attributable to the owners of the Bank	**(1,359,340)**	**(2,213,115)**	**(2,049,502)**	**(1,806,622)**	**81,424**
Non-controlling interests – continuing operations	(7,073)	(9,231)	(12,006)	(5,342)	(7,827)
Non-controlling interests – discontinued operations	–	–	–	–	(39)
(Loss)/profit for the year/period	**(1,366,413)**	**(2,222,346)**	**(2,061,508)**	**(1,811,964)**	**73,558**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see above.

Consolidated Balance Sheet Data

	31 December			30 June
	2011(1)	**2012**(1)	**2013**(1)	**2014**(1)
		(€'000)		
Assets				
Cash and balances with central banks	1,375,047	1,272,424	1,240,043	859,438
Placements with banks	2,627,831	1,768,836	1,290,102	1,114,448
Reverse repurchase agreements	215,936	–	–	–
Investments	2,629,124	1,135,333	2,759,855	2,866,059
Investments pledged as collateral	938,070	734,747	672,809	671,984
Derivative financial assets	193,734	26,794	28,765	5,949
Loans and advances to customers	27,366,917	24,374,531	21,764,338	20,063,034
Life insurance business assets attributable to policyholders	504,579	495,756	443,579	460,366
Property and equipment	473,188	483,193	414,404	366,385
Intangible assets	472,510	123,555	130,580	135,107
Assets held for sale	27,268	–	–	391,783
Other assets	647,171	613,760	1,401,833	1,414,672
Investments in associates and joint ventures	2,820	3,107	203,131	208,939
Total assets	**37,474,195**	**31,032,036**	**30,349,439**	**28,558,164**
Liabilities				
Amounts due to banks	965,200	341,044	196,422	219,186
Funding from central banks	2,100,556	–	10,956,277	10,184,574
Repurchase agreements	785,993	607,773	594,004	582,646

Derivative financial liabilities	488,111	183,826	83,894	82,496
Customer deposits	29,654,498	28,442,152	14,971,167	13,802,750
Insurance liabilities	611,264	604,170	551,829	574,966
Debt securities in issue	49,791	44,775	1,515	4,919
Other liabilities	347,697	339,727	251,979	287,984
Subordinated loan stock	128,380	133,294	4,676	4,718
Total liabilities	**35,131,490**	**30,696,761**	**27,611,763**	**25,744,239**
Equity				
Share capital	899,528	1,795,141	4,683,985	4,755,711
Shares subject to interim orders	–	–	58,922	297
Share premium	1,164,903	428,271	–	–
Convertible Enhanced Capital Securities (CECS)	862,233	428,835	–	–
Revaluation and other reserves	2,585	106,336	72,251	79,178
Accumulated losses	(670,988)	(2,500,530)	(2,151,835)	(2,086,954)
Equity attributable to the owners of the Bank	**2,258,261**	**258,053**	**2,663,323**	**2,748,232**
Non-controlling interests	84,444	77,222	74,353	65,693
Total equity	**2,342,705**	**335,275**	**2,737,676**	**2,813,925**
Total liabilities and equity	**37,474,195**	**31,032,036**	**30,349,439**	**28,558,164**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see above.

Selected Financial Ratios and Other Data

	As at and for the year ended 31 December			**As at and for the six months ended 30 June**
	2011[(1)]	**2012[(1)]**	**2013[(1)]**	**2014[(1)]**
	(€ billion except % and x)			
Key figures and ratios				
Net interest margin	3.0%	2.9%	3.5%	4.1%
Cost to income ratio (excluding one-off expenses and income)[(2)]	48%	59%	47%	38%
Gross loans	28.9	28.1	26.7	23.3
Customer Deposits	29.7	28.4	15.0	13.8
Loans to deposits ratio	92%	86%	145%	148%
Provisioning charge (cost of risk)[(3)]	1.5%	8.1%	4.7%	2.5%
90+DPD provision coverage ratio[(4)]	30%	48%	38%	39%
90+DPD[(4)] loans	5.0	7.7	13.0	12.6
90+DPD ratio[(4)]	17%	27%	49%	50%
Leverage ratio[(5)]	16.0x	92.6x	11.1x	10.1x
Basel II Regulatory Capital[(6)]				
Core Tier 1 capital ratio	3.6%	-1.9%	10.2%	N/A

Tier 1 capital ratio	7.5%	0.6%	10.2%	N/A
Total capital ratio	7.8%	0.9%	10.5%	N/A
Risk-weighted assets	24.8	21.6	22.4	N/A
		(€'000 except %)		
CRD IV/CRR Regulatory Capital[7]				
Transitional Common Equity Tier 1 (CET 1)	N/A	N/A	2,449,878	2,546,647
Transitional Additional Tier 1 capital (AT1)	N/A	N/A	–	–
Tier 2 capital (T2)	N/A	N/A	45,204	3,287
Transitional total regulatory capital	**N/A**	**N/A**	**2,495,082**	**2,549,934**
Risk-weighted assets – credit risk	N/A	N/A	21,468,518	20,457,100
Risk-weighted assets – market risk	N/A	N/A	3,398	5,000
Risk-weighted assets – operational risk	N/A	N/A	2,057,687	2,023,100
Total risk-weighted assets	**N/A**	**N/A**	**23,529,603**	**22,485,200**
Transitional Common Equity Tier 1 (CET 1) ratio	N/A	N/A	10.4%	11.3%
Transitional total capital ratio	**N/A**	**N/A**	**10.6%**	**11.3%**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see above.

(2) One-off expenses include restructuring expenses (nil, €10.1 million and €167.3 million for the years ended 31 December 2011, 2012 and 2013, respectively, and €20.8 million as at 30 June 2014).

(3) Provisioning charge (cost of risk) is the ratio of provision charge excluding discontinued operations to the average balance of gross loans, with the average balance calculated as the average of the opening balance and the closing balance.

(4) 90+DPD is all loans with a specific provision (impaired loans) and loans past due for more than 90 days but not impaired.

(5) The leverage ratio is the ratio of total assets to total equity for the relevant period.

(6) On 31 December 2013, the minimum requirements for Tier 1 and total capital ratios were abolished.

(7) The position at 31 December 2013 is shown on a pro forma basis by applying the new rules including the transitional arrangements that have been in place from 1 January 2014. The Group's CET 1 ratio on a fully loaded basis at 31 December 2013 is estimated at 9.7%, primarily affected by the deduction of the deferred tax asset, which will be phased in starting from 1 January 2014. Giving effect to the €1 billion capital increase in September 2014, the Group's CET 1 ratio on a fully loaded basis at 30 June 2014 is 15.1%.

Significant Changes in Financial Condition and Operating Results

The changes carried out in the Recapitalisation and the disposals carried out by the Group thereafter have significantly transformed the operations of the Group, resulting in the sale of a substantial portion of the Group's international operations, the conversion of a proportion of its liabilities into equity and the acquisition of certain operations of Laiki Bank and changes in the Group's funding.

The Recapitalisation

From 25 March to 30 July 2013, the Bank was under resolution and was recapitalised pursuant to a number of decrees issued by the Resolution Authority, as a result of which the claims of uninsured depositors, holders of debt securities and other creditors were converted into equity. The Recapitalisation is described in greater detail in Section 3.3.2 (*Recapitalisation of the Bank*). As part of the Recapitalisation, €3,863.0 million of customer deposits, €122.5 million of debt securities and subordinated loan stock and €459.4 million of CECS were converted into common shares of

	the Bank. Existing shareholders and holders of debt securities converted into equity also contributed €2,353.3 million through the reduction in the nominal value of share capital and the utilisation of share premium. Following the Recapitalisation, and up to the date of this Prospectus, share capital increased by approximately €2,948.1 million. *Laiki Bank Acquisition* In March 2013, the Group acquired certain assets (including a €1.2 billion receivable owing to Laiki Bank from the Bank in connection with the sale of the Group's Greek operations) and liabilities of Laiki Bank pursuant to a series of decrees issued by the Resolution Authority. In connection with the acquisition, the Resolution Authority appointed an international firm to carry out a valuation of the assets and liabilities transferred to the Group. The fair value of the assets transferred was €15.1 billion (including a €1.2 billion receivable owing to Laiki Bank from the Bank in connection with the sale of the Group's Greek operations), including €8.7 billion of loans and advances to customers and €2.7 billion of investments. The fair value of the liabilities transferred included €4.2 billion of customer deposits and €9.1 billion of Emergency Liquidity Assistance ("**ELA**") funding. The compensation transferred by the Bank to Laiki Bank was set pursuant to a decree issued on 30 July 2013 at 18.056371% of the total share capital of the Bank (prior to the Capital Raising). Because of the suspension of trading of the Bank's ordinary shares and the significant uncertainties present at the time, the Bank was not able to establish a reliable measure of the fair value of the ordinary shares issued in connection with the acquisition of the assets and liabilities of Laiki Bank. As a result, the Bank's 2013 financial statements set the fair value of the ordinary shares issued to equal the fair value of identifiable assets and liabilities acquired for which a reliable fair value could be established. *Piraeus Bank Acquisition of the Greek Operations of the Bank* In March 2013, the Greek operations of the Bank, Laiki Bank and Hellenic Bank were acquired by Greece's Piraeus Bank, which was selected for this transaction by the Hellenic Stability Fund. The loans, fixed assets and deposits of the banking and leasing operations of the Group in Greece were sold to Piraeus Bank in accordance with a decree issued by the Resolution Authority on 26 March 2013, the Sale of the Greek Operations of Bank of Cyprus Public Company Ltd Decree of 2013 (the "**Greek Operations Decree**"). The Bank's loss on disposal of its Greek operations to Piraeus bank was €1.4 billion and, as a result of this disposal, the Group has written off in 2012 a deferred tax asset of €0.3 billion in Greece as this was no longer considered as recoverable. *Disposals* The Group has adopted a "shrink to strength" strategy, under which a number of non-essential assets are being disposed of, including in Greece, Ukraine, Romania and the United Kingdom. *Capital Raising* In August and September 2014, the Bank raised total gross proceeds of €1 billion through a capital raising. Other than the receipt of gross proceeds of €1 billion from the capital raising, there has been no significant change to the Group's financial condition and operating results since 30 June 2014, the date of the Group's most recent interim consolidated financial statements.
B.8	Selected key pro forma financial information Not applicable

B.9	<u>Profit forecast / estimate</u> Not applicable
B.10	<u>Description of the nature of any qualifications in the audit report on the historical financial information</u> The independent auditor's reports on the Group's consolidated financial statements for the years ended 31 December 2011, 2012 and 2013 and the independent auditor's review report on the interim condensed consolidated financial statements for the six months ended 30 June 2014 are included in this Prospectus as an appendix. The independent auditor's report in respect of the Group's consolidated financial statements for the year ended 31 December 2013 is qualified with respect to (a) the inability of the Bank to apply the requirements of IFRS for the bail-in of uninsured deposits and debt securities pursuant to the 2013 Recapitalisation due to the specific conditions and uncertainties that existed at the time of the transaction and (b) any adjustments that could have been determined to be necessary to the consolidated income statement had the auditors been able to satisfy themselves as to the fair value of the ordinary shares issued for the Group's Recapitalisation through the bail-in of uninsured deposits and debt securities and for the consideration transferred for the acquisition of certain assets and liabilities of the Laiki Bank. The Group's equity and financial position were not affected by the accounting of these transactions giving rise to these qualifications and the Bank does not expect these qualifications to be repeated in 2014. Refer to Notes 3.2.2 and 54.2 to the consolidated financial statements for the year ended 31 December 2013. The independent auditor's report on the consolidated financial statements for the year ended 31 December 2013 also contained an emphasis of matter as to the Bank's conclusion with respect to going concern, as set forth in Note 4.1 of the consolidated financial statements for the year ended 31 December 2013. The independent auditor's report in respect of the Group's consolidated financial statements for the year ended 31 December 2012 expressed an unqualified opinion and contained an emphasis of matter as to the Bank's conclusion with respect to going concern, as set forth in Note 3.1 of the consolidated financial statements for the year ended 31 December 2012. The independent auditor's report in respect of the Group's consolidated financial statements for the year ended 31 December 2011 expressed an unqualified opinion and contained an emphasis of matter as to the Bank's conclusions with respect to going concern while not complying with minimum capital adequacy ratios, as set forth in Note 3.1 and Note 49 of the consolidated financial statements for the year ended 31 December 2011. The independent auditor's review conclusion in respect of the Group's interim condensed consolidated financial statements for the six months ended 30 June 2014 was qualified with respect to the lack of comparative statements of the consolidated income statement and the consolidated other comprehensive income for the comparable interim period of the immediately preceding financial year (i.e. from 1 April 2013 to 30 June 2013) in the interim condensed consolidated financial statements. Additionally the review report for the six months ended 30 June 2014 contained and emphasis of matter as to the Bank's conclusions with respect to going concern, as set forth in Note 6.1 of the interim condensed consolidated financial statements for the six months ended 30 June 2014.
B.11	<u>Working capital</u> The Bank states that in its opinion, the working capital is sufficient for the Group's present requirements over the next 12 months from the date of this Prospectus.

PART C- SECURITIES

C.1	<u>Type and class of securities to be offered and/or to be admitted for trading, including any security identification number</u> This Prospectus relates to the public offer to Qualifying Shareholders of up to 416,666,667 New Ordinary Shares approved at the Extraordinary General Meeting of Shareholders held on 28 August 2014 and the admission to listing on the CSE and ATHEX of up to 416,666,667 New Ordinary Shares that may be issued pursuant to the Retail Offer (Second Admission). This Prospectus also relates to application for admission to listing and trading on the main market of the CSE and ATHEX of the following Relevant Shares (First Admission): • 3,873,269,066 Ordinary Shares issued to bailed in holders of uninsured deposits and other products of the Bank in accordance with the Bail-in Decrees; • 858,708,764 Ordinary Shares issued to Laiki Bank pursuant to the Laiki Transfer Decrees; • 5,781,443 Ordinary Shares issued to bailed in holders of subordinated debt securities of the Bank in accordance with the Bail-in Decrees; and • 4,166,666,667 Ordinary Shares issued pursuant to the Placing and Open Offer. The Placing and Open Offer constitute phases 1 and 2 of the Bank's Share Capital Increase which was approved at the EGM held on 28 August 2014. The Ordinary Shares are registered shares in the share capital of the Bank which have been, or will be, issued in accordance with the Companies Law and the Bank's articles of association (the "**Articles**"). Upon the First Admission or Second Admission (as applicable), the ISIN of all Ordinary Shares will be CY0104810110.
C.2	<u>Currency of the securities issue</u> The issue and trading currency of the Ordinary Shares is Euro (€).
C.3	<u>Number of shares issued and par value per share</u> The total issued share capital of the Bank as of the date of this Prospectus is €892.2 million divided into 8,922,377,345 Ordinary Shares of a nominal value of €0.10 each. Assuming the Retail Offer is subscribed in full, the Bank will file applications with the CSE and ATHEX for a total of 9,339,044,012 Ordinary Shares (including 17,951,405 Ordinary Shares which are listed but suspended from trading). All Ordinary Shares have or will have a par value of €0.10 each and have been, or will be, issued fully paid.
C.4	<u>Rights attached to the securities</u> ***General rights*** Each Ordinary Share incorporates rights in proportion to the percentage of the share capital which such share represents. The shareholders' liability is limited to the unpaid amount (if any) of the Ordinary Shares they hold. Where an Ordinary Share is jointly owned by more than one person, the voting rights of the joint owners are exercised by the joint owner whose name first appears in the register of members of the Bank. The joint owners are jointly and severally liable for the fulfilment of the obligations emanating from their joint ownership of an Ordinary Share. No rights exist in favour of specific holders of Ordinary Shares. Each Ordinary Share incorporates all the rights and obligations determined by the Companies Law and the articles of association and in particular: • the right to participate and vote in general meetings of the holders of Ordinary Shares;

	• the right to receive dividends from the Bank's profits. Entitled to receive dividends are the persons registered in the register of members on the relevant record date; • the right to receive out of the liquidation proceeds (if any) or capital returns, the amount corresponding to the Ordinary Shares owned, on a pro rata basis; • pre-emptive rights in every share capital increase, including new Ordinary Shares or other securities which give the right to purchase shares or which may be converted into Ordinary Shares, unless such pre-emptive rights have been limited or repealed by a special resolution passed at the general meeting of the holders of Ordinary Shares; • the right to receive copies of the financial statements and the reports of the independent auditors and the Board of Directors; • the right to (i) put an item on the agenda of the annual general meeting, and (ii) table a draft resolution for inclusion in the agenda of a general meeting, subject in each case to certain conditions; and • the right to ask questions related to items on the agenda for general meetings of the holders of Ordinary Shares and to have such questions answered by the Board of Directors of the Bank, subject to and in accordance with the provisions of the Companies Law.
C.5	Restrictions on the free transferability of the securities None, except that the rules and procedures of the CSE and ATHEX must be followed for the registration of transfers of Ordinary Shares.
C.6	Admission to Trading The Bank expects to file with the CSE and ATHEX the Relevant Shares Applications on or about 27 November 2014 as follows: • 3,873,269,066 Ordinary Shares issued to bailed in holders of uninsured deposits and other products of the Bank in accordance with the Bail-in Decrees; • 5,781,443 Ordinary Shares issued to bailed in holders of subordinated debt securities of the Bank in accordance with the Bail-in Decrees; • 858,708,764 Ordinary Shares issued to Laiki Bank pursuant to the Laiki Transfer Decrees; and • 4,166,666,667 Ordinary Shares issued pursuant to the Placing and Open Offer. The Placing and Open Offer constitute phases 1 and 2 of the Bank's Share Capital Increase which was approved at the EGM held on 28 August 2014. It is expected that admission of the Relevant Shares to listing and trading on the main market of the CSE and ATHEX, will become effective, and that dealings in the Relevant Shares will commence, on or about 16 December 2014 and such listing will follow the commencement of the Retail Offer Subscription Period. Assuming there are Retail Shares which are validly subscribed for under the Retail Offer, the Bank expects to file the Retail Shares Application with the CSE and ATHEX on or about 14 January 2015. It is expected that any admission of the Retail Shares to listing and trading on the main market of the CSE and ATHEX will become effective, and that dealings in the Retail Shares will commence, on or about 28 January 2015. Shareholders are required to have an active Investor Share Code and Securities Account with the CSE or the DSS of the Hellenic Exchanges in order for the Ordinary Shares to be credited to their Securities Account so that they will be able to trade these Ordinary Shares on First Admission or Second Admission, as applicable. The Bank encourages all Shareholders that do not have an Investor Share Code and Securities Account with the CSE or the DSS of the Hellenic Exchanges to

	apply directly to an Operator in Cyprus or Greece in order to proceed with the opening of these accounts and provide the relevant details to the Shares & Loan Stock Department of the Bank (via fax no +35722336258/ +35722336261 or via email at shares@bankofcyprus.com). **It is important to note that, if a Shareholder does not have an Investor Share Code and Securities Account with the CSE or DSS or if the information regarding its Investor Share Code or Securities Account provided to the Bank's Shares & Loan Stock Department is incorrect or incomplete, the Ordinary Shares held by the Shareholder will be credited in its name to an Investor Share Code and Securities Account with the CSE which will be inactive unless and until it takes appropriate action to activate this account and pay the relevant fees. The activation of this Securities Account with the CSE may be difficult and time consuming and will cause delays in a Shareholder's ability to trade the Ordinary Shares on the CSE and the ATHEX after First Admission or Second Admission, as applicable.**
C.7	Dividend Policy Under Cypriot law and the Bank's Articles, the Bank may only pay dividends out of profits. The Board of Directors may, before recommending any final dividend, set aside out of the profits of the Bank a reserve which shall, at the discretion of the Board of Directors, be applicable for any purpose to which the profits of the Bank may be properly applied. There is no legal requirement under Cypriot corporate law to maintain a statutory reserve. The CBC, however, retains the power under the Business of Credit Institutions Law of 1997 (the "**Credit Institutions Law**") to demand that dividends be limited or withheld. The Board of Directors may also, without placing a specified reserve, carry forward any profits of the Bank as retained earnings or not recommend the payment of a dividend. Once approved at the general meeting, a final dividend must be paid to holders of Ordinary Shares within a reasonable time following its declaration or as otherwise decided by the holders of Ordinary Shares. Final dividends are declared and paid in the year subsequent to the reporting period. In addition, the Board of Directors may, from time to time, pay interim dividends to holders of Ordinary Shares if, in the determination of the Board of Directors, such dividend is justified by the profits of the Bank. In November 2013, the CBC imposed a prohibition on the distribution of dividends by the Bank for the period of the Bank's Restructuring Plan (until 31 December 2017) and, therefore, the Bank does not expect to distribute dividends during this period. The Bank's ability to pay dividends following the Restructuring Plan period will depend on its financial condition at that time.

PART D – RISKS

D.1	Key information on the key risks that are specific to the issuer or its industry **Risks Relating to the Economic Crisis in Cyprus** • The uncertain economic conditions in Cyprus have had, and are likely to continue to have, a material adverse effect on the Bank. • The implementation, conditions and requirements of the MoU entered into between Cyprus and the Troika, and any government actions aimed at alleviating the economic crisis, are uncertain and may create adverse results or have an adverse effect on the Bank. • The Group is significantly exposed to the financial performance and creditworthiness of companies and individuals in Cyprus. • Exposure to the Cypriot residential real estate market makes the Group vulnerable to developments in this market.

- There can be no assurance that the development of Cyprus' oil and natural gas reserves in the Levant Basin will be successful.

Risks Relating to the Global Financial Markets and the Group's Operations Outside Cyprus

- Political and economic developments in Cyprus and overseas could adversely affect the Group's operations.
- The Group is vulnerable to the ongoing disruptions and volatility in the global financial markets.
- The Group's operations and assets in Russia, Ukraine and Romania have been, and may continue to be, adversely affected by recent economic and political events.

Risks Relating to the Group's Business

- The Group is subject to evolving minimum capital requirements which may require it to raise additional capital or result in increased costs.
- The Bank's wholesale borrowing costs and access to liquidity and capital have been negatively affected by a series of downgrades of the credit ratings of Cyprus and the Bank and the Bank's access to capital depends on its credit rating.
- The Bank is dependent on central bank (ECB and ELA) funding for liquidity and difficulties in securing traditional sources of liquidity may affect the Group's ability to meet its financial obligations.
- A material decrease in funds available from customer deposits, particularly retail deposits, could impact the Group's funding and there can be no assurance that the lifting of capital controls in Cyprus will not result in an increase of deposit outflows from the Bank or the banking sector in Cyprus.
- Government and CBC actions intended to support liquidity may be insufficient or discontinued, thus the Group may be unable to obtain the required liquidity.
- There can be no assurance that the Restructuring Plan will be successfully implemented or, even if implemented successfully, that the Bank will not be required to raise additional capital.
- If the Group does not generate sufficient taxable profits to utilise its deferred tax assets, it could result in a material reduction in the Group's net profit and capital.
- The Group's results of operations for certain of the financial periods discussed in this Prospectus are not directly comparable to the operating results for other financial periods discussed herein, and may not be directly comparable with the operating results for future financial periods.
- The independent auditor's report in respect of the Bank's consolidated financial statements for the year ended 31 December 2013 is qualified and contained an emphasis of matter. The independent auditor's review conclusion in respect of the Bank's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2014 was qualified and contained an emphasis of matter.
- A significant proportion of the Group's loan portfolio is comprised of non-performing loans, a significant proportion of which are comprised of large corporate exposures and exposures to the real estate and construction economic sectors.
- A substantial increase in new provisions could adversely affect the Group's financial condition and results of operations.

- Deteriorating asset valuations resulting from poor market conditions may adversely affect the Bank's future earnings and its capital adequacy.
- The Bank is exposed, as a counterparty, to risks potentially faced by other financial institutions as well as the risk that its ability to enter into transactions with other financial institutions may be limited by its current credit rating and risk profile.
- Risk of fluctuation of prevailing share and other securities prices.
- Volatility in interest rates and interest rate risk may negatively affect the Group's income and have other adverse consequences.
- Changes in currency exchange rates may adversely affect the Group.
- The Group's businesses are conducted in a highly competitive environment.
- The Group could fail to attract or retain senior management or other key employees.
- Weaknesses or failures in the Group's financial reporting processes could significantly weaken the Group's ability to assess the financial performance of its business lines and quality of its credit portfolios.
- The Group is exposed to operational risk.
- The Group is exposed to conduct risk.
- The Group is exposed to the risk of fraud and illegal activities.
- The Bank's information systems and networks have been, and will continue to be, vulnerable to an increasing risk of continually evolving cyber security or other technological risks.
- The Bank has significant exposures to subsidiaries of Laiki Bank.
- The Group may face challenges in continuing to improve its operational efficiency.
- The Group is exposed to insurance and reinsurance risks.
- The way in which the banking sector in Cyprus operates differs in certain significant respects from the way the banking sectors in other countries may operate.

Regulatory and Legal Risks

- The Group is exposed to various forms of legal risk, particularly in relation to the mis-selling of Euro Capital Securities issued by the Bank, the bail-in of shareholders, uninsured depositors and other creditors of the Bank pursuant to its recapitalisation from March to July 2013 and regulatory investigations.
- Legislative action and regulatory measures in response to the global financial crisis may materially impact the Bank and the financial and economic environment in which it operates.
- Regulatory action in the event of a bank failure could materially adversely affect the Group and the value of securities issued by the Bank.
- The Restructuring Plan agreed with the CBC restricts certain actions of the Group.
- The Group's business and operations are subject to substantial regulation and supervision and can be negatively affected by its non-compliance with certain existing regulatory requirements and any adverse regulatory and governmental developments.
- The Bank is subject to certain regulatory and legal constraints in originating new loans, managing existing loans and foreclosing on collateral.

	• Changes in consumer protection laws might limit the fees that the Group charges in certain banking transactions. • The results of litigation in which the Bank is not a party may have adverse consequences for the Bank. • The Group is exposed to tax risk and failure to manage such risk may have an adverse impact on the Group.
D.3	**Key information on the key risks that are specific to the securities.** • There has recently been no active trading market for the Ordinary Shares, and an active trading market may not develop or be sustained in the future. • The price of the Ordinary Shares could be highly volatile. • The interests of Laiki Bank's special administrator may not be aligned with those of other shareholders. • Investors' rights as shareholders will be governed by Cypriot law, which may differ from the rights of shareholders under the laws of other countries. • The Bank does not expect to pay dividends on the Ordinary Shares during the period of the Restructuring Plan. • The existing capital control measures in Cyprus may restrict a shareholders' ability to move out of Cyprus any cash proceeds from the sale of Ordinary Shares or any share dividends that could be distributed in the future. • Shareholders whose principal currency is not euro may be subject to exchange rate risk.

PART E – OFFER

E.1	<u>Total net proceeds and an estimate of the total expenses of the issue/ offer, including estimated expenses charged to the investor by the issuer or the offeror</u> Assuming that the Retail Offer is subscribed in full, the total gross proceeds of the Retail Offer will be €100 million. The total expenses of the Retail Offer (including the professional fees of the independent auditors, legal advisers, Lead Manager and printing and advertising costs) are estimated to be in the region of €2.2 million. The Bank does not intend to charge investors any expenses in relation to the Retail Offer.
E.2a	<u>Reasons for the offer, use of proceeds and estimated net amount of the proceeds</u> In August and September 2014, the Bank raised total gross proceeds of €1 billion through the Capital Raising. As of 30 June 2014, the Bank's Common Equity Tier 1 ratio was 11.3%. The capital increase of €1 billion from the Capital Raising, combined with deleveraging actions completed after the first half of 2014, has strengthened the Bank's Common Equity Tier 1 ratio (CRD IV/CRR – transitional basis) to 15.6% and its Common Equity Tier 1 ratio (CRD IV/CRR – fully loaded basis) to 15.1%, which is significantly ahead of European peers. In addition to strengthening the Bank's capital base, the Bank believes that the Capital Raising has provided the following additional strategic benefits: • increased the Bank's ability to meet regulatory tests and withstand potential exogenous shocks;

	• improved stakeholders' confidence in the Bank; • expedited the implementation of the Group's Restructuring Plan; • improved funding options, enhancing the Bank's ability to access the capital markets; and • positioned the Bank to stimulate and benefit from the recovery of the Cypriot economy. The Retail Offer constitutes the third phase of the Share Capital Increase and represents an additional opportunity (after the Open Offer) for non-institutional Shareholders to participate in the Share Capital Increase. The proceeds of the Capital Raising have strengthened the Bank's capital position. Moreover, the Capital Raising has enhanced the Bank's liquidity position as a significant part (together with proceeds from further deleveraging actions and liquid assets) has been applied to repay ELA funding. The continuous and active liquidity management have led to a reduction in ELA funding of €1,280 million since 30 June 2014. The proceeds of the Retail Offer, assuming there are Retail Shares which are validly subscribed for under the Retail Offer, will strengthen the capital base of the Bank.
E.3	<u>A description of the terms and conditions of the offer</u> **The Retail Offer** The Bank is proposing to raise gross proceeds of approximately €100 million (exclusive of associated expenses) by way of an offer to Qualifying Shareholders to subscribe for up to 416,666,667 Retail Shares at a subscription price of €0.24 per Retail Share (payable in full and free of all expenses). The Retail Shares will be fungible and rank *pari passu* with each other and will all other Ordinary Shares. **Qualifying Shareholders** Shareholders on the share register of the Bank as at 3.00 p.m. (Cyprus time) on 21 November 2014 (with the exclusion of (i) Shareholders who have registered addresses in, who are incorporated in, registered in or otherwise resident or located in any Excluded Territory and (ii) Shareholders who were allotted Ordinary Shares pursuant to the Placing unless they were already Shareholders as at the record date for the Placing) are eligible to subscribe for Retail Shares in the Retail Offer. **Allocation** If the Retail Offer is not fully subscribed, each Qualifying Shareholder which has submitted a valid application for Retail Shares will be allotted the full number of Retail Shares that it has subscribed for. If the Retail Offer is oversubscribed, priority allotment will be given to Qualifying Shareholders which have made valid applications for a total consideration of less than or equal to €100,000.08. These minority applications will be allotted on a *pro rata* basis among all Qualifying Shareholders which have made minority applications. If as a result all Retail Shares have not been fully allotted, allotments will be made on a *pro rata* basis among those Qualifying Shareholders which have made valid applications for a total consideration of more than €100,000.08. **Subscription Period** The Subscription Period commences on 15 December 2014 and would be completed on 9 January 2015. To subscribe for Retail Shares in the Retail Offer, Qualifying Shareholders must submit their Application Forms by not later than 1.30 p.m. (Cyprus time) on 9 January 2015.

E.4	Description of any interest that is material to the issue/offer including conflicting interests Not applicable. No interest is material to the Retail Offer.
E.5	Name of the person or entity offering to sell the security Not applicable.
E.6	The amount and percentage of immediate dilution resulting from the offer Assuming that 416,666,667 Retail Shares are issued pursuant to the Retail Offer, if a Qualifying Shareholder does not subscribe for any shares during the Retail Offer, the proportionate ownership and voting interests of that Qualifying Shareholder will be diluted by 4.46% by the Retail Offer.
E.7	Estimated expenses charged to the investor by the issuer or the offeror Not applicable.

2 RISK FACTORS

Investing in the Ordinary Shares involves risk. You should carefully consider the risk factors set out below and all other information contained in this Prospectus, including the Group's financial statements and the related notes, before making any investment decision regarding the Ordinary Shares. The risks and uncertainties described below are those currently known and specific to the Group or the banking industry that the Group believes are relevant to an investment in the Ordinary Shares. If any of these risks or uncertainties materialises, the Group's financial condition or results of operations could suffer, the price of the Ordinary Shares could decline and you could lose part or all of your investment. Moreover, the risks and uncertainties described below may not be the only ones faced by the Group. Additional risks not currently known to the Group or that the Group now deems immaterial may also adversely affect the Group and any investment in the Ordinary Shares.

2.1 Risks Relating to the Economic Crisis in Cyprus

2.1.1 The uncertain economic conditions in Cyprus have had, and are likely to continue to have, a material adverse effect on the Bank.

As of 31 December 2013, 94.4% and 91.2% of the Bank's total assets and total liabilities, respectively, and 88.0% of the Bank's total income from continuing operations in 2013, were derived from its operations in Cyprus. As of 30 June 2014, 93.8% and 91.7% of the Bank's total assets and total liabilities, respectively, and 90.5% of the Bank's total income from continuing operations for the first half of 2014, were derived from its operations in Cyprus. Given its high credit exposure to Cypriot businesses and households, the Bank's future financial performance is interlinked with the Cypriot economy and is highly correlated with the trajectory of economic activity in Cyprus.

The Cypriot economy has faced and continues to face substantial macroeconomic pressures. These pressures derive from the impact of an extremely deep recession on private sector finances and the fiscal effort needed to achieve sustainable primary surpluses in the Government's budget in the years to come.

The evolution of real GDP in Cyprus changed from growth of 1.4% in 2010 to a decline of 2.4% in 2012. The contraction in real GDP increased to 5.4% in 2013, with a decline in all components in domestic demand. The recession is expected to continue through 2014, with the decline in real GDP projected at 3.2% by the IMF (Article IV Consultation Country Report for Cyprus, October 2014) and at 2.8% by the European Commission (European Economic Forecast, Autumn 2014). Real GDP in the first nine months of the year contracted by 2.5% on average according to the latest flash estimates of the Cyprus Statistical Service. In the labour market, unemployment remains high, with an average unemployment rate of 15.9% in 2013 and 15.9% in the first nine months of 2014 according to Eurostat.

Although the recession for 2014 is expected to be less severe than originally anticipated (the IMF for example currently projects the decline in real GDP at 3.2%, as compared to an earlier projection of a 4.2% contraction), the European Commission has emphasised that the economic outlook remains challenging for Cyprus, particularly as a result of continuing high unemployment rates and high levels of indebtedness that will continue to constrain the supply of credit. Accordingly, Cyprus' economic recovery is expected to be more subdued than previously forecast, with growth projected at 0.4% in 2015 compared with an initial forecast of 0.9%. Any prolonged continuation or further decline in economic conditions in Cyprus could have a material adverse effect on the Bank's business, results of operations and financial condition (see Section 2.1.3 (*The Group is significantly exposed to the financial performance and creditworthiness of companies and individuals in Cyprus*)).

2.1.2 The implementation, conditions and requirements of the MoU entered into between Cyprus and the Troika, and any government actions aimed at alleviating the economic crisis, are uncertain and may create adverse results or have an adverse effect on the Bank.

In response to the Cypriot economic crisis, the Government agreed a MoU and an EAP with the Troika on 2 April 2013. The EAP covers the period from 2013 to 2016 and incorporates a financial assistance package for Cyprus of up to €10 billion. The MoU, which was prepared by the Troika and approved by the ESM on 24 April 2013, specifies the conditions to be met for the first and subsequent disbursements of ESM financial assistance, which include measures related to revenue, public expenditure, as well as pension and health care reform. The MoU addresses short and medium term financial, fiscal and structural challenges facing Cyprus and seeks, among other things, to restructure and downsize financial institutions in Cyprus, correct the governmental deficit by reducing expenditure and enhancing revenue collection, and implement structural reforms to support competitiveness and growth. For a further discussion of the MoU and EAP and the status of Cyprus' compliance with the requirements of the MoU, see Section 3.22.2 (*The Macroeconomic Environment in Cyprus*).

The MoU sets a number of targets for the Government, including limits on governmental expenditures and debt. Achieving these targets has required and will continue to require the government to implement a number of austerity measures. In addition, the MoU sets out an agenda for privatisation and reforms to the labour market, the pension and welfare systems and foreclosure and insolvency legislation which may prove unpopular and be difficult for the Government to implement. Many of these austerity measures and reforms involve changes to Cypriot legislation which require parliamentary approval and, accordingly, have been and will be subject to debate and intense lobbying by trade unions and other vested interests opposed to these changes. While it is expected that these austerity measures and reforms will ultimately restore the health of the Cypriot economy, in the short to medium term they (as with austerity measures adopted in other countries) may have an adverse impact on growth and public and private expenditure in Cyprus and the Government may engage in other measures aimed at alleviating the economic crisis in general. Accordingly, unless and until the expected macroeconomic benefits from the MoU begin to appear, the Bank will continue to be adversely affected by many of the measures taken in implementing the requirements of the MoU and by any other measures taken by the Government aimed at alleviating the economic crisis in Cyprus. For additional information on the status of amendments to foreclosure legislation, see Section 3.22.3.21 (*Laws Relating to Foreclosures*).

In addition, the implementation by the Government of the measures and reforms set out in the MoU has given rise, and will continue to give rise, to uncertainties as to the extent and impact of these measures and reforms, particularly with respect to tax legislation and the financial services sector in which the Group operates. To the extent that these reforms are more extensive and costly than anticipated by the market, this could have a material impact on the Group's operations, business and financial condition. If the requirements of the MoU are not implemented successfully or if additional austerity or other measures beyond those agreed to in the MoU are required to compensate for potential deviations from the MoU's targets, economic activity in Cyprus may also register a weaker than expected performance in the future, which will result in a delayed recovery and a further adverse effect on the Bank's business, financial condition and results of operations.

Failure to comply with the conditions and requirements of the MoU could lead to the Troika withholding the release of funds by the ESM and IMF, which would have a material adverse effect on the Government's ability to meet its debt obligations, on the economy of Cyprus and, consequently, on the Bank.

For example, on 13 October 2014, a meeting of the main forum for the management of the single currency area, consisting of the finance ministers of the countries whose currency is the euro (the "**Eurogroup**") convened to discuss Cyprus' progress with the implementation of the MoU. The Eurogroup concluded that the fifth Troika review of the EAP, and the payment of the next tranche of funds from the ESM and IMF, would be delayed until the Supreme Court issued its decision on the constitutionality of the four supplementary foreclosure-related bills, passed by the Cypriot Parliament in September 2014. On 31 October 2014, the Supreme Court unanimously held that the four supplementary foreclosure-related bills were unconstitutional.

However, under the terms of the MoU, Cyprus is also required to implement reforms to the legal framework for corporate and personal insolvency procedures, including the licensing and regulation of insolvency practitioners, by the end of 2014. Although legislative proposals for the reform of Cyprus' insolvency framework have been made, certain political parties in Cyprus are claiming that the implementation of the foreclosure law reforms should be delayed until the implementation of the insolvency framework reforms and may also seek to delay or implement changes to the insolvency framework reforms which are not in line with the MoU's objectives. Accordingly, there is a risk that the Troika could still delay and/or withhold the next tranche of funds from the ESM and IMF until the insolvency framework reforms are passed and the Troika is satisfied that these reforms are in line with the MoU's objectives and do not negatively impact the foreclosure law reforms (also, see Section 2.4.6 (*The Bank is subject to certain regulatory and legal constraints in originating new loans, managing existing loans and foreclosing on collateral*)).

Further, the failure to implement certain structural reforms specified in the MoU, such as the reduction of the government deficit and enhancement of revenue collection, could result in Cyprus' failure to restore its economy and credit ratings. Moreover, there can be no assurances that financial assistance to the Government from the Troika will continue in the future as a result of increasing public discontent regarding the support of Cyprus and other Eurozone countries.

2.1.3 The Group is significantly exposed to the financial performance and creditworthiness of companies and individuals in Cyprus.

The Group is one of the largest providers of loans in Cyprus and has a significant exposure to the financial performance and creditworthiness of companies and individuals in Cyprus. As of 30 June 2014, the Group accounted for 39.5% of gross loans in the Cypriot banking system (based on CBC data) and the Group's loans and advances to customers in Cyprus accounted for 89.2% of its total loans and advances to customers, excluding loans and advances held for sale.

The protracted period of poor economic conditions in Cyprus is materially and adversely affecting the liquidity, business activity and financial conditions of the Bank's borrowers which in turn leads to further decreases in demand for borrowing in general and increases the Group's loans with a specific provision (impaired loans) and loans past due for more than 90 days but not impaired ("**90+DPD**"), impairment charges on loans and other financial assets and deposit outflows. In addition, the Group's loans and advances to customers declined from €27.4 billion as at 31 December 2011 to €21.8 billion as at 31 December 2013 and to €20.1 billion as at 30 June 2014, and the Group's loans that were 90+DPD increased from €5.0 billion as at 31 December 2011 to €13.0 billion as at 31 December 2013 and €12.6 billion as at 30 June 2014. The ratio of loans that were 90+DPD to gross loans (the "**90+DPD Ratio**") was 48.6% and 49.8% as at 31 December 2013 and 30 June 2014, respectively. Although the loans that were 90+DPD decreased from €13.0 billion as at 31 December 2013 to €12.6 billion as at 30 June 2014, there can be no assurance that the Group will be able to maintain this decrease in the Group's delinquent loans. It should also be noted that the Bank's non-performing loans calculated on the basis of the new definition provided by the CBC increased from €14.0 billion as at 31 December 2013 to €14.6 billion as at 30 June 2014. For an explanation of the CBC definition of non-performing loans and a discussion of the Bank's non-performing loan portfolio, see Section 3.10.2.2 (*Non-Performing Loans*) and Section 3.17.1.9 (*Non-Performing loans*), respectively. If the financial performance and creditworthiness of the Group's borrowers in Cyprus worsens or does not improve, the quality of the Group's domestic loan portfolio will continue to deteriorate and, consequently, this would have a material adverse impact on the Group's financial condition and results of operations.

2.1.4 Exposure to the Cypriot residential real estate market makes the Group vulnerable to developments in this market.

In the years prior to 2009, population increase, economic growth, declines in unemployment rates and increases in levels of household disposable income, together with low interest rates within the EU and increased foreign demand, led to an increase in the demand for mortgage loans in Cyprus. This increased demand and the widespread availability of mortgage loans affected housing prices, which rose significantly.

After this buoyant period, Cyprus' real estate market began to decline mainly as a result of the global financial crisis from late 2008 onwards. As a result of the Cypriot economic crisis, Cyprus suffered its largest decline in real estate prices in 2013 on an annual basis. The residential property price index maintained by the CBC recorded a 6.8% annual average decrease from 2012 to 2013, which was the largest annual decrease since the CBC's first publication of this index in 2006. In the first nine months of 2014, the residential property price index recorded a decrease of 9.2% on average, compared with a decrease of 6.2% during the same period in 2013 (on a year-on-year basis).

The Group has substantial exposure to the Cypriot real estate market and the continuing deterioration of Cypriot real estate prices could materially and adversely affect its business, financial condition and results of operations. The Group is exposed to the Cypriot real estate market due to a significant portfolio of own use and investment properties in Cyprus with a total book value of €485.2 million as of 30 June 2014 and due to the fact that Cypriot real estate assets secure a substantive proportion of its outstanding loans. Furthermore, the Group has restructured certain of the loans it has made relating to real estate and the capacity of the borrowers to repay those restructured loans may be materially adversely affected by declining real estate prices. Further, the Group's ability to sell real estate (in case of foreclosure) is limited by the continuing depression in the Cypriot real estate market both in terms of price and demand. In particular, the depression in real estate prices could be exacerbated if a significant proportion of the real estate for sale in Cyprus is comprised of foreclosed real estate. If Cypriot real estate prices continue to decline over a prolonged period, the Group's business may be materially adversely affected, which could materially and adversely affect its financial condition and results of operations.

2.1.5 There can be no assurance that the development of Cyprus' oil and natural gas reserves in the Levant Basin will be successful.

In 2010, the U.S. Geological Survey estimated that the Levant Basin, which is located along the shores of Syria, Lebanon, the Palestinian Territories, Israel and Cyprus, has mean probable undiscovered oil resources of approximately 1.7 billion barrels and mean probable undiscovered natural gas resources of approximately 3.5 trillion cubic meters. The MoU provides for the development of these domestic oil and natural gas reserves as a medium to long term prospect for the reduction of Cyprus' energy import dependency and energy prices which, in turn, would have a positive impact on the Cypriot economy. However, all estimates of energy reserves involve a measure of geologic and engineering uncertainty which could result in lower production and reserves than anticipated and, accordingly, the energy reserves in the Levant Basin may not be as large, or recoverable, as initially estimated. In addition, the successful development of these energy reserves involve significant challenges in terms of financing and planning the infrastructure required to exploit these energy reserves, designing efficient energy markets and implementing an adequate regulatory regime. Accordingly, there can be no assurance that the development of the Cyprus' domestic oil and natural gas reserves will be successful or result in a positive impact on the Cypriot economy.

2.2 Risks Relating to the Global Financial Markets and the Group's Operations Outside Cyprus

2.2.1 Political and economic developments in Cyprus and overseas could adversely affect the Group's operations.

External factors, such as political and economic developments in Cyprus and overseas, may negatively affect the Group's operations, its strategy and prospects. The Group's financial condition, its operating results as well as its strategy and prospects may be adversely affected by events outside its control, which include but are not limited to:

- changes in the level of interest rates imposed by the ECB;
- fluctuations in consumer confidence and the level of consumer spending;
- EU regulations and directives relating to the banking and other sectors;

- political instability or military conflict that impact Europe and/or on other regions (see Section 2.2.3 (*The Group's operations and assets in Russia, Ukraine and Romania have been, and may continue to be, adversely affected by recent economic and political events*)); and
- taxation and other political, economic or social developments affecting Cyprus, Russia, the United Kingdom or the EU. For example, on 18 November 2014, a draft law was approved at the plenary meeting of Russia's State Duma, which imposes tax on the income of companies that are registered in offshore jurisdictions (such as Cyprus) and are owned by Russian ultimate beneficiaries. The Law will be submitted to the Federation Council and is expected to come into effect from 1 January 2015. If this law becomes effective, it could have a material adverse impact on the Bank's deposits from Russian customers.

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 could have a negative impact on Cyprus and the international economic conditions generally, and more specifically on the business and results of the Group in ways that cannot necessarily be predicted.

There can be no assurance as to the realisation of any of these events or that a further weakening in the Cypriot economy will not have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

2.2.2 The Group is vulnerable to the ongoing disruptions and volatility in the global financial markets.

Since the second half of 2007, disruption in the global credit markets has created increasingly difficult conditions in the financial markets. These conditions have resulted in decreased liquidity and greater volatility in global financial markets, and continue to affect the functioning of financial markets and the global economy. Although the IMF marginally reduced its global growth projections for 2014, the outlook remains positive and is expected to improve further in 2015, but this is primarily supported by the ongoing accommodative monetary policy, combined with less severe fiscal tightening, in most major economies. In particular, the US economy grew in the second half of 2013, mainly as a result of an improvement in the housing and labour market, an expansionary monetary policy, as well as declining fiscal risks related to the rise of the US government's debt ceiling. The deceleration in the growth of the Chinese economy in 2013 was offset by the Chinese government's proactive fiscal and monetary policy and China's economy remains subject to significant risks including a significant concentration of debt financing in public infrastructure projects and oversupply in the manufacturing and real estate sectors. The Eurozone economy exited recession in the second quarter of 2013 following six quarters of negative economic activity. However, the Eurosystem remains on a monetary easing mode in 2014 and it is using more unconventional monetary policy tools, such as Targeted Long Term Refinancing Operations (or TLTROs), lower policy rates and asset purchases, to reduce the risk of deflation. Accordingly, the continuing recovery of the global economy remains subject to the continued employment of accommodative and expansionary monetary policies by major economies and there can be no assurance that the governments of these economies will continue to do so or that the employment of these policies will be sufficient to address the fiscal risks which remain. In particular, in Europe, despite measures taken by several governments, international and supranational organisations and monetary authorities to provide financial assistance to Eurozone countries in economic difficulty and to mitigate the possibility of default by such countries on their sovereign debt obligations, concerns persist regarding the debt and/or deficit burden of certain Eurozone countries, including Cyprus, and their ability to meet future financial obligations, given the diverse economic and political circumstances in individual member states of the Eurozone. It remains difficult to predict the effect of these measures on the economy and on the financial system, how long the crisis will last and to what extent the Group's business, results of operations and financial condition may be adversely affected. As a result of the foregoing risks concerning the continued recovery of the global economy, the Group's ability to access the international capital and financial markets to meet the financial requirements of the Group may be adversely impacted and costs of financing may significantly increase. This could materially and adversely affect the business, financial condition and results of operations of the Group.

2.2.3 The Group's operations and assets in Russia, Ukraine and Romania have been, and may continue to be, adversely affected by recent economic and political events.

The Group had a significant presence in Russia and Romania, which are both central and eastern European countries that share a common history of volatile capital markets and exchange rates, political, economic and financial instability, and, in many cases, underdeveloped political, financial and legal systems and infrastructures.

The Group operates in Russia mainly through its Russian subsidiary, CB Uniastrum Bank LLC ("**Uniastrum**"). Russia is the Group's largest market outside of Cyprus, representing 5.6% of income from continuing operations, 4.2% of total assets and 5.0% of total liabilities during the six months ended 30 June 2014. Even though the Bank disposed of certain assets and liabilities of its Romanian operations to Marfin Bank (Romania) SA ("**Marfin Bank Romania**") pursuant to the Sale of certain operations in Romania of Bank of Cyprus Public Company Ltd Decree of 2013 (the "**Romanian Operations Decree**") and sold its 9.99% equity stake in Banca Transilvania, a Romanian bank, in April 2014 and its interest in Grand Hotel Enterprises Society Ltd. ("**GHES**"), which owns a hotel in Romania, in September 2014, the Bank still operates a branch in Romania which is managing the Bank's remaining loan portfolio and the disposal of loan collateral assets which are primarily comprised of real estate in Romania. As of 30 June 2014, the Group's gross loans and advances to customers in Romania before fair value adjustments on initial recognition were €466.6 million, including loans and advances classified as held for sale. The Group's investment property in Romania at 30 June 2014 amounted to €36.0 million. The Bank also has significant intragroup funding exposures with respect to Uniastrum (a portion of which is in the form of subordinated debt) and its remaining operations in Romania. As of 30 June 2014, the Bank's total net intragroup funding to its units in Russia and in Romania was €261.4 million and €336.2 million, respectively. In addition, the Bank expects to provide additional funding or capital to Uniastrum as a result of ongoing internal reviews of Uniastrum's loan provisioning levels and/or, in particular, if the Central Bank of the Russian Federation (the "**CBR**") determines that Uniastrum should increase provisions on specific customer loans as a result of its review of Uniastrum's loan portfolio. Although the CBR completed its review of Uniastrum's loan portfolio in October 2014, Uniastrum has not yet received the CBR's official conclusions and requirements from this review.

Both Russia and Romania have been adversely affected by the global economic crisis. In 2013, Russia's GDP growth was 1.3% according to the IMF and is forecasted to grow by 0.2% in 2014. Loss before tax from the Group's Russian operations amounted to €51.8 million and €42.7 million for the years ended 31 December 2013 and 31 December 2012, respectively, primarily as a result of provisions for impairment of loans and advances, and €18.2 million and €17.6 million for the six months ended 30 June 2013 and 30 June 2014, respectively. While Romania's GDP growth was 3.5% in 2013, this was preceded by GDP growth of 0.6% in 2012 according to the European Commission. In addition, Romania has suffered several waves of social unrest from 2012 to 2013 and benefited from EU financial assistance three times, the latest having been agreed in October 2013.

In April 2014, the Group sold its business in Ukraine comprising its 99.77% holding in PJSC Bank of Cyprus, the funding provided by the Group to PJSC Bank of Cyprus and its loans with Ukrainian exposures, to the Alfa Group, the Russian banking group. The Group continues to have residual exposure to Ukraine pursuant to the terms of the transaction agreement.

The adverse economic situation in Russia has been exacerbated by events related to the accession of Crimea to the Russian Federation in March 2014 and subsequent unrest by Russian separatists in Eastern Ukraine following the presidential elections in Ukraine in May 2014. Following these events, both the European Union and the United States have imposed economic sanctions against Russia and certain Russian citizens and entities and have threatened to impose additional sanctions. It is currently uncertain how much the current unrest in Ukraine and the resulting economic sanctions against Russia will affect the Russian economy. In addition, the impact of these sanctions on the Bank's business in Russia is currently unclear and may result in a material adverse effect on the Bank's Russian operations. While Romania has not been directly involved or affected by the recent events in Ukraine, it shares a border with Ukraine and its economy could be indirectly affected by any negative impact that these events have on Ukraine's or Russia's economy.

Any significant deterioration of general economic conditions in Russia and Romania, and, in particular, a decline in their growth rates or credit ratings, as well as continued political disturbances in the region, may have a material adverse effect on the Group's Russian bank subsidiary and its operations and assets in Romania. In addition, a prolonged crisis between Russia and Ukraine could restrict the ability of Russian and Ukrainian customers to make deposits and transact with the Bank in Cyprus.

2.3 Risks Relating to the Group's Business

2.3.1 The Group is subject to evolving minimum capital requirements which may require it to raise additional capital or result in increased costs.

The Group has prepared a comprehensive restructuring plan covering the period from 2013 through 2017 (the "**Restructuring Plan**") which was approved by the CBC in November 2013. The Restructuring Plan defines the Group's strategy, business model and risk appetite. An important target in the Restructuring Plan is the compliance by the Bank with the minimum capital adequacy requirements set forth by the CBC. The minimum capital adequacy ratios as determined by the CBC throughout the period and until 30 December 2013 were: a Core Tier 1 capital ratio of 8.7%, Tier 1 ratio of 10.2% and total capital ratio of 12.2%. As of 31 December 2013, the CBC increased the minimum Core Tier 1 capital ratio to 9% and the minimum requirements for Tier 1 and total capital ratios were abolished. The Bank's Core Tier 1 capital ratio stood at 10.2% as at 31 December 2013.

As from 1 January 2014, CRD IV and the CRR became effective comprising the European regulatory package designed to transpose the new capital, liquidity and leverage standards of Basel III into the European Union's legal framework (for definitions and more information on CRD IV and the CRR, see Section 3.22.3.1 (*The Regulatory Framework*)). The CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by and is immediately binding on all EU Member States. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency. Unlike the CRR, CRD IV must be transposed into national law and national regulators, such as the CBC, can impose additional capital buffer requirements. The CRR introduces significant changes in the prudential regulatory regime applicable to banks including amended minimum capital ratios, changes to the definition of capital and the calculation of risk-weighted assets and the introduction of new measures relating to leverage, liquidity and funding. The CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which are not expected to be fully implemented until 2018. For more detail on CRD IV and the CRR, see Section 3.22.3.1 (*The Regulatory Framework*) and Section 3.22.3.2 (*Guidelines for Capital Requirements*). As of 30 June 2014, the Bank's Common Equity Tier 1 ("**CET 1**") ratio was 11.3%.

The CBC has determined the extent of phasing-in of the transitional provisions relating to CET 1 deductions and, on 29 May 2014, set the minimum CET 1 capital ratio at 8%. The CBC will also impose additional capital requirements for risks which are not covered by the above-mentioned capital requirements, taking also into account the provisions of CRD IV/CRR and the results of the AQR and the EU-wide stress test. Following the Comprehensive Assessment, which was fundamentally a prudential exercise, the SSM has requested the Group to review certain of its accounting estimates relating to provisions in light of the higher degree of conservatism applied in the AQR. If required, any such changes in estimates would be reflected in the Group’s financial statements for year 2014. Further, while the AQR and stress test did not show a capital shortfall for the Group after giving effect to the Capital Raising, in connection with the AQR, the SSM has requested the Bank to review certain of its accounting estimates, such as those relating to provisions, on a prospective basis. This may adversely affect the Bank's capital position and its financial results going forward.

The implementation of a more demanding and restrictive regulatory framework, with respect to, amongst other things, capital ratios, leverage, liquidity and disclosure requirements, notwithstanding the benefit to the financial system, will imply additional costs for banks. In particular, these regulatory requirements may result in a need for additional capital strengthening by the Bank in order to comply with the more demanding capital ratios and the lower profitability of such capital. There can be no assurance that the Bank will be able to raise the additional capital required by regulation or expected by the market and any failure to do so could have a material adverse effect on its reputation, financial condition and results of operation.

Compliance with new regulations might also restrict certain types of transactions, affect the Bank's strategy and limit or imply the modification of the rates or fees charged by the Bank for certain loans and other products, where any of the foregoing might reduce the yield of its investments, assets or holdings. Accordingly, the Bank might face increased limitations on its capacity to pursue certain business opportunities, and, as a consequence, this could have a significant adverse effect on the business, financial condition and results of operations of the Bank.

2.3.2 The Bank's wholesale borrowing costs and access to liquidity and capital have been negatively affected by a series of downgrades of the credit ratings of Cyprus and the Bank and the Bank's access to capital depends on its credit rating.

The Bank currently has a long-term deposit rating from Moody's Investors Service ("**Moody's**") of Caa3, with stable outlook, and a long-term issuer default rating from Fitch Ratings Ltd. ("**Fitch**") of CC. These ratings reflect in part the sovereign ratings of Cyprus (B3 from Moody's and B- from Fitch) which take into account the capital control measures imposed by the Ministry of Finance of Cyprus which are still in place (see Section 3.22.3.9 (*Capital Control Measures*)). The Bank's sub-investment grade ratings will make it more difficult for it to raise debt or equity and will increase its cost of wholesale funding, with a consequent adverse effect on its financial condition and results of operations. As discussed above (see Section 2.1.2 (*The implementation, conditions and requirements of the MoU entered into between Cyprus and the Troika, and any government actions aimed at alleviating the economic crisis, are uncertain and may create adverse results or have an adverse effect on the Bank*)), further downgrade of Cyprus' rating may occur in the event of a failure to implement the requirements of the MoU or if the structural reforms implemented under the MoU do not produce the economic results expected. Accordingly, the cost of funding for Cyprus would increase further, with negative effects on the cost of funding and credit ratings for Cypriot banks. Further downgrades of the Bank's credit rating (including as a result of downgrades of the sovereign rating of Cyprus) would exacerbate this and could potentially exclude the Bank from private sources of wholesale funding.

2.3.3 The Bank is dependent on central bank (ECB and ELA) funding for liquidity and difficulties in securing traditional sources of liquidity may affect the Group's ability to meet its financial obligations.

The ongoing adverse market conditions have led to increased instability, reduced liquidity and increased credit spreads and world credit markets have experienced reduction in liquidity and financing.

The Group's banking business requires a steady flow of funds both to replace existing deposits as they mature and to satisfy customer requests for additional borrowing. Undrawn borrowing facilities are also taken into consideration in managing the liquidity position. The Group is subject to liquidity risk in respect of the potential mismatch of payment obligations to incoming payments, taking into account both unexpected delays in repayments (term liquidity risk) or unexpectedly high payment outflows (withdrawal/call risk). In managing its liquidity risk, the Group is dependent on external sources of funding, through deposits, interbank and wholesale markets, and central banks including the ECB and the CBC.

The ability of the Group to access funding sources on favourable economic terms is subject to a variety of factors, including a number of factors outside of its control, such as liquidity constraints, general market conditions and loss of confidence in the Cypriot banking system.

As a result of the Group's limited access to interbank and wholesale markets and a reduction in deposits in Cyprus, the Bank is not in compliance with its regulatory liquidity requirements and is dependent on central bank funding for liquidity. For more detail on the Bank's regulatory liquidity requirements, see Section 3.11 (*Information on Liquidity and Capital Resources*). The transfer of certain assets (including a €1.2 billion receivable owing to Laiki Bank from the Bank in connection with the sale of the Group's Greek operations) and liabilities of Laiki Bank to the Bank in March 2013 resulted in an amount of €9.1 billion of ELA funding at the acquisition date to be transferred to the Bank. As of 31 December 2013 and 30 June 2014, 41.0% and 41.1%, respectively, of the Group's funding was comprised of funding from central banks, of which €9.6 billion and €8.8 billion, respectively, was ELA funding. As of 30 September 2014, 38.0% of the Group's funding was comprised of funding from central banks. For more information on the Group's funding from central banks, please see Section 3.11.2.3 (*Funding from Central Banks*).

Since August 2013, the Bank has been reinstated by the ECB as an eligible counterparty for monetary policy operations. This and the approval at the beginning of July 2013 for the use of bonds issued or guaranteed by Cyprus have resulted in a reduction in funding from ELA, as the Bank has access to funding from the ECB under monetary policy operations.

Central bank funding that the Bank receives or may receive in the future may be adversely affected by changes in the funding provision rules of these facilities. The available funding amount is tied to the value of the collateral the Bank provides, including the market value of Government securities and own issued Government guaranteed securities and the value of its loan portfolio, which may also decline in value. If the value of the Bank's assets declines, then the amount of funding the Bank can obtain from these facilities may be correspondingly limited. In particular, the CBC performs its own valuation of the Bank's loan portfolio and, if the CBC were to determine that the credit quality of the Bank's loan portfolio has deteriorated, the value of the Bank's eligible ELA collateral would also decrease and this, in turn, could result in material reduction in ELA funding available to the Bank. It should also be noted that, although the Bank applied in November 2013 for, and the Cypriot Parliament approved on 27 January 2014, the issuance of additional Government guarantees of up to €2.9 billion, the Bank did not make use of such Government guarantees at the time of approval, and the Bank will therefore be required to reapply to the Ministry of Finance of Cyprus to use these Government guarantees for any future issue of debt securities. Under the provisions of the relevant legislation, government guaranteed debt securities can only be used as collateral for liquidity purposes. In addition, as long as the government guarantee is in place, the Bank is not allowed to repurchase its own shares or provide any discretionary bonuses to members of the Board of Directors or senior management. Further, if the CBC and/or ECB were to revise its collateral standards or increase the rating requirements for collateral securities such that the instruments currently used by the Bank were no longer eligible to serve as collateral for central bank funding, the Bank's funding costs could increase and its access to liquidity could be limited. Currently, own issued government guaranteed securities held by the Bank are not eligible collateral for ECB funding and can only be used as collateral for ELA funding. For a discussion of the Bank's liquidity risk management, funding and liquidity sources and liquidity reserves, see Section 3.12.4 (*Liquidity and Funding Risk*) and Section 3.11 (*Information on Liquidity and Capital Resources*).

A continued loss of deposits and the prolonged need for additional central bank funding may result in the exhaustion of collateral eligible for funding through these facilities.

2.3.4 A material decrease in funds available from customer deposits, particularly retail deposits, could impact the Group's funding and there can be no assurance that the lifting of capital controls in Cyprus will not result in an increase of deposit outflows from the Bank or the banking sector in Cyprus.

One of the Bank's principal sources of funds are customer deposits. As of 31 December 2013 and 30 June 2014, customer deposits accounted for 56.0% and 55.7%, respectively, of the Group's funding. Since the Bank relies on customer deposits for the majority of its funding, if the Bank's depositors withdraw their funds at a rate faster than the rate at which borrowers repay their loans, or if the Bank is unable to obtain the necessary liquidity by other means, the Bank may be unable to maintain its current levels of funding without incurring significantly higher funding costs or having to liquidate certain of its assets, or without increasing access to central bank funding. Further, access to central bank funding may not always be available and is subject to their funding provision rules (see Section 2.3.3 (*The Bank is dependent on central bank (ECB and ELA) funding for liquidity and difficulties in securing traditional sources of liquidity may affect the Group's ability to meet its financial obligations*)).

The ongoing funding of the Bank's loan portfolio from customer deposits is subject to potential changes in certain factors outside the Bank's control, such as depositors' concerns relating to the economy in general, the financial services industry or the Bank specifically, significant further deterioration in economic conditions in Cyprus and the availability and extent of deposit guarantees. Any of these factors separately or in combination could lead to a sustained reduction in the Bank's ability to access customer deposit funding on appropriate terms in the future, which would impact on the Bank's ability to fund its operation, having an adverse effect on the Group's results, financial condition and prospects. Unusually high levels of withdrawals could have the result that the Bank or another member of the Group may not be in a position to continue to operate without additional funding support, triggering the need for additional external funding and/or further capital, which it may be unable to secure.

In particular, in March 2013, the uncertainty concerning Cyprus' ability to secure a financial assistance package from the ESM and IMF led to a significant loss of confidence in Cyprus and the banking sector of Cyprus in particular. The subsequent bail-in of depositors of the Bank with deposits exceeding €100,000 (the insured deposit level) pursuant to the recapitalisation of the Bank effected by the Resolution Authority through the issue of the Bail-in Decrees ("**Recapitalisation**") and the resolution of Laiki Bank, resulted in losses suffered by depositors which further exacerbated this loss of confidence. In order to address the risk of significant deposit outflows from Cyprus in reaction to the uncertain state of Cyprus' economy and the future of the banking sector in Cyprus, all banks in Cyprus were instructed by the CBC to remain closed from 19 to 27 March 2013. Upon the issue of a decree by the Ministry of Finance of Cyprus imposing capital controls on the withdrawal of funds on 27 March 2013, banks in Cyprus reopened on 28 March 2013. The issue of the decree imposed, amongst other things, a €300 daily withdrawal limit and a ban on cashing cheques as well as a prohibition on fund transfers within and outside Cyprus with a few specific exceptions. If capital controls had not been imposed by the Ministry of Finance of Cyprus, the loss of confidence by depositors of the Bank could have led to a rate of deposit outflows which was higher than that experienced by the Bank to date. Decrees imposing capital controls are renewed regularly and there has been a gradual relaxation of the restrictions imposed. In a recent decree issued by the Ministry of Finance of Cyprus on 30 May 2014, all domestic capital controls have been repealed but some restrictions remain on the transfer of funds outside of Cyprus. As of 30 June 2014, 30.8% of the Bank's deposits in Cyprus are attributable to customers of the International Banking Services ("**IBS**") division. There is a risk that deposit outflows from the Bank and the banking sector in Cyprus will increase if the restrictions on the transfer of funds outside of Cyprus are further relaxed or removed. Significant deposit outflows would have a material adverse effect on the Group's business, financial condition and results of operations. For more detail on the capital control measures imposed by the Ministry of Finance, see Section 3.22.3.9 (*Capital Control Measures*).

2.3.5 Government and CBC actions intended to support liquidity may be insufficient or discontinued, thus the Group may be unable to obtain the required liquidity.

The financial markets crisis, the increase of risk premiums and the higher capital requirements demanded by investors, have led to intervention and requirements for banking institutions to have increased levels of capitalisation and liquidity. In many countries, the requirement for additional liquidity was achieved through the provision of liquidity support by central banks. In order to permit such support, financial institutions were required to pledge securities deemed appropriate as collateral by their regulators and central banks.

The ECB's governing council has declared that it will continue with the main refinancing operations by means of fixed-rate tenders fulfilling all requests of the demand for as long as this is necessary and at least until December 2016. The ECB has also stated that it will accept all requests for 3-month operations carried out by that date and at a rate equal to the average of the main refinancing operations during the applicable 3-month period.

In the event that the Group is unable to obtain liquidity by pledging suitable collateral to central banks or if there is a significant reduction or elimination in the liquidity support provided to the system by governments and central authorities, the Group may encounter increased difficulties in procuring liquidity in the market and/or higher costs for procurement of such liquidity, thereby adversely affecting its business, financial condition or results of operations.

2.3.6 There can be no assurance that the Restructuring Plan will be successfully implemented or, even if implemented successfully, that the Bank will not be required to raise additional capital.

Following its exit from resolution on 30 July 2013 and in light of the continuing economic crisis in Cyprus, the Group prepared the Restructuring Plan which was approved by the CBC in November 2013. The Restructuring Plan defines strategic objectives and actions that are expected to create a safer, stronger, more focused institution, capable of supporting the prosperity of the Cyprus economy. The Restructuring Plan was formulated based on macroeconomic assumptions and estimates which may not be realised and could change significantly over the next three years. For example, the ability of the Group to divest itself of non-core assets is dependent on its ability to dispose of these assets at prices in the applicable market which would not result in a significant loss to the Group. Accordingly, there can be no assurances that the Group will be able to implement the Restructuring Plan successfully. Any failure by the Group to implement the Restructuring Plan in any material respect could have a significant negative impact on the Group's business, prospects, financial condition and results of operations.

Further, even if the Group was able to implement the Restructuring Plan successfully, there can be no assurance that the Bank will not be required to raise additional capital. For example, while a successful implementation of the Restructuring Plan would improve the Bank's capital position sufficiently to satisfy the capital requirements as required or foreseen at the time the Restructuring Plan was formulated, the Bank may still be required to raise additional capital if new regulatory requirements are imposed in the future. See Section 2.3.1 (*The Group is subject to evolving minimum capital requirements which may require it to raise additional capital or result in increased costs*).

2.3.7 If the Group does not generate sufficient taxable profits to utilise its deferred tax assets, it could result in a material reduction in the Group's net profit and capital.

Deferred tax assets are recognised by the Group in respect of tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies. These variables have been established on the basis of significant management judgment and are subject to uncertainty. As of 30 June 2014, the Group had recognised deferred tax assets of €472.2 million, mainly as a result of Laiki Bank's tax losses transferred to the Bank in accordance with the Laiki Transfer Decrees. The deferred tax asset recognised on the transfer of these tax losses from Laiki Bank amounted to €417.0 million and can be set off against the taxable future profits of the Bank for a period of 15 years at the prevailing tax rate (currently 12.5%). If it is possible that the Bank will not generate sufficient future taxable profits to utilise its deferred tax assets fully within their expiry period, it will have to write-off these deferred tax assets which would reduce the Group's net profit and, in turn, the Group's capital. For example, the Group's loss on disposal of its Greek operations resulted in a write-off in 2012 of deferred tax assets of €0.3 billion as this was no longer considered as recoverable.

2.3.8 The Group's results of operations for certain of the financial periods discussed in this Prospectus are not directly comparable to the operating results for other financial periods discussed herein, and may not be directly comparable with the operating results for future financial periods.

The changes carried out in the Recapitalisation during 2013 have significantly transformed the operations of the Group, resulting in the sale of a substantial portion of the Group's international operations and the conversion of a significant proportion of its liabilities into equity. In addition, the transfer to the Bank of a substantial portion of Laiki Bank's assets and liabilities pursuant to the Laiki Transfer Decrees have significantly impacted both the Group's balance sheet and results of operations.

As a result of the foregoing events, most of which commenced during the first quarter of 2013, the interim condensed consolidated financial statements for the six months ended 30 June 2014 contain certain comparative balance sheet items as at 31 December 2013, which have been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank and certain comparative income statement items which have been re-presented to reflect the reclassification of the Ukrainian operations disposed of from continuing to discontinued operations. Further, the financial information for the year ended 31 December 2013 contains comparative information for 2012 which has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It has also been restated to reflect the adoption of International Accounting Standards ("**IAS**") 19 (Revised 2011) regarding the recognition of actuarial gains and losses arising from defined benefit plans. Accordingly, the consolidated financial statements of the Group contained in, and the discussion contained in Section 3.10 (*Operating and Financial Review and Prospects*) of, this Prospectus are limited in their ability to demonstrate the evolution of the Group's results of operations.

2.3.9 The independent auditor's report in respect of the Bank's consolidated financial statements for the year ended 31 December 2013 is qualified and contained an emphasis of matter. The independent auditor's review conclusion in respect of the Bank's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2014 is qualified and contained an emphasis of matter.

The independent auditor's report in respect of the Bank's consolidated financial statements for the year ended 31 December 2013 is qualified with respect to (a) the inability of the Bank to apply the requirements of IFRS for the bail-in of uninsured deposits and debt securities pursuant to the 2013 Recapitalisation due to the specific conditions and uncertainties that existed at the time of the transaction and (b) any adjustments that could have been determined to be necessary to the consolidated income statement had the auditors been able to satisfy themselves as to the fair value of the ordinary shares issued for the Group’s Recapitalisation through the bail-in of uninsured deposits and debt securities and for the consideration transferred for the acquisition of certain assets and liabilities of the Laiki Bank. The Group's equity and financial position were not affected by the accounting of these transactions giving rise to these qualifications. For discussion of the resolution of Laiki Bank and the Recapitalisation, see Section 3.3 (*Restructuring of the Bank and Laiki Bank*).

In relation to the Recapitalisation, under IFRS, the difference between the carrying amount of the financial liabilities (i.e., uninsured deposits, subordinated securities and other products of the Bank) extinguished and the fair value of the consideration paid (i.e., shares issued by the Bank), should have been recognised in profit or loss. Because the Bank was not able to establish a reliable measure of the fair value of the ordinary shares issued pursuant to the Recapitalisation as a result of the suspension from trading of the ordinary shares of the Bank, the unavailability of financial information and the continued negotiations between the Government and the Troika that resulted in the MoU and EAP, the Bank assigned a fair value to the ordinary shares issued by reference to the carrying value of uninsured deposits, subordinated securities and other products of the Bank extinguished pursuant to the Recapitalisation.

In relation to the ordinary shares issued to Laiki Bank as compensation for its assets and liabilities acquired by the Bank, in accordance with IFRS 3 ‘Business Combinations', the cost of an acquisition is measured as the fair value of the aggregate consideration transferred measured at acquisition date and the amount of any non-controlling interests in the acquiree. Due to the specific conditions under which this transaction took place, as a result of the suspension from trading of the ordinary shares of the Bank, the unavailability of financial information and the continued negotiations between the Government and the Troika that resulted in the MoU and EAP, the Bank was not able to establish a reliable measure of the fair value of the ordinary shares issued at the date of this transaction. By analogy to other standards that deal with the exchange of assets, the Bank has concluded that it was appropriate to determine the fair value of the consideration transferred by reference to the fair value of the individually identifiable assets and liabilities acquired for which a reliable fair value could be established. As a result of the above accounting treatments, no profit or loss arises from these transactions.

The independent auditor's review conclusion in respect of the Bank's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2014 is qualified with respect to the lack of comparative statements of the consolidated income statement and the consolidated other comprehensive income for the comparable interim period of the immediately preceding financial year.

In addition, the independent auditor's reports in respect of the Bank's consolidated financial statements for the years ended 31 December 2011, 2012 and 2013 and the independent auditor's review conclusion in respect of the Bank's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2014 contained an emphasis of matter in relation to the material uncertainties that may cast significant doubt on the ability of the Group to continue as a going concern. These uncertainties include:

- The successful implementation of the Group's Restructuring Plan and the realisation of the macroeconomic scenario which formed the basis of its preparation. For a more detailed discussion of the Restructuring Plan, see Section 3.5.4 (*Strategy*) and see also Section 2.3.6 (*There can be no assurance that the Restructuring Plan will be successfully implemented or, even if implemented successfully, that the Bank will not be required to raise additional capital*) and Section 2.4.4 (*The Restructuring Plan agreed with the CBC restricts certain actions of the Group*).
- The period over which the restrictive measures and capital controls are in place. See Section 2.3.4 (*A material decrease in funds available from customer deposits, particularly retail deposits, could impact the Group's funding and there can be no assurance that the lifting of capital controls in Cyprus will not result in an increase of deposit outflows from the Bank or the banking sector in Cyprus*).
- The continuing reliance on and availability of the central bank liquidity facilities. See Section 2.3.3 (*The Bank is dependent on central bank (ECB and ELA) funding for liquidity and difficulties in securing traditional sources of liquidity may affect the Group's ability to meet its financial obligations*).
- The actual outcome of litigation and claims mainly relating to the bail-in of deposits and the absorption of losses by the holders of equity and debt instruments of the Bank. See Section 2.4.1 (*The Group is exposed to various forms of legal risk, particularly in relation to the mis-selling of Euro Capital Securities issued by the Bank, the bail-in of shareholders, uninsured depositors and other creditors of the Bank pursuant to its recapitalisation from March to July 2013 and regulatory investigations*).

The emphasis of matter described above is not a qualification to the audit opinions contained in the independent auditor's reports for the consolidated financial statements for the years ended 31 December 2011, 2012 and 2013 or the review conclusion contained in the independent auditor's review report for the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2014.

The independent auditor's reports on the consolidated financial statements for the years ended 31 December 2011, 2012 and 2013 and the independent auditor's review conclusion on the consolidated financial statements for the six months ended 30 June 2014 are included in this Prospectus beginning on page F-1.

2.3.10 A significant proportion of the Group's loan portfolio is comprised of non-performing loans, a significant proportion of which are comprised of large corporate exposures and exposures to the real estate and construction economic sectors.

As of 31 December 2013 and 30 June 2014, 48.6% and 49.8% of the Group's gross loan portfolio, respectively, was 90+DPD. In particular, a significant proportion of its non-performing loans are comprised of loans to large corporates which are in the real estate and construction sector of the Cypriot economy. As of 30 June 2014, the Group's loan and advances to corporate borrowers and borrowers in the real estate and construction sectors (including loans and advances classified as held for sale) comprised 40.2% and 30.7% of the Group's gross loan portfolio. The Group's ability to recover on these loans remains limited, mainly as a result of the continuing depression in the Cypriot real estate market in terms of demand and price (see Section 2.1.4 (*Exposure to the Cypriot residential real estate market makes the Group vulnerable to developments in this market*)). Any failure by the Group to reduce its portfolio of non-performing loans could negatively impact its ability to increase its new lending business.

In addition, as a result of the current economic environment, the quality of the Group's Cypriot loan portfolio may continue to decline, particularly because there is a limited number of high credit quality customers to whom banking services may be provided in the Group's target markets. Developments in the Bank's loan portfolio will be affected by, among other factors, the overall health of the Cypriot economy. The continuing decline in the quality of the Group's loan portfolio, in combination with past due loans, may limit its net interest income, and this could have a material adverse effect on its business, results of operations and financial condition.

2.3.11 A substantial increase in new provisions could adversely affect the Group's financial condition and results of operations.

In connection with its lending activities, the Group regularly establishes provisions for loan losses, which are recorded in its profit and loss account. The Group's overall level of provisions is based on its assessment of prior loss experience, the volume and type of lending being conducted, industry standards, past due loans, economic conditions and other factors related to the recoverability of various loans. As a result of deteriorating economic conditions or other causes it is possible that the Group's lending businesses may have to increase its provisions for loan losses substantially in the future. For a discussion of the Group's provisioning policies, see Section 3.12.3.2 (*Provisioning*).

Following the Comprehensive Assessment, which was fundamentally a prudential exercise, the SSM has requested the Group to review certain of its accounting estimates relating to provisions in light of the higher degree of conservatism applied in the AQR. If required, any such changes in estimates would be reflected in the Group’s financial statements for year 2014. Further, while the AQR and stress test did not show a capital shortfall for the Group after giving effect to the Capital Raising, in connection with the AQR, the SSM has requested the Bank to review certain of its accounting estimates, such as those relating to provisions, on a prospective basis. This may adversely affect the Bank's capital position and its financial results going forward.

2.3.12 Deteriorating asset valuations resulting from poor market conditions may adversely affect the Bank's future earnings and its capital adequacy.

An increase in financial market volatility or adverse changes in the marketability of the Bank's assets could impair its ability to value certain of its assets and exposures. The value ultimately realised by the Bank will depend on their fair value determined at that time and may be materially different from their current value. Any decrease in the value of such assets and exposures could require the Bank to realise additional impairment charges, which could adversely affect the Bank's financial condition and results of operations, as well as the Bank's capital.

The global economic slowdown and economic crisis in Cyprus from 2009 to the present day have resulted in an increase in past due loans and significant changes in the fair values of the Bank's financial assets. The sharp increase in unemployment during the economic crisis, which in the first nine months of 2014 averaged 15.9%, aggravated the situation, with mortgage delinquencies increasing further.

Adverse developments could be triggered by any further significant deterioration of global economic conditions, including the credit profile and ratings of Cyprus and other EU countries such as Ireland, Portugal, Greece and Spain or international banks. Any of these events may give rise to concerns regarding the ability of Cyprus to meet its funding needs. These developments could:

- further directly impact the impairment losses for receivables relating to Cyprus;
- severely affect the Bank's ability to raise capital and meet minimum regulatory capital requirements; and
- severely limit the Bank's ability to access liquidity.

A continued decline in the Cypriot economy, or a deterioration of economic conditions in any industry in which the Bank's borrowers operate or in the market of the collateral, may result in the value of collateral falling below the outstanding principal balance for some loans, particularly those disbursed in the years prior to the crisis. A decline in the value of collateral, or the Bank's inability to obtain additional collateral, may require the Bank to establish additional provisions for loan losses.

2.3.13 The Bank is exposed, as a counterparty, to risks potentially faced by other financial institutions as well as the risk that its ability to enter into transactions with other financial institutions may be limited by its current credit rating and risk profile.

The Bank routinely transacts with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks and other institutional clients. Sovereign credit pressures may weigh on Cypriot financial institutions, limiting their funding operations and weakening their capital adequacy by reducing the market value of their sovereign and other fixed income holdings. These liquidity and capital concerns have negatively impacted inter-institutional financial transactions in general. In particular, as a Cypriot financial institution, the Bank's ability to enter into what would have been routine transactions with international counterparties has been negatively affected as a result of these counterparties' concerns as to the credit risk they would be taking with respect to the Bank. While credit market conditions have improved in the last few months and most of the counterparties have reopened lines of credit with the Bank, the risk remains that the credit situation may deteriorate as a result of deterioration in the sovereign credit outlook and the credit outlook for Cypriot financial institutions. In addition, the Bank's current credit rating and risk profile has led to the Bank having to provide higher amounts of collateral, particularly cash collateral, to secure its transactions with international counterparties. This has had, and may continue to have, a negative impact on the Bank's ability to hedge its foreign currency and other market risk exposures and to manage its liquidity reserves.

In addition, many of the transactions into which the Bank enters expose it to significant credit risk in the event of default by one of its significant counterparties. A default by a significant financial counterparty, or liquidity problems in the financial services industry in general, could have a material adverse effect on the Group's business, financial condition and results of operations.

2.3.14 Risk of fluctuation of prevailing share and other securities prices.

The risk of fluctuations in the market price of shares and other traded securities arises from adverse changes in the prices of securities (mainly equity and bond securities) held by the Group. Changes in the prices of equity securities that are classified as investments at fair value through profit and loss, affect the profit of the Group, whereas changes in the value of equity securities classified as "available for sale" affect the equity of the Group. 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. The Group invests a significant part of its liquid assets in debt securities issued mostly by governments, particularly the debt securities issued by the Government. As of 30 June 2014, the Group had a €2.8 billion portfolio of Cyprus government bonds. Changes in the prices of debt securities classified as investments at fair value through profit and loss, affect the profit of the Group, whereas changes in the value of debt securities classified as "available for sale" affect the equity of the Group (assuming no impairment).

In addition, the Group's insurance and investment businesses are subject to the risk of negative price adjustments in the value of shares and other securities held in their investment portfolios.

2.3.15 Volatility in interest rates and interest rate risk may negatively affect the Group's income and have other adverse consequences.

Interest rates are highly sensitive to many factors beyond the Group's control, including monetary policies and domestic and international economic and political conditions. There is a risk that future events, in view of the tight liquidity conditions in the domestic deposit market, may alter the interest rate environment.

Interest rate risk is the risk faced by the Group of a reduction of the fair value of future cash flows of a financial instrument because of changes in market interest rates. Interest rate risk arises as a result of timing differences on the repricing of assets and liabilities.

Changes in market interest rates may affect the interest rates the Bank charges on its interest-earning assets differently from the interest rates it pays on its interest-bearing liabilities. This difference could reduce the Group's net interest income. Since the majority of the Group's loan portfolio effectively re-prices within a year, rising interest rates may also result in an increase in the Group's allowance for the impairment of loans and advances to customers if customers cannot refinance in a higher interest rate environment. Further, an increase in interest rates may reduce the Group's clients' capacity to repay in the current economic circumstances, increasing the Group's non-performing loans. A decrease in interest rates may cause, among other things, loan prepayments and increased competition for deposits thus adversely affecting the Group's financial results.

Competitive pressures and/or fixed rates in existing loan commitments or loan facilities may restrict the Group's ability to increase interest rates in the event of an increase in lending interest rates.

Although the Group carries out hedges with the aim of minimising the risk of interest rate fluctuations via entering into derivative contracts, this hedging could be inadequate. As a result, changes in interest rates could have a material adverse impact on the business, financial condition and results of operations of the Group.

2.3.16 Changes in currency exchange rates may adversely affect the Group.

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. These fluctuations and the degree of volatility with respect thereto may affect earnings reported by the Group. Foreign exchange rate fluctuations expose the Group to risks that arise from transactions in foreign currency as well as changes in the value of the Group's assets and liabilities denominated in foreign currencies which may affect the Group's financial results and equity. Losses may also arise during the management of the Group's assets/liabilities and investments in foreign countries, particularly in relation to the Group's Russian bank subsidiary. Although the Group usually carries out hedges with the aim of minimising the risk of fluctuations in foreign exchange rates, such hedging could be inadequate. As a result, such fluctuations in foreign exchange rates may have a material effect on the business, financial condition and results of operations.

2.3.17 The Group's businesses are conducted in a highly competitive environment.

The general scarcity of wholesale funding since the onset of the economic crisis has led to a significant increase in competition for retail deposits in Cyprus. In particular, the Bank faces significant competition from both domestic banks and banks in general because, unlike the Bank, they were not subject to bail-in or resolution. By contrast, domestic cooperative credit institutions ("**CCIs**") were consolidated and recapitalised in accordance with the MoU and now represent increasing competition to the Bank in the retail and small and medium sized enterprise ("**SME**") markets. Some of the foreign banks operating in Cyprus have resources greater than that of the Bank's (in particular, many of the Greek banks have received financial support from the Greek government) and, in recent years, have refocused their operations to cater for domestic retail, SME and corporate clients as well as international clients. In addition, with respect to international clients, Cyprus as a country competes with other tax-friendly jurisdictions focused on the provision of financial services. The lifting of capital control measures currently restricting the transfer of funds outside of Cyprus could lead to customers of the Bank transferring their funds to other jurisdictions (see Section 2.3.4 (*A material decrease in funds available from customer deposits, particularly retail deposits, could impact the Group's funding and there can be no assurance that the lifting of capital controls in Cyprus will not result in an increase of deposit outflows from the Bank or the banking sector in Cyprus*)). Further, as the Bank has the ability to issue government guaranteed debt securities and holds government guaranteed debt securities originally issued by Laiki Bank, it is specifically prohibited under Cypriot law from engaging in any aggressive commercial strategies, including any advertising of the government support it is receiving against its competitors that do not receive the same government support. These competitive pressures on the Group may have an adverse effect on its business, financial condition and results of operations.

2.3.18 The Group could fail to attract or retain senior management or other key employees.

The Group relies on an experienced and qualified management team. The loss of the services of certain key employees, particularly to competitors, in circumstances where a suitable replacement cannot be found in a timely manner, and an inability to attract experienced and qualified employees may have a material adverse effect on its business, financial condition and results of operations.

The composition of the Board of Directors has changed significantly in each of the last two years. As a result of the Recapitalisation in 2013, new members were elected to the Board of Directors by the Bank's shareholders, a significant proportion of which were bailed-in depositors and other creditors of the Bank. Further, on 22 September 2014, in a letter to the Bank, the CBC requested that all members of the Board of Directors resign (with the possibility of re-election) effective as of the date of the annual general meeting (the "**AGM**") on 20 November 2014, in order to allow a new Board of Directors to be chosen by shareholders, including new shareholders following the Capital Raising. On 20 November 2014, the current Board of Directors was elected at the AGM, with one third of Directors scheduled to retire (subject to re-election) in each subsequent year. There can be no assurance that there will not be further significant changes to the composition of the Board of Directors of the Bank, which could have a material adverse impact on the Group.

Further, failure to manage trade union relationships effectively, including the renewal of a collective bargaining agreement with the union of bank employees, may result in disruption to the business and the Group's operations causing potential financial loss. Most of the Bank's employees are members of a union and any prolonged labour unrest could have a material adverse effect on the Bank's operations in Cyprus, either directly or indirectly (for example, on the willingness or ability of the Government to pass the necessary reforms to implement the EAP successfully).

2.3.19 Weaknesses or failures in the Group's financial reporting processes could significantly weaken the Group's ability to assess the financial performance of its business lines and quality of its credit portfolios.

The Group's financial reporting processes are complex and the Group relies on certain manual processes to consolidate its financial results. The manual nature of these processes increases the risk of accounting errors. The Group is also required to make fair value adjustments (for example, from the accounting treatment of the Group's absorption of Laiki Bank's operations as a result of the Laiki Transfer Decrees) and further manual adjustments (usually in relation to key judgments and estimates). Similarly, the production of the monthly management accounts requires the use of spreadsheets and templates to produce the consolidated Group results. Accordingly, the presentation of the financial information resulting from these processes may not be entirely representative of the underlying data used to produce it.

In addition, the quality of the underlying data entered into the Group's financial reporting and management information systems is dependent on processing and reporting accurately and efficiently a high volume of complex transactions across numerous and diverse products and services, in different currencies and subject to a number of different legal and regulatory regimes. Any weakness in these internal processes or systems or security could have an adverse effect on the Group's results, the reporting of such results, and on the ability to deliver appropriate customer outcomes during the affected period. In particular, any error or employee fraud with respect to the entry of the underlying data concerning the Group's loan portfolio (e.g. loan amounts, interest rate adjustments or dates of default) could impact the Group's ability to assess the quality of its loan portfolio accurately.

2.3.20 The Group is exposed to operational risk.

Operational risk corresponds to the risk of loss due to inadequate or failed internal processes or systems, human error or due to external events, whether deliberate, accidental or natural occurrences. Internal events include, but are not limited to, fraud by employees, clerical errors, record-keeping errors and information system malfunctions or manipulations. External events include floods, fires, earthquakes, riots or terrorist attacks, fraud by outsiders and equipment failures. As a general statement, any significant weaknesses or failures in a financial institution's internal processes and procedures, or any failure to identify and control these operational risks, could result in a material adverse effect on the institution's financial performance and reputation. For example, in February 2014, the CBR issued a report to the Group's Russian bank subsidiary, Uniastrum, which identified, amongst other things, certain deficiencies in Uniastrum's anti-money laundering and counter-terrorism financing ("**AML/CTF**") internal control procedures.

2.3.21 The Group is exposed to conduct risk.

Conduct risk corresponds to risks arising from the way in which the Group and its employees conduct themselves and includes matters such as how customers are treated, organizational culture (in particular, the way in which the Group's senior management affects the ethical conduct of employees), corporate governance, employee remuneration and conflicts of interest. The Group is also required to comply with certain conduct-of-business rules and the CSE's Fourth Edition (Amended) Code of Corporate Governance issued in April 2014 (the "**Corporate Governance Code**") and any failure to comply with these rules and the Corporate Governance Code could result in significant penalties. For example, following its investigations into the Bank concerning its exposure to Greek government bonds during 2013 and 2014, the Cyprus Securities and Exchange Commission ("**CySEC**") concluded, amongst other things, that the Bank had corporate governance deficiencies and imposed significant fines on the Bank (see Section 3.20.3 (*The Cyprus Securities and Exchange Commission Investigations*)). Any failure to identify and control these conduct risks could result in a material adverse effect on the Group's financial performance and reputation.

2.3.22 The Group is exposed to the risk of fraud and illegal activities.

Like all financial institutions, the Group is exposed to risks of fraud and other illegal activities, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects. The Group's risk management procedures may not be able to eliminate all cases of fraud. The Group is also subject to rules and regulations related to money laundering and terrorism financing. Compliance with anti-money laundering and anti-terrorist financing rules entails significant cost and effort. Non-compliance with these rules may have serious consequences, including adverse legal and reputational consequences. Although the Group has AML/CTF policies and procedures which aim to ensure compliance with applicable legislation, it may not be able to comply at all times with all rules applicable to money laundering and terrorism financing as extended to the whole Group and applied to its workers in all circumstances. For example, in February 2014, the CBR issued a report to the Group's Russian bank subsidiary, Uniastrum, which identified, amongst other things, certain deficiencies in Uniastrum's AML/CTF internal control procedures. As a general statement, a violation, or even any suspicion of a violation, of these rules may have serious legal and financial consequences, which could have a material adverse effect on a financial institution's business, reputation, financial condition, results of operations and prospects.

2.3.23 The Bank's information systems and networks have been, and will continue to be, vulnerable to an increasing risk of continually evolving cyber security or other technological risks.

A significant portion of the Bank's operations relies heavily on the secure processing, storage and transmission of confidential and other information as well as the monitoring of a large number of complex transactions on a continuous basis. The Bank stores an extensive amount of personal and client-specific information for its retail, corporate and governmental customers and clients and must accurately record and reflect their extensive account transactions. These activities have been, and will continue to be, subject to an increasing risk of cyber attacks, the nature of which is continually evolving.

The Bank's information technology systems, software and networks have been and will continue to be vulnerable to unauthorised access, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses or other malicious code, cyber attacks and other events.

These threats may derive from human error, fraud or malice on the part of employees or third parties, or may result from accidental technological failure. If one or more of these events occurs, it could result in the disclosure of confidential client or the Bank's information, damage to the Group's reputation with its clients and the market, additional costs to the Bank (such as for repairing systems or adding new personnel or protection technologies), regulatory penalties and financial losses to both the Bank and its clients. Such events could also cause interruptions or malfunctions in the operations of the Bank (such as the lack of availability of the Bank's online banking systems), as well as the operations of its clients, customers or other third parties. Given the volume of transactions at the Bank, certain errors or actions may be repeated or compounded before they are discovered and rectified, which would further increase these costs and consequences.

In addition, third parties with which the Bank conducts business under stringent contractual agreements may also be sources of cyber security or other technological risks. Although the Bank adopts a range of actions to reduce the exposure resulting from outsourcing, such as not allowing continuous third party access to the production systems and operating a highly controlled information technology environment, unauthorised access, loss or destruction of data or other cyber incidents could occur, resulting in similar costs and consequences to the Bank as those discussed above.

While the Bank maintains insurance coverage that may, subject to policy terms and conditions, cover certain aspects of cyber risks such as fraud and financial crime, such insurance coverage may be insufficient to cover all losses.

2.3.24 The Bank has significant exposures to subsidiaries of Laiki Bank.

As a result of the Bank's acquisition of certain assets and liabilities of Laiki Bank (see Section 3.3 (*Restructuring of the Bank and Laiki Bank*)), the Bank acquired Laiki Bank's funding exposures to Laiki Bank's bank and financial services subsidiaries in Romania, Serbia, Ukraine and Greece. Although the Bank has no obligation to fund these subsidiaries, the ability of these subsidiaries to repay the Bank is subject to the risks associated with being subsidiaries of a parent bank under resolution. These risks include the potential nationalisation or restructuring of these subsidiaries and the economic and political risks associated with jurisdictions in which they operate (see Section 2.2.3 (*The Group's operations and assets in Russia, Ukraine and Romania have been, and may continue to be, adversely affected by recent economic and political events.*)).

As of 30 June 2014, the Bank's total net exposure (net of the fair value adjustment on initial recognition and of subsequent impairment) to subsidiaries of Laiki Bank was €332.2 million, a small portion of which is in the form of subordinated debt. Any inability of these subsidiaries to repay the Bank could have a significant negative effect on the Group's liquidity, capital and funding positions.

2.3.25 The Group may face challenges in continuing to improve its operational efficiency.

In 2013, the Group acquired certain assets and liabilities of Laiki Bank, which is discussed in Section 3.3 (*Restructuring of the Bank and Laiki Bank*). Since then, the Group has integrated the operations of Laiki Bank into its own, including integrating information technology systems, branches and personnel. In order to improve its operational efficiency after the absorption of the domestic operations of Laiki Bank, the Bank has rationalised its branch network and proceeded with a voluntary retirement scheme ("**VRS**") for its employees in Cyprus, the cost of which amounted to €120.6 million in 2013. In line with the Restructuring Plan, the Group will need to continue reducing its operating expenses in order to improve its operational efficiency and, in turn, its net profits and there can be no assurance that the Group will be able to do so or to do so without incurring further and significant one-off expenditures or requiring the allocation of management and other resources away from daily operations. The Group's failure to continue improving its operational efficiency while at the same time maintaining adequate focus on its current operations could have a material adverse effect on its business, financial condition and results of operations.

2.3.26 The Group is exposed to insurance and reinsurance risks.

Insurance risk is the risk that an insured event under an insurance contract occurs and the Group's insurance subsidiaries will be obligated to pay an uncertain amount for the claim at an uncertain time. By the very nature of an insurance contract, this risk is volatile and therefore unpredictable.

For a portfolio of life insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that EuroLife Ltd ("**Eurolife**"), the Group's life insurance subsidiary, faces under life 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 are greater than estimated. Insurance events are unpredictable and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

The risk of a general insurance contract derives from the uncertainty of the amount and time of presentation of the claim. Therefore, the level of risk is determined by the frequency of such claims, the severity and the evolution of claims from one period to the next. The main risks for the general insurance business arise from major catastrophic events like natural disasters which are unpredictable both in terms of occurrence and scale.

In addition, although reinsurance arrangements mitigate insurance risk, the Group's insurance subsidiaries are not completely relieved of their direct obligations to their policyholders and a credit exposure exists to the extent that any reinsurer is unable to meet its contractual obligations.

2.3.27 The way in which the banking sector in Cyprus operates differs in certain significant respects from the way the banking sectors in other countries may operate.

The banking sector in Cyprus operates in a way which is different in certain significant respects from the way that other banking sectors in other countries may operate. Some of these differences increase the risks of lending in Cyprus, such as the complex cross-collateralisation of loans and the incomplete nature of credit histories that can currently be obtained from the Cyprus credit bureau. For more detail on these operational differences, see Section 3.22.1.2 (*Key Operational Features of the Banking Sector in Cyprus*).

2.4 Regulatory and Legal Risks

2.4.1 The Group is exposed to various forms of legal risk, particularly in relation to the mis-selling of Euro Capital Securities issued by the Bank, the bail-in of shareholders, uninsured depositors and other creditors of the Bank pursuant to its recapitalisation from March to July 2013 and regulatory investigations.

The Group may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Legal risk arises from pending or potential legal proceedings against the Group which may result in expenses incurred by the Group. In particular, a significant number of legal proceedings and investigations have been brought against the Bank in relation to the mis-selling to retail investors in Greece and Cyprus of certain capital securities issued by the Bank and the bail-in of shareholders, uninsured depositors and other creditors of the Bank pursuant to the Recapitalisation from March to July 2013. In addition, the Bank is under a number of investigations by CySEC and the Hellenic Capital Markets Commission ("**HCMC**") and there is a risk that the outcome or conclusions of these investigations could result in an increase in legal claims brought against the Bank. If the Group is unsuccessful in defending itself against these claims or appealing against the fines and penalties being imposed on it, these claims could have a material adverse impact on its financial condition and reputation. For a discussion of these mis-selling and bail-in proceedings, the CySEC and HCMC investigations and certain other legal proceedings to which the Group is a party, see Section 3.20 (*Litigation and Related Matters*).

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 a negative impact on the reputation of the Group. All these events may disrupt the operations of the Group, possibly reducing the Group's equity and profits.

2.4.2 Legislative action and regulatory measures in response to the global financial crisis may materially impact the Bank and the financial and economic environment in which it operates.

Legislation and regulations have recently been enacted or proposed with a view to introducing a number of changes in the global financial environment. While the objective of these new measures is to avoid a recurrence of the global financial crisis, the impact of the new measures could be to change substantially the environment in which the Bank and other financial institutions operate.

The measures that have been or may be adopted include more stringent capital and liquidity requirements (particularly for large global institutions and groups such as the Bank), taxes on financial transactions, limits or taxes on employee compensation over specified levels, limits on the types of activities that commercial banks can undertake (particularly proprietary trading and investment and ownership in private equity funds and hedge funds) or new ring-fencing requirements relating to certain activities, restrictions on certain types of financial activities or products such as derivatives, mandatory write-down or conversion into equity of certain debt instruments, enhanced recovery and resolution regimes, revised risk-weighting methodologies (particularly with respect to insurance businesses) and the creation of new and strengthened regulatory bodies, including the assignment to the ECB of a supervisory role for all banks in the Eurozone area (referred to as the SSM). Some of the new measures are proposals that are under discussion and that are subject to revision and interpretation, and need adapting to each country's framework by national regulators. For example, changes in law to address tax compliance issues such as compliance with Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**") may increase the Group's compliance costs. The Bank cannot predict the effect of any such changes on its business, financial condition, cash flows or future prospects.

The general political environment has evolved unfavourably for banks and the financial industry, resulting in additional pressure on the part of legislative and regulatory bodies to adopt more stringent regulatory measures, despite the fact that these measures can have adverse consequences on lending and other financial activities, and on the economy. Because of the continuing uncertainty regarding the new legislative and regulatory measures, it is not possible to predict what impact they will have on the Bank.

2.4.3 Regulatory action in the event of a bank failure could materially adversely affect the Group and the value of securities issued by the Bank.

In 2013, the Resolution of Credit and other Institutions Law of 2013 (as amended, the "**Resolution Law**") was enacted to provide a regime to allow the Resolution Authority to resolve failing banks in Cyprus. As a result of amendments made to the Resolution Law in August 2013, the Resolution Authority is currently comprised of the Cypriot Minister of Finance, the CBC and the chairman of the board of CySEC.

Under the Resolution Law, the Resolution Authority is provided with wide powers, including:

- the power to write down capital instruments and eligible liabilities of a financial institution and/or the power to restructure or convert them into ordinary shares (so called "bail-in");
- the power to direct the sale of the relevant financial institution or the whole or part of its business on commercial terms without requiring the consent of the shareholders or complying with the procedural requirements that would otherwise apply;
- the power to transfer all or part of the business of the relevant financial institution to a "bridge bank"; and
- the power to transfer the impaired or problem assets of the relevant financial institution to an asset management vehicle to allow them to be managed over time.

In addition, further amendments to the Resolution Law were passed on 20 June 2014 as a result of the review of the effectiveness of the Resolution Authority conducted by the Government, in consultation with the Troika, in March 2014. These amendments include:

- a change in the composition of the "Resolution Authority" so that it will be comprised of the Governor of the CBC together with the appointed executive directors of the CBC;
- the requirement for the consent of the Cypriot Minister of Finance for any decision which may affect the Cypriot economy or is of a systemic nature; and
- additional powers to be granted to the Resolution Authority for the collection of information, the imposition of fines and imposition of specific criminal sanctions.

In addition to these amendments, which increase the powers of the Resolution Authority under the Resolution Law, there is a risk that further amendments may be made in the future.

The Resolution Law contains general principles in the context of the adoption and implementation of resolution measures which include the principle that the shareholders of a bank should be the first to bear any losses resulting from the implementation of the resolution measures and the creditors of a bank under resolution should bear losses after shareholders. The Resolution Law powers apply regardless of any contractual restrictions. Although the Resolution Law does provide that there should be appropriate protection of security, title transfer financial collateral and set-off and netting arrangements, the form of such protection is subject to (a) the Resolution Law's provision that the implementation of any resolution measures shall not activate, amongst other things (i) any contractual clause or statutory provision that would be activated in case of bankruptcy or insolvency or upon the occurrence of another event, which may qualify as a credit event or an event equivalent to insolvency, or (ii) the rights, contractual or statutory, of secured creditors of the bank concerned over assets and rights used as a collateral for their claims against the bank and (b) any transfer of securities, assets, rights or liabilities to another legal entity by the Resolution Authority in exercise of its powers under the Resolution Law. Further, any member state of the European Union which has nationally implemented Directive 2001/24/EC on the reorganisation and winding up of credit institutions (the "**CIWUD**") is likely to recognise resolution measures taken by the Resolution Authority under the Resolution Law with respect to any credit institution for which Cyprus is its home member state.

In March 2013, both the Bank and Laiki Bank were placed under resolution by the Resolution Authority under the Resolution Law. For a discussion of the resolution of Laiki Bank and the Bank, see Section 3.3 (*Restructuring of the Bank and Laiki Bank*). Both the Bank's and Laiki Bank's shareholders and unsecured creditors suffered losses as a result of these resolution measures. Accordingly, should the Resolution Authority determine that the Bank is no longer viable or is likely to be no longer viable, further resolution measures may be imposed on the Bank and any such measures would have a material adverse impact on the Bank, including its shareholders and unsecured creditors.

2.4.4 The Restructuring Plan agreed with the CBC restricts certain actions of the Group.

The Restructuring Plan was approved by the CBC in November 2013 and, in providing its approval of the Restructuring Plan, the CBC imposed a number of restrictions on the Group, including a prohibition on the distribution of dividends and the payment of bonuses during the period covered by the plan and a requirement to obtain the prior approval of the CBC before providing capital or funding to overseas subsidiaries or selling assets. These restrictions may prevent the Group from undertaking actions that are otherwise in the best interests of the Group. In addition, in accordance with the MoU, the CBC intends to complete, by the end of February 2015, a technical assessment of the Group's Restructuring Plan with the aim of identifying areas that require further strengthening and review. If the CBC imposes additional requirements or restrictions in relation to the Restructuring Plan, the Bank's business, financial condition or results of operations could be adversely affected. For a more detailed discussion of the Restructuring Plan, see Section 3.5.4 (*Strategy*).

2.4.5 The Group's business and operations are subject to substantial regulation and supervision and can be negatively affected by its non-compliance with certain existing regulatory requirements and any adverse regulatory and governmental developments.

The Group conducts its businesses subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations. This is particularly the case in the current market environment, which is experiencing increased levels of government and regulatory intervention in the financial sector, which the Group expects to continue for the foreseeable future. Future changes in regulation, fiscal or other policies are unpredictable and beyond the control of the Group and could materially adversely affect the Group's business, financial condition and results of operations.

In particular, the CBC has recently issued, at the end of 2013 and in 2014, a number of new directives which have negatively impacted the Bank's ability to originate new loans and imposed new requirements and processes in terms of its management of non-performing loans. See also Section 2.4.6 (*The Bank is subject to certain regulatory and legal constraints in originating new loans, managing existing loans and foreclosing on collateral*). One of these new directives is the consolidated Directives on Arrears Management of 2013 and 2014 issued by the CBC (the "**Arrears Management Directive**") and, as of the date of this Prospectus, the Bank is still in the process of implementing some of the technical requirements of the Arrears Management Directive. Although the Bank is engaged with the CBC with respect to its implementation of the requirements under the Arrears Management Directive, there can be no assurance that the CBC will not impose fines or other penalties on the Bank for non-compliance.

In addition, during the first quarter of 2013, a comprehensive review was commissioned by the Government and the Troika of the effectiveness of Cyprus's anti-money laundering regime (the "**AML Review**"). Further, in accordance with the AML action plan on customer due diligence and entity transparency as set out in the MoU, the CBC has recently commenced its onsite inspections of banks in Cyprus to test for compliance with the provisions of its Directive on the Prevention of Money Laundering and Terrorism Financing issued in December 2013. It is expected that the CBC will commence its audit of the Bank later in 2014. There is a risk that financial or other penalties could be imposed on, and/or published in relation to, the Bank as a result of this audit or the AML Review.

In August 2014, the CBC issued the Directive on Governance and Management Arrangements in Credit Institutions (the "**Governance Directive**"), which imposes new rules on credit institutions operating in Cyprus and may require the Bank to make additional changes to its existing governance structure and operations.

The Group's operations are contingent upon licences issued by financial authorities in the countries in which the Group operates. Violations of rules and regulations, whether intentional or unintentional, may lead to the withdrawal of some of the Group's licences or the imposition of financial or other penalties. The imposition of significant penalties or the revocation of licences for members of the Group could have a material adverse effect on the Group's reputation, business, results of operations or financial condition.

The Bank is subject to supervision by the CBC regarding, among other things, capital adequacy, liquidity and solvency. Certain of the Group's subsidiaries and operations are subject to the supervision of other local supervisory authorities. Increased regulatory intervention may lead to requests from regulators to carry out wide-ranging reviews of past sales and/or sales practices. The Group is unable to predict what regulatory changes may be imposed in the future as a result of regulatory initiatives in the EU and elsewhere or by the CBC and other supervisory authorities. If the Group is required to make additional provisions or to increase its reserves as a result of potential regulatory changes, this could adversely affect the results of operations of the Group. In addition, failure by the Group to comply with regulatory requirements could result in significant penalties. For example, the Bank is currently not in compliance with its regulatory liquidity requirements in Cyprus. For more detail on these regulatory liquidity requirements, see Section 3.11.2 (*Liquidity Ratios*).

The Group is also subject to EU regulations with direct applicability and to EU directives which are adopted by the European Economic Area Member States and implemented through local laws. For example, on 16

August 2012, the European Market Infrastructure Regulation (Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012) ("**EMIR**") came into force. EMIR introduces certain requirements in respect of derivative contracts, which apply primarily to financial counterparties, such as investment firms, credit institutions and insurance companies. The Bank is classified as a financial counterparty under EMIR. Broadly, EMIR's requirements in respect of derivative contracts, as they apply to financial counterparties, are (i) mandatory clearing of over-the-counter ("**OTC**") derivative contracts declared subject to the clearing obligation through an authorised or recognised central counterparty; (ii) risk mitigation techniques in respect of uncleared OTC derivative contracts; and (iii) reporting and record-keeping requirements in respect of all derivative contracts. Accordingly, the introduction of EMIR is likely to increase the costs of transacting OTC derivative contracts for the Group. In addition, MiFID II and MiFIR could also require the implementation of additional compliance and other processes which could result in increased costs for the Group. MiFID II and MiFIR will also need to be supplemented by delegated acts and technical standards and, therefore, the scope of the final regulations and their impact on the Group remains unclear.

In addition, on 20 December 2013, the Committee of Permanent Representatives published the final approved informal text agreed between the Council of the EU, the European Parliament and the European Commission for Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012 (the "**BRRD**"). The BRRD was approved by the European Parliament and the Council of the EU on 15 April 2014 and 6 May 2014, respectively, and entered into force on 2 July 2014 (the 20th day following its publication in the Official Journal of the EU on 12 June 2014). The stated aim of the BRRD is to provide supervisory authorities, including the relevant Cypriot resolution authority, with common tools and powers to address banking crises pre-emptively in order to ensure the continuity of the institution's critical financial and economic functions whilst safeguarding financial stability and minimising taxpayers' exposure to losses.

Going forward, the BRRD is also likely to have an impact on how large a capital buffer a bank will need, in addition to those set out in the CRR and CRD IV. To ensure that banks always have sufficient loss-absorbing capacity, the BRRD provides for national resolution authorities to set minimum requirements for own funds and eligible liabilities for each institution, based on, amongst other criteria, its size, risk and business model. The national resolution authorities will also have powers to request changes in the structure and operations of financial institutions, if such changes are deemed necessary, in order to ensure these institutions are resolvable, in case they become non-viable. The powers granted to supervisory authorities under the BRRD include (but are not limited to) the introduction of a statutory "write-down and conversion power" and a "bail-in" power, which, if implemented into Cypriot law as currently envisaged, should give the relevant Cypriot resolution authority the power to cancel all or a portion of the principal amount of, or interest on, certain unsecured liabilities of a failing financial institution and/or to convert certain debt claims into another security, including ordinary shares of the surviving entity, if any. It is expected that the Resolution Law will be further amended in due course to reflect the provisions of the BRRD (see Section 3.22.3.10 (*Resolution Law*)). The majority of measures set out in the BRRD will need to be implemented with effect from 1 January 2015, with the bail-in power to apply from 1 January 2016 at the latest. In addition to a "write-down and conversion power" and a "bail-in" power, the powers to be granted to the resolution authorities under the BRRD include the power to (i) direct the sale of the relevant financial institution or the whole or part of its business on commercial terms without requiring the consent of the shareholders or complying with the procedural requirements that would otherwise apply, (ii) transfer all or part of the business of the relevant financial institution to a "bridge bank" (a publicly controlled entity), (iii) transfer the impaired or problem assets of the relevant financial institution to an asset management vehicle to allow them to be managed over time and (iv) to write down the claims of unsecured creditors of a failing institution and convert debt claims to equity. In addition, among the broader powers to be granted to the relevant resolution authority under the BRRD is the power to amend the maturity date and/or any interest payment date of debt instruments or other eligible liabilities of the relevant financial institution and/or impose a temporary suspension of payments. The BRRD contains safeguards for shareholders and creditors in respect of the application of the "write-down and conversion" and "bail-in" powers which aim to ensure that they do not incur greater losses than they would have incurred had the relevant financial institution been wound up under normal insolvency proceedings.

Until fully implemented, it is not possible to assess the full impact of the BRRD on the Group, and there can be no assurance that, once it is implemented, the manner in which it is implemented or the taking of any actions by the relevant resolution authority contemplated in the BRRD would not adversely affect the Group.

In addition, the failure of the Group to effectively comply with requirements to manage regulatory risks could have a material adverse effect on the Group's business, financial condition and results of operations.

2.4.6 The Bank is subject to certain regulatory and legal constraints in originating new loans, managing existing loans and foreclosing on collateral.

As part of its restructuring of the financial sector of Cyprus, the CBC recently issued, at the end of 2013 and in the first quarter of 2014:

- the Loan Origination Directive which, amongst other things, has significantly increased the amount of data required from both borrowers and guarantors in relation to their financial history regardless of loan amount.
- the Arrears Management Directive which, amongst other things, sets out a code of conduct (including an appeals process) for dealing with borrowers who are in default and parameters for cooperation between banks in relation to borrowers who have borrowed from multiple banks.
- the NPL Directive which sets out loan provisioning requirements and procedures in relation to non-performing loans ("**NPLs**").

For more detail on these directives, see Section 3.22.3.11 (*CBC Credit Risk Directives*).

These directives impose significant constraints on the Bank's ability to originate new loans and new requirements and processes in terms of its management of non-performing loans. In addition, certain of the Bank's borrowers, such as individuals and SMEs, may have few or no other sources of income, thereby restricting their restructuring options.

Where the Bank is required to foreclose on collateral securing its loans, the legal system in Cyprus was less favourable to lenders with respect to foreclosure and the legal framework for insolvency proceedings than in many other jurisdictions, making foreclosure and insolvency proceedings more lengthy and costly. For example, insolvency proceedings (including the actual liquidation process) could typically take up to eight years as there are multiple legal and administrative hurdles which can be used by any affected party to delay or contest these proceedings. In addition, foreclosures of immovable property could only be implemented through the land registry department of the Government and would typically take five to 13 years to complete. Under the terms of the MoU, the Government committed to (i) remove all legal, administrative or other hurdles constraining the seizure and sale of loan collateral, (ii) prepare a comprehensive reform framework which establishes appropriate corporate and personal insolvency procedures and (iii) amend the legal framework in relation to foreclosures and forced sales of mortgage property to allow for private auctions to be conducted by mortgage creditors without interference from government agencies. Further, under the terms of the MoU, it is also clear that additional protections will be provided with respect to mortgaged properties which are primary residences.

In September 2014, a new foreclosure law (the Transfer and Mortgage of Immovable Property Law (Amending) (No 4) Law of 2014) (the "**Foreclosure Law**") was approved by the Cypriot Parliament. The Foreclosure Law is intended to comply with the MoU policy reforms and to ensure that the foreclosure process is effective and provides adequate and balanced incentives for borrowers and lenders to restructure troubled loans. However, opposition political parties, acting together, were able to pass a series of separate supplementary bills intended to provide additional protections to borrowers that could potentially conflict with the main objectives of the Foreclosure Law. One such bill releases mortgagors from their obligation to pay the balance between the proceeds of sale of the mortgaged property and the amount of the debt. Another bill, provides additional protection to small business property owners from re-possession.

Four of the supplementary bills were referred to the Supreme Court of Cyprus (the "**Supreme Court**") by the Cypriot President for a ruling on their constitutionality, and, on 31 October 2014, the Supreme Court unanimously held that the four supplementary bills were unconstitutional. In addition, the Cypriot President declined to sign into law two supplementary bills, which were, accordingly, sent back to the Cypriot Parliament for further consideration. One supplementary bill has been withdrawn by the Cypriot Parliament and referred to the ECB for its consideration. However, the other supplementary bill was re-confirmed with amendments, sent back to the Cypriot President for his approval and finally enacted into law in October 2014. Since the Foreclosure Law and the supplementary laws passed by the Cypriot Parliament have only come into effect recently, the impact of these laws from an operational and procedural perspective is highly uncertain. For additional information on the status of amendments to foreclosure legislation, see Section 3.22.3.21 (*Laws Relating to Foreclosures*).

In addition, although legislative proposals for the reform of Cyprus' insolvency framework have been made, certain political parties in Cyprus are claiming that the implementation of the foreclosure law reforms should be delayed until the implementation of the insolvency framework reforms and may also seek to delay or implement changes to the insolvency framework reforms which are not in line with the MoU's objectives. Accordingly, there is a risk that the Troika could still delay and/or withhold the next tranche of funds from the ESM and IMF until the insolvency framework reforms are passed and the Troika is satisfied that these reforms are in line with the MoU's objectives and do not negatively impact the foreclosure law reforms (see Section 2.1.2 (*The implementation, conditions and requirements of the MoU entered into between Cyprus and the Troika, and any government actions aimed at alleviating the economic crisis, are uncertain and may create adverse results or have an adverse effect on the Bank*)).

2.4.7 Changes in consumer protection laws might limit the fees that the Group charges in certain banking transactions.

Changes in consumer protection laws in the jurisdictions where the Group has operations could limit the fees that banks can charge for certain products and services such as mortgages, unsecured loans and credit cards. For example, The Liberalisation of Interest Rates and Related Matters (Amending) Law of 2014, passed by the Cypriot Parliament in September 2014, renders void and unenforceable certain terms in agreements relating to the payment of interest in credit facilities and prohibits default interest being charged in such agreements above 2%. For more detail on this law, see Section 3.22.3.18 (*Interest Rates*). If additional legislation is introduced, such laws could reduce the Group's profit for the period, although the amount of any such reduction cannot be estimated with any accuracy at this time. In addition, Regulation (EC) No 2560/2001 on cross-border payments in euro laid the foundations of the single euro payments area ("**SEPA**") policy by establishing the principle that banks are not permitted to impose different charges for domestic and cross-border payments or automated teller machine withdrawals within the EU. Accordingly, the Group's ability to increase its fees and charges with respect to the products and services concerned is limited and this could have an adverse effect on the Group's business, results of operations and financial condition. Generally, see Section 3.22.3.13 (*Consumer Protection*).

2.4.8 The results of litigation in which the Bank is not a party may have adverse consequences for the Bank.

Judicial and regulatory decisions that are unfavourable to other banks or related parties may also have implications for the Group, even in cases in which the Group is not a part of the proceedings. This could occur in cases where the contractual practices or clauses in question are in common use throughout the sector and are interpreted against the relevant bank. For example, decisions that have an impact on clauses in general terms and conditions or schedules for repayment of loans could affect the whole sector. This could also be the case in a decision that depends on the special circumstances of an individual case, where its result is used by third parties against the Group. The Bank may, as a consequence, be forced to change its practices or to pay compensation to avoid damage to its reputation. Further, certain depositors and shareholders of the Bank have commenced an action against the Council of the European Union, the Eurogroup, the European Commission and the ECB seeking compensation for damages allegedly suffered as a result of the recapitalisation of the Bank on the basis that the relevant decrees effecting the bail-in violated their right to property. Although the Bank is not named in the action, any determination in favour of the claimants could result in a material increase in legal proceedings brought against the Bank in connection with the bail-in effected pursuant to its recapitalisation from March to July 2013. Accordingly, these judicial and regulatory decisions may have a substantial adverse impact on the financial condition or operating results of the Group.

2.4.9 The Group is exposed to tax risk and failure to manage such risk may have an adverse impact on the Group.

Tax risk is the risk associated with changes in taxation rates or law, or misinterpretation of the law. This could result in an increase in tax charges or the creation of additional tax liabilities. Failure to manage the risks associated with changes in the taxation rates or law, or misinterpretation of the law, could materially and adversely affect the Group's business, financial condition and results of operations.

In addition, in line with the MoU, the Government has amended Cyprus' tax legislation in order to increase its tax revenues. These amendments include an increase of the corporate tax rate from 10% to 12.5%, the immovable property tax rates as of 1 January 2013 and the special levy paid by banking institutions on deposits. Amendments to the MoU are negotiated and agreed between the Government and the Troika from time to time and, accordingly, there is a risk that further additional taxes could be imposed which may have a material adverse effect on the Group's business, financial condition and results of operations.

2.5 Risks relating to the Ordinary Shares

2.5.1 There has recently been no active trading market for the Ordinary Shares, and an active trading market may not develop or be sustained in the future.

Only 0.2% of the Bank's total issued share capital is admitted for listing on the main market of the CSE and ATHEX and the Bank's Listed Shares are currently suspended from trading on both stock exchanges. Accordingly, there is no liquid market for the Ordinary Shares. Even if the Relevant Shares Application and the Retail Shares Application are successful, there can be no assurance that an active trading market for the Ordinary Shares will develop or, if developed, be sustained following First Admission or Second Admission, as applicable. If an active trading market is not developed or maintained, the liquidity and trading price of the Ordinary Shares could be adversely affected.

2.5.2 The price of the Ordinary Shares could be highly volatile.

The value of an investment in the Ordinary Shares may decrease or increase abruptly, and such volatility may bear little or no relation to the Group's performance. The price of the Ordinary Shares may fall in response to market appraisal of the Group's strategy or if the Group's results of operations and/or prospects are below the expectations of market analysts or shareholders. In addition, stock markets have, from time to time, experienced significant price and volume fluctuations that have affected the market price of securities, and may, in the future, experience similar fluctuations which may be unrelated to the Group's operating performance and prospects but nevertheless affect the price of the Ordinary Shares. Other factors which may affect the price of the Ordinary Shares include but are not limited to:

- differences between the Group's expected and actual operating performance;
- cyclical fluctuations in the performance of the Group's business and the financial services sector in general;

- speculation, whether or not well-founded, regarding the intentions of the Group's major shareholders or significant sales of shares by any such Shareholders or short-selling of the Ordinary Shares;
- speculation, whether or not well-founded, about significant issues of shares by the Group;
- speculation, whether or not well-founded, regarding possible changes in the Group's management team;
- the publication of research reports by analysts;
- strategic actions by the Group or its competitors, such as mergers, acquisitions, divestitures, partnerships and restructurings;
- speculation, whether or not well-founded, about the Group's business, about mergers or acquisitions involving the Group and/or major divestments by the Group in the press, media or investment community; and
- general market conditions and regulatory changes.

Any significant sales of the Ordinary Shares following the resumption of trading would adversely affect the price of the Ordinary Shares and make it difficult for the Bank to raise CET 1 capital should it need to do so to meet regulatory requirements.

In addition, as a result of the Recapitalisation in 2013, Bail-in Shares, which are Ordinary Shares issued to bailed in holders of uninsured conventional cash deposits, capital guaranteed structured deposit products, investment products and *schuldschein* loans (the "**Bail-in Shares**"), constitute 43.4% of the Bank's share capital as of the date of this Prospectus. It is not known how many of these shareholders will seek to sell their Ordinary Shares if and when trading resumes.

2.5.3 The interests of Laiki Bank's special administrator may not be aligned with those of other shareholders.

Pursuant to the provisions of the Laiki Transfer Decrees, Laiki Bank was granted ordinary shares representing 18.1% and 9.624% of the share capital of the Bank as of 30 July 2013 and as of the date of this Prospectus, respectively, and accordingly currently is the Bank's single largest shareholder. Laiki Bank remains under resolution and the administration of the Ordinary Shares held by it is in the hands of the Resolution Authority. According to the MoU, the Resolution Authority has instructed Laiki Bank's special administrator to appoint a well-recognised and independent consulting or auditing firm or international institution to be entrusted with the voting rights associated with the Ordinary Shares held by Laiki Bank. It is expected that these Ordinary Shares will be sold with a view to maximizing returns for Laiki Bank's creditors. The Bank will not be able to control to whom these Ordinary Shares are sold and cannot prevent them from being sold to an investor whose interests are adverse to the Bank's other holders of equity or debt securities.

2.5.4 Investors' rights as shareholders will be governed by Cypriot law, which may differ from the rights of shareholders under the laws of other countries.

The rights of the Bank's shareholders are governed by the Bank's Articles and Cypriot corporate and securities laws, regardless of the national law applicable to any shareholder. The ability of shareholders to bring claims against the Bank, its officers and directors under foreign laws and the ability of shareholders to enforce, in the Cypriot courts, judgments obtained in foreign jurisdictions which are neither members of the EU nor party to any bilateral or multilateral conventions on the recognition and enforcement of foreign judgments to which Cyprus is a party are limited. In addition, whenever a pleading relating to the information contained in this Prospectus is submitted before a court, pursuant to the internal legislation of the relevant jurisdiction, investors may have to bear the costs of translating this Prospectus before the judicial proceedings are initiated. Under Cypriot law, shareholders may seek to invalidate resolutions of a company's corporate bodies that breach the company's articles of association or applicable law. Such actions could be taken, for example, in connection with resolutions adopted with respect to the payment of dividends, share capital increases or reductions and any other amendments to the articles of association or the spin-off or merger of the company.

2.5.5 The Bank does not expect to pay dividends on the Ordinary Shares during the period of the Restructuring Plan.

The Bank does not expect to distribute dividends during the period of the Restructuring Plan. Any distribution of dividends would be assessed internally and by the CBC against the Group's CET 1 ratio and the need to retain earnings. In addition, the CBC has imposed a prohibition on the distribution of dividends as a condition to its approval of the Restructuring Plan. Further, the Bank's ability to pay dividends following the Restructuring Plan period will depend on its financial condition at that time and, therefore, there can be no assurance that the Bank will be able to pay dividends once the Restructuring Plan period has ended.

2.5.6 The existing capital control measures in Cyprus may restrict a shareholders' ability to move out of Cyprus any cash proceeds from the sale of Ordinary Shares or any share dividends that could be distributed in the future.

The Ministry of Finance of Cyprus has imposed capital controls measures in Cyprus which currently restrict, amongst other things, the movement of funds outside of Cyprus (see Section 3.22.3.9 (*Capital Control Measures*)). So long as these capital controls remain in place, shareholders of the Bank may be restricted in their ability to move cash proceeds from any sale of Ordinary Shares conducted in Cyprus (any movement of funds related to sales of Ordinary Shares which are conducted outside of Cyprus would not be restricted by these capital controls). In addition, although the Bank does not expect to distribute dividends in the near or medium term (see Section 2.5.5 (*The Bank does not expect to pay dividends on the Ordinary Shares during the period of the Restructuring Plan*)), should the Bank be in a position to distribute dividends in the future, a shareholder of the Bank may be restricted in its ability to move them out of Cyprus if the capital control measures are still in place at that time.

2.5.7 Shareholders whose principal currency is not euro may be subject to exchange rate risk.

The Ordinary Shares are denominated in euro and will be traded on the main market of the CSE and ATHEX in euro. Any dividends to be paid in respect of the Ordinary Shares are expected to be denominated in euro. Accordingly, any investor whose principal currency is not euro is exposed to foreign currency exchange rate risk, which may reduce the value of the Ordinary Shares as well as that of any dividends paid by the Bank.

3 REGISTRATION DOCUMENT

3.1 INFORMATION ON THE DRAFTING OF THE PROSPECTUS – PERSONS RESPONSIBLE

This Prospectus has been drafted in accordance with the relevant legislation. The Prospectus has been approved by the Cyprus Securities and Exchange Commission only as to the coverage of the required information of the investors, as these are provided by the Public Offer and Prospectus Law of 2005 (as amended) of the Republic of Cyprus and the Commission Regulation (EC) 809/2004 of the European Union.

This Prospectus contains all information concerning the Bank and the Retail Offer and the admission to trading of the Ordinary Shares issued pursuant to the Recapitalisation, the Laiki Transfer Decrees, the Placing and the Open Offer and the Retail Shares to be issued pursuant to the Retail Offer required to be publicised by the Public Offer and Prospectus Law of 2005 (as amended) of the Republic of Cyprus and the Commission Regulation (EC) 809/2004 and which concerns the Bank and the Retail Offer and the admission to trading of the Ordinary Shares issued pursuant to the Recapitalisation, the Laiki Transfer Decrees, the Placing and the Open Offer and the Retail Shares to be issued pursuant to the Retail Offer.

This Prospectus contains all the information necessary for the investors to evaluate the assets, liabilities, financial position, performance and prospects of the Bank as well as the rights incorporated in the Bank's Ordinary Shares offered under this Prospectus.

The Bank assumes full responsibility for the information contained in this Prospectus and declares that the information contained in the Prospectus is in accordance with the facts and contains no omission likely to affect its import. The Directors of the Bank of Cyprus Public Company Ltd are jointly and severally responsible for the information included in this Prospectus and declare that having taken all reasonable care to ensure that such is the case, the information contained in all parts of this Prospectus is, to the best of their knowledge, in accordance with the facts and that it contains no omission likely to affect its import.

In accordance with the provisions of the Public Offer and Prospectus Law of 2005 (as amended) this Registration Document has been signed by all the Directors of the Bank of Cyprus Public Company Limited.

The Cyprus Investment and Securities Corporation Limited (CISCO) in its capacity as Lead Manager declares that, having taken all responsible care to ensure that such is the case, the information contained in the Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Investors interested to obtain further information may contact the following during their regular business schedule:

The Lead Manager

The Cyprus Investment and Securities Corporation Limited (CISCO)
Eurolife House, 4 Evrou Street, PO Box 20597, 1660 Nicosia, tel: +357 121800.

The following departments of Bank of Cyprus:

In Cyprus

Shares & Loan Stock Department
Eurolife House, 4 Evrou Street, PO Box 24884, 1398 Nicosia
tel: +357 22126055

Investors Relations
51 Stassinos Street, Ayia Paraskevi, Strovolos, 2002 Nicosia
tel:+357 22122239

3.1.1 Presentation of Financial Information

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2014 have not been audited by the Group's external auditors. Ernst & Young Cyprus Ltd, the independent external auditors of the Group, have conducted a review of these financial statements in accordance with International Standards on Review Engagements 2410. The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2014 are incorporated by reference in this Prospectus. The consolidated financial statements of the Group for the years ended 31 December 2011, 2012 and 2013 have been audited by Ernst & Young Cyprus Ltd, the independent auditors of the Group. These financial statements are incorporated by reference in this Prospectus. See Section 3.1.5 (*Incorporation by Reference*).

The independent auditor's reports on the consolidated financial statements for the years ended 31 December 2011, 2012 and 2013 and the independent auditor's review conclusion on the consolidated financial statements for the six months ended 30 June 2014 are included in this Prospectus beginning on page F-1.

The consolidated balance sheet as at 31 December 2013, which is presented as comparatives in the interim condensed consolidated financial statements for the six months ended 30 June 2014, has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki Bank acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc acquired as part of the Laiki Bank acquisition.

The interim consolidated income statement for the six months ended 30 June 2013 and the consolidated income statement for the year ended 31 December 2013 include the results of the assets and liabilities acquired from Laiki Bank from the date of acquisition as well as the results of the Greek operations sold to Piraeus Bank until the date of sale, both of which occurred in March 2013. The interim consolidated income statement for the six month period ended 30 June 2013, which is presented as comparative information in the interim condensed consolidated financial statements for the six months ended 30 June 2014, has been re-presented to reflect the reclassification of the Group's operations in Ukraine as discontinued operations and restated to reflect final adjustments on the acquisition date fair values related to the Laiki Bank acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc acquired as part of the Laiki Bank acquisition.

The financial information for the year ended 31 December 2012, which is presented as comparatives in the consolidated financial statements for the year ended 31 December 2013, has been re-presented to present the reclassification of the Group's operations in Greece from continuing to discontinued operations and restated to reflect the adoption of IAS 19 (Revised 2011).

The financial information for the year ended 31 December 2011, which is presented as comparatives in the consolidated financial statements for the year ended 31 December 2012, has been restated to reflect the change in accounting policy with respect to IAS 19 "Employee Benefits" and the recognition of actuarial gains or losses arising from defined benefit plans adopted by the Group from 1 January 2012. The consolidated income statement for the year ended 31 December 2011 has not been re-presented to reflect the Group's operations in Ukraine and Greece as discontinued operations.

As a result of the above restatements, the balance sheet information in this Prospectus relating to the year ended 31 December 2013 has been extracted from the comparative financial information included in the interim condensed consolidated financial statements for the six months ended 30 June 2014 as included in the Mid-Year Financial Report 30 June 2014 of the Group and is therefore different from the balance sheet information for the year ended 31 December 2013 as included in the 2013 Annual Financial Report of the Group.

As a result of the above restatements, the financial information in this Prospectus relating to the year ended 31 December 2012 has been extracted from the comparative financial information included in the consolidated financial statements for the year ended 31 December 2013 as included in the 2013 Annual Financial Report of the Group and is therefore different from the consolidated financial statements for the year ended 31 December 2012 as included in the 2012 Annual Financial Report of the Group.

The financial information in this Prospectus relating to the year ended 31 December 2011 has been extracted from the comparative financial information included in the consolidated financial statements for the year ended 31 December 2012 as included in the 2012 Annual Financial Report of the Group and is therefore different from the consolidated financial statements for the year ended 31 December 2011 as included in the 2011 Annual Financial Report of the Group.

The independent auditor's report in respect of the Group's consolidated financial statements as at and for the year ended 31 December 2013 is qualified with respect to (a) the inability of the Bank to apply the requirements of IFRS for the bail-in of uninsured deposits and debt securities pursuant to the 2013 Recapitalisation due to the specific conditions and uncertainties that existed at the time of the transaction and (b) any adjustments that could have been determined to be necessary to the consolidated income statement had the auditors been able to satisfy themselves as to the fair value of the ordinary shares issued for the Group's recapitalisation through the bail-in of uninsured deposits and debt securities and for the consideration transferred for the acquisition of certain assets and liabilities of the Laiki Bank. The Group's equity and financial positions were not affected by the accounting of these transactions giving rise to these qualifications and the Bank does not expect these qualification to be repeated in 2014. Refer to notes 3.2.2 and 54.2 to the consolidated financial statements for the year ended 31 December 2013. The independent auditor's report on the consolidated financial statements for the years ended 31 December 2012 and 2013 also contained an emphasis of matter as to the Bank's conclusion with respect to going concern, as set forth in Note 3.1 of the consolidated financial statements for the year ended 31 December 2012 and Note 4.1 of the consolidated financial statements for the year ended 31 December 2013. The independent auditor's report in respect of the Group's consolidated financial statement for the year ended 31 December 2011 contained an emphasis of matter as to the Bank's conclusions with respect to going concern while not complying with minimum capital adequacy ratios, as set forth in Note 3.1 and Note 49 of the consolidated financial statements for the year ended 31 December 2011.

3.1.2 Comparability of Results

The changes carried out in the Recapitalisation and the disposals carried out by the Group thereafter have significantly transformed the operations of the Group, resulting in the sale of a substantial portion of the Group's international operations, the conversion of a significant proportion of its liabilities into equity and the acquisition of certain operations of Laiki Bank.

In addition, the Group's audited consolidated financial statement for the years ended 31 December 2011, 2012 and 2013 each contain restated information in respect of prior periods. See Section 3.1.1 (*Presentation of Financial Information*). The financial information in this Prospectus relating to the year ended 31 December 2012 has been extracted from the comparative financial information included in the consolidated financial statements for the year ended 31 December 2013 and not the consolidated financial statements for the year ended 31 December 2012. The financial information in this Prospectus relating to the year ended 31 December 2011 has been extracted from the comparative financial information included in the consolidated financial statements for the year ended 31 December 2012 and not the consolidated financial statements for the year ended 31 December 2011.

As a result of the factors discussed below, the Group's operating results for certain of the financial periods discussed in this Prospectus are not directly comparable to the operating results for other financial periods discussed herein, and may not be directly comparable with the operating results for future financial periods.

3.1.3 Independent Auditors

The Group's consolidated financial statements are audited by independent auditors. Ernst & Young Cyprus Limited (ICPAC Reg. no. E146/A/2013 and address Jean Nouvel Tower, 6 Stasinos Avenue, 1060, Nicosia), has audited the Group's and Bank's consolidated financial statements for the years 2011-2013.

3.1.4 Documents Available for Inspection

Copies of the following documents may be inspected during working days, between 9.00 a.m. and 12.00 p.m., at the Bank's headquarters, 51 Stassinos Street, Ayia Paraskevi, Nicosia, Cyprus during the period that the Prospectus shall be valid:

(i) memorandum and Articles of the Bank;

(ii) written consents and certificates, as set out in Section II, Part D, Chapter 4.0;

(iii) audited consolidated financial statements of the Group, for years 2011, 2012 and 2013; and

(iv) unaudited interim condensed consolidated financial statements for the six months ended 30 June 2014.

The Prospectus as it has been approved by the Cyprus Securities Exchange Commission will be available in electronic form on the following websites:

(i) the Bank of Cyprus' website, www.bankofcyprus.com;

(ii) the website of the Lead Manager, The Cyprus Investment and Securities Corporation Ltd, CISCO, www.cisco.bankofcyprus.com;

(iii) the website of the Cyprus Stock Exchange, www.cse.com.cy; and

(iv) the website of the Cyprus Securities and Exchange Commission, www.cysec.gov.cy.

3.1.5 Incorporation by Reference

The Group's audited financial statements for years ended 31 December 2011, 2012 and 2013 and the unaudited interim condensed financial statements for the six months ended 30 June 2014, have been incorporated by reference into this Prospectus pursuant to Article 28 of the Commission Regulation 809/2004 of the European Union.

Incorporation by Reference	Document	Pages
Financial Statements for the year ended 31 December 2011	Annual Financial Report 2011	11-141
Financial Statements for the year ended 31 December 2012	Annual Financial Report 2012	16-172
Financial Statements for the year ended 31 December 2013	Annual Financial Report 2013	17-190
Unaudited Interim Financial Statements for the six months ended 30 June 2014	Mid-Year Financial Report for the six months ended 30 June 2014	17-104

The audited financial statements for the years ended 31 December 2012 and 2013, and the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2014 each contain comparative information for prior periods that has been restated and/or re-presented. See Section 3.1.1 (*Presentation of Financial Information*) for a description of these adjustments. The financial information in this Prospectus relating to the year ended 31 December 2011 has been extracted from the comparative financial information included in the consolidated financial statements for the year ended 31 December 2012 and not the consolidated financial statements for the year ended 31 December 2011. The financial information in this Prospectus relating to the year ended 31 December 2011 has been extracted from the comparative financial information included in the consolidated financial statements for the year ended 31 December 2012 and not the consolidated financial statements for the year ended 31 December 2011.

Investors may obtain a free copy of the following:

(i) audited financial statements for year ended 31 December 2011;

(ii) audited financial statements for year ended 31 December 2012;

(iii) audited financial statements for year ended 31 December 2013; and

(iv) unaudited interim condensed consolidated financial statements for the six months ended 30 June 2014,

during working days, between 9.00 a.m. and 12.00 p.m., from the Bank's headquarters, 51 Stassinos Street, Ayia Paraskevi, Nicosia, Cyprus during the period that the Prospectus shall be valid, as well as on the Group's website www.bankofcyprus.com (select Investor Relations / Financial Information). Except as specifically set forth in this Section 3.1.5, the contents of the Group's website are not incorporated by reference in this Prospectus.

3.2 SELECTED CONSOLIDATED FINANCIAL AND OTHER INFORMATION

The selected consolidated financial and other information provided below should be read in conjunction with the Group's audited and unaudited consolidated financial statements and the notes thereto and Section 3.10 (Operating and Financial Review and Prospects).

The following condensed financial information relating to the years ended 31 December 2011, 2012 and 2013 are based on the annual audited consolidated financial statements of the Group for the years ended 31 December 2011, 2012 and 2013 which have been audited by the Group's independent auditors, Ernst & Young Cyprus Ltd. These financial statements are incorporated by reference in this Prospectus, see Section 3.1.5 (Incorporation by Reference). The interim condensed consolidated financial statements for the six months ended 30 June 2014 are based on the interim condensed consolidated financial statements of the Group for the six months ended 30 June 2014 which have not been audited by the external auditors of the Group. The independent external auditors of the Group, Ernst & Young Cyprus Ltd, have conducted a review of these financial statements in accordance with the International Standards on Review Engagements 2410. The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2014 are incorporated by reference in this Prospectus, see Section 3.1.5 (Incorporation by Reference). In addition, the comparability of the below financial information is limited in some respects. See Section 3.1.1 (Presentation of Financial Information) and Section 3.1.2 (Comparability of Results).

3.2.1 Consolidated Income Statement Data

	Year ended 31 December			Six months ended 30 June	
	2011[(1)]	2012[(1)]	2013[(1)]	2013[(1)]	2014[(1)]
			(€'000)		
Continuing operations					
Turnover	2,808,300	1,859,797	1,966,621	1,174,199	969,243
Interest income	2,295,116	1,415,611	1,660,461	834,675	786,044
Interest expense	(1,127,443)	(713,835)	(661,030)	(416,011)	(240,076)
Net interest income	1,167,673	701,776	999,431	418,664	545,968
Fee and commission income	247,044	191,566	193,458	93,869	93,304
Fee and commission expense	(14,679)	(18,881)	(24,639)	(10,231)	(5,526)
Net foreign exchange gains/(losses)	45,178	24,948	(5,148)	(16,699)	(2,379)
Net gains/(losses) on financial instrument transactions and disposal of subsidiaries	3,571	(27,899)	10,589	(9,307)	160,523
Insurance income net of claims and commissions	61,190	62,972	64,956	38,864	25,048
Other income/(expense)	31,329	(15,099)	(64,282)	(28,118)	7,602
Total income	**1,541,306**	**919,383**	**1,174,365**	**487,042**	**824,540**
Staff costs	(431,774)	(293,556)	(442,797)	(192,322)	(135,398)
Other operating expenses	(311,722)	(260,553)	(277,196)	(120,226)	(130,769)
Profit before impairment of loans and advances and goodwill and intangible assets	797,810	365,274	454,372	174,494	558,373
Provisions for impairment of loans and advances	(426,287)	(1,339,269)	(1,067,345)	(532,496)	(329,120)
Impairment of goodwill and intangible assets	–	(359,746)	–	–	–
Impairment of Greek Government Bonds and change in fair value of related hedging derivatives	(1,729,261)	–	–	–	–
(Loss)/profit before share of profit from associates and joint ventures	**(1,357,738)**	**(1,333,741)**	**(612,973)**	**(358,002)**	**229,253**
Share of (loss)/profit from associates and joint ventures	(1,441)	222	1,885	353	4,111
(Loss)/profit before tax	**(1,359,179)**	**(1,333,519)**	**(611,088)**	**(357,649)**	**233,364**
Tax	(7,234)	43,463	5,184	2,489	(9,591)
(Loss)/profit after tax	**(1,366,413)**	**(1,290,056)**	**(605,904)**	**(355,160)**	**223,773**
Loss after tax from discontinued operations	–	(932,290)	(1,455,604)	(1,456,804)	(150,215)
(Loss)/profit for the year/period	**(1,366,413)**	**(2,222,346)**	**(2,061,508)**	**(1,811,964)**	**73,558**

	Year ended 31 December			Six months ended 30 June	
	2011(1)	2012(1)	2013(1)	2013(1)	2014(1)
			(€'000)		
Attributable to:					
Owners of the Bank – continuing operations	(1,359,340)	(1,280,825)	(593,898)	(349,818)	231,600
Owners of the Bank – discontinued operations	–	(932,290)	(1,455,604)	(1,456,804)	(150,176)
Total (loss)/profit attributable to the owners of the Bank	**(1,359,340)**	**(2,213,115)**	**(2,049,502)**	**(1,806,622)**	**81,424**
Non-controlling interests – continuing operations	(7,073)	(9,231)	(12,006)	(5,342)	(7,827)
Non-controlling interests – discontinued operations	–	–	–	–	(39)
(Loss)/profit for the year/period	**(1,366,413)**	**(2,222,346)**	**(2,061,508)**	**(1,811,964)**	**73,558**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see Section 3.1.1 (*Presentation of Financial Information*).

3.2.2 Consolidated Balance Sheet Data

	31 December			30 June
	2011(1)	2012(1)	2013(1)	2014(1)
		(€'000)		
Assets				
Cash and balances with central banks	1,375,047	1,272,424	1,240,043	859,438
Placements with banks	2,627,831	1,768,836	1,290,102	1,114,448
Reverse repurchase agreements	215,936	–	–	–
Investments	2,629,124	1,135,333	2,759,855	2,866,059
Investments pledged as collateral	938,070	734,747	672,809	671,984
Derivative financial assets	193,734	26,794	28,765	5,949
Loans and advances to customers	27,366,917	24,374,531	21,764,338	20,063,034
Life insurance business assets attributable to policyholders	504,579	495,756	443,579	460,366
Property and equipment	473,188	483,193	414,404	366,385
Intangible assets	472,510	123,555	130,580	135,107
Assets held for sale	27,268	–	–	391,783
Other assets	647,171	613,760	1,401,833	1,414,672
Investments in associates and joint ventures	2,820	3,107	203,131	208,939
Total assets	**37,474,195**	**31,032,036**	**30,349,439**	**28,558,164**

	31 December			30 June
	2011(1)	**2012**(1)	**2013**(1)	**2014**(1)
		(€'000)		
Liabilities				
Amounts due to banks	965,200	341,044	196,422	219,186
Funding from central banks	2,100,556	–	10,956,277	10,184,574
Repurchase agreements	785,993	607,773	594,004	582,646
Derivative financial liabilities	488,111	183,826	83,894	82,496
Customer deposits	29,654,498	28,442,152	14,971,167	13,802,750
Insurance liabilities	611,264	604,170	551,829	574,966
Debt securities in issue	49,791	44,775	1,515	4,919
Other liabilities	347,697	339,727	251,979	287,984
Subordinated loan stock	128,380	133,294	4,676	4,718
Total liabilities	**35,131,490**	**30,696,761**	**27,611,763**	**25,744,239**
Equity				
Share capital	899,528	1,795,141	4,683,985	4,755,711
Shares subject to interim orders	–	–	58,922	297
Share premium	1,164,903	428,271	–	–
Convertible Enhanced Capital Securities (CECS)	862,233	428,835	–	–
Revaluation and other reserves	2,585	106,336	72,251	79,178
Accumulated losses	(670,988)	(2,500,530)	(2,151,835)	(2,086,954)
Equity attributable to the owners of the Bank	**2,258,261**	**258,053**	**2,663,323**	**2,748,232**
Non-controlling interests	84,444	77,222	74,353	65,693
Total equity	**2,342,705**	**335,275**	**2,737,676**	**2,813,925**
Total liabilities and equity	**37,474,195**	**31,032,036**	**30,349,439**	**28,558,164**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see Section 3.1.1 (*Presentation of Financial Information*).

3.2.3 Selected Financial Ratios and Other Data

	As at and for the year ended 31 December			As at and for the six months ended 30 June
	2011[(1)]	2012[(1)]	2013[(1)]	2014[(1)]
	(€ billion except % and x)			
Key figures and ratios				
Net interest margin	3.0%	2.9%	3.5%	4.1%
Cost to income ratio (excluding one-off expenses and income)[(2)]	48%	59%	47%	38%
Gross loans	28.9	28.1	26.7	23.3
Customer Deposits	29.7	28.4	15.0	13.8
Loans to deposits ratio	92%	86%	145%	148%
Provisioning charge (cost of risk)[(3)]	1.5%	8.1%	4.7%	2.5%
90+DPD provision coverage ratio[(4)]	30%	48%	38%	39%
90+DPD[(4)] loans	5.0	7.7	13.0	12.6
90+DPD ratio[(4)]	17%	27%	49%	50%
Leverage ratio[(5)]	16.0x	92.6x	11.1x	10.1x
Basel II Regulatory Capital[(6)]				
Core Tier 1 capital ratio	3.6%	-1.9%	10.2%	N/A
Tier 1 capital ratio	7.5%	0.6%	10.2%	N/A
Total capital ratio	7.8%	0.9%	10.5%	N/A
Risk-weighted assets	24.8	21.6	22.4	N/A
	(€'000 except %)			
CRD IV/CRR Regulatory Capital[(7)]				
Transitional Common Equity Tier 1 (CET 1)	N/A	N/A	2,449,878	2,546,647
Transitional Additional Tier 1 capital (AT1)	N/A	N/A	–	–
Tier 2 capital (T2)	N/A	N/A	45,204	3,287
Transitional total regulatory capital	**N/A**	**N/A**	**2,495,082**	**2,549,934**
Risk-weighted assets – credit risk	N/A	N/A	21,468,518	20,457,100
Risk-weighted assets – market risk	N/A	N/A	3,398	5,000
Risk-weighted assets – operational risk	N/A	N/A	2,057,687	2,023,100
Total risk-weighted assets	**N/A**	**N/A**	**23,529,603**	**22,485,200**
Transitional Common Equity Tier 1 (CET 1) ratio	N/A	N/A	10.4%	11.3%
Transitional total capital ratio	**N/A**	**N/A**	**10.6%**	**11.3%**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see Section 3.1.1 (*Presentation of Financial Information*).

(2) One-off expenses include restructuring expenses (nil, €10.1 million and €167.3 million for the years ended 31 December 2011, 2012 and 2013, respectively, and €20.8 million as at 30 June 2014).

(3) Provisioning charge (cost of risk) is the ratio of provision charge excluding discontinued operations to the average balance of gross loans, with the average balance calculated as the average of the opening balance and the closing balance.
(4) 90+DPD is all loans with a specific provision (impaired loans) and loans past due for more than 90 days but not impaired.
(5) The leverage ratio is the ratio of total assets to total equity for the relevant period.
(6) On 31 December 2013, the minimum requirements for Tier 1 and total capital ratios were abolished.
(7) The position at 31 December 2013 is shown on a pro forma basis by applying the new rules including the transitional arrangements that have been in place from 1 January 2014. The Group's CET 1 ratio on a fully loaded basis at 31 December 2013 is estimated at 9.7%, primarily affected by the deduction of the deferred tax asset, which will be phased in starting from 1 January 2014. Giving effect to the €1 billion capital increase in September 2014, the Group's CET 1 ratio on a fully loaded basis at 30 June 2014 is 15.1%.

3.3 RESTRUCTURING OF THE BANK AND LAIKI BANK

On 25 March 2013, the Government and the Eurogroup reached an agreement on the key elements and principles necessary for a future macroeconomic adjustment programme (the "**Eurogroup Statement on Cyprus**"). In line with the Eurogroup Statement on Cyprus, the MoU required the restructuring of Cyprus' banking sector, the main terms of which are:

- the immediate resolution of Laiki Bank into a "good" bank and "bad" bank;
- the recapitalisation of the Bank through a bail-in of uninsured depositors, shareholders and other creditors of the Bank; and
- the acquisition by Piraeus Bank S.A. ("**Piraeus Bank**") of the Greek branches of the Bank, Laiki Bank and Hellenic Bank.

3.3.1 Resolution of Laiki Bank

The split of Laiki Bank into a "good" bank and a "bad" bank was achieved by the transfer of certain assets and liabilities of Laiki Bank (which constituted the "good" bank) to the Bank while Laiki Bank remains as the "bad" bank left with a portfolio of assets and liabilities which includes uninsured deposits and hybrid capital instruments.

From 29 March 2013 to 20 December 2013, the Resolution Authority issued the Sale of Certain Operations of Cyprus Popular Bank Public Co Ltd Decrees of 2013, the Sale of Certain Operations of Cyprus Popular Bank Public Co Ltd (Supplementary) Decree of 2013, the Bank of Cyprus Share Capital Issue for Compensation of Cyprus Popular Bank Public Co Ltd Decree of 2013 and the Sale of certain operations in the United Kingdom of Cyprus Popular Bank Public Co Ltd Decree of 2013 (the "**Laiki Transfer Decrees**") which, amongst other things, effected:

- the transfer to the Bank of:
  - certain assets (including a €1.2 billion receivable owing to Laiki Bank from the Bank in connection with the sale of the Group's Greek operations) and liabilities in Cyprus of Laiki Bank, including its shares in subsidiaries incorporated in Cyprus;
  - certain of Laiki Bank's liabilities, mainly comprising €4.2 billion of customer deposits and €9.1 billion of ELA;
  - certain assets and liabilities of the United Kingdom and Greek operations of Laiki Bank, comprised mainly of loans and any related security originated by Laiki UK, shares in Laiki Bank's subsidiary Marfin Capital Partners Ltd (UK), interbank deposits and real property in the United Kingdom and Greece; and
  - contracts of employment of employees of Laiki Bank in Cyprus; and
- on 1 April 2013, the acquisition of customer deposits amounting to €325.2 million and certain liquid assets of the United Kingdom branch of Laiki Bank by Bank of Cyprus UK Ltd, a wholly-owned subsidiary of the Group.

Under the Laiki Transfer Decrees, the Resolution Authority was required to determine the final value of the assets and liabilities of Laiki Bank transferred to the Bank and, if the final value of the transferred assets exceeded the final value of the transferred liabilities, to determine the number of Class A shares in the Bank to be issued to Laiki Bank as fair compensation for such excess value with no right of further compensation. The Resolution Authority appointed an independent international firm to carry out a valuation of Laiki Bank's transferred assets and liabilities and, based on this valuation, the Resolution Authority issued a further decree on 30 July 2013 which required the Bank to issue Class A Shares representing 18.056371% of the total share capital of the Bank outstanding at the time. As a result of the Recapitalisation as further described in Section 3.3.2 (*Recapitalisation of the Bank*), Laiki Bank's holding of Class A Shares was converted into ordinary shares of the Bank.

As of the date of this Prospectus, Laiki Bank held 858,708,764 ordinary shares in the Bank representing 9.624% of the Bank's total share capital and is the single largest shareholder in the Bank. See Section 2.5.3 (*The interests of Laiki Bank's special administrator may not be aligned with those of other shareholders*). Laiki Bank remains under resolution and is expected to dispose of its assets (comprised primarily of investments in a number of overseas banking subsidiaries and its shareholding in the Bank) over time and be liquidated in line with the Eurogroup Statement on Cyprus. With respect to Laiki Bank's holding of Ordinary Shares in the Bank, the administration of them is in the hands of the Resolution Authority and, in accordance with the MoU, the Resolution Authority has instructed Laiki Bank's special administrator to appoint a well-recognised and independent consulting or auditing firm or international institution to be entrusted with the voting rights associated with the Ordinary Shares held by Laiki Bank.

3.3.2 Recapitalisation of the Bank

From 29 March 2013 to 30 July 2013, the Resolution Authority effected the Recapitalisation through the issue of the Bailing-in of Bank of Cyprus Public Company Limited Decrees of 2013 (the "**Bail-in Decrees**") which can be summarised as follows:

3.3.2.1 Holders of Debt Securities of the Bank as of 29 March 2013

The Bail-in Decrees provided that claims in respect of the subordinated debt of the Bank would be converted into Class D Shares at a conversion rate of 1 share of €1.00 nominal amount for each €1.00 of principal amount of such subordinated debt and claims. Claims in respect of the Bank's subordinated debt were comprised of the following subordinated debt securities:

- Capital Securities 12/2007 (ISIN: CY0140670114) issued by the Bank in December 2007 of which the outstanding principal amount as of 29 March 2013 was €22,169,560; (the "**2007 Capital Securities**");
- Convertible Bonds 2013/2018 (ISIN: CY0140740115) issued by the Bank in July 2008 of which the outstanding principal amount as of 29 March 2013 was €27,283,632 (the "**2008 Convertible Bonds**");
- Convertible Capital Securities (ISIN: CY0141000212) issued by the Bank in May 2009 of which the outstanding principal amount as of 29 March 2013 was €73,088,145 (the "**2009 Convertible Capital Securities**");
- Convertible Enhanced Capital Securities (ISIN: CY0141890117) issued in euro by the Bank in May 2011 of which the outstanding principal amount as of 29 March 2013 was €428,521,983 (the "**2011 EUR CECS**" and, together with the 2007 Capital Securities, the 2008 Convertible Bonds and the 2009 Convertible Capital Securities, the "**Euro Capital Securities**"); and
- Convertible Enhanced Capital Securities (ISIN: CY0141890114) issued in U.S. dollars by the Bank in May 2011 of which the outstanding principal amount as of 29 March 2013 was $39,711,653 (the "**2011 USD CECS**" and, together with the 2011 EUR CECS, the "**CECS**"),

(collectively, the "**Capital Securities**").

In accordance with the Bail-in Decrees, the 2011 USD CECS were converted to Class D Shares using a conversion rate of 1 share of €1.00 nominal value for each equivalent of €1.00 principal amount of these securities calculated based on the euro to U.S. Dollar exchange rate of €1 to $1.2861 as specified in the reference exchange rates published by the ECB on 26 March 2013.

3.3.2.2 Holders of Ordinary Shares of the Bank as of 29 March 2013

The Bail-in Decrees suspended all shareholder rights in relation to the diluted ordinary shares in issue as of 29 March 2013 (the "**Existing Shares**") until 30 July 2013, the date on which these ordinary shares were subject to a share capital reduction as further described in Section 3.3.2.4 (*Conversion into Shares*).

3.3.2.3 Holders of Deposits and Other Products of the Bank as of 26 March 2013

The Bail-in Decrees required the calculation of a total "excess amount" per holder of conventional cash deposits, capital guaranteed structured deposit products, investment products and/or *schuldschein* loans (i.e., fixed-term German law governed loans entered into by the Bank as borrower) of the Bank. This excess amount was subject to conversion into shares of the Bank and cash deposits with the Bank under the Bail-in Decrees.

As the calculation of the excess amount was made per holder and not per product, the calculation of the excess amount for each holder depended on what combination of products and/or deposits it held because:

- any credit claims that the Bank had against the holder (e.g. an outstanding advance or loan by the Bank to the holder) were netted against the total amount of products and/or deposits held by it at the Bank; and
- there were different exemptions from bail-in under the Bail-in Decrees for investment products as compared to capital guaranteed structured deposit products and conventional cash deposits.

The investment products subject to conversion under the Bail-in Decrees consisted of the following products issued by the Bank:

- Exantas USD Index Linked Redemption Notes due 2016;
- Exantas EUR Index Linked Redemption Notes due 2016;
- SEK Autocallable Equity Linked Redemption Notes Linked to a Basket of Shares due 2014; and
- Dual currency products: Non-capital guaranteed structured products convertible under certain conditions into another currency.

The capital guaranteed structured deposit products consisted of the following products issued by the Bank:

- BOC Compass EUR: euro-denominated capital guaranteed structured product linked to a basket of equity indices;
- BOC Compass USD: U.S. Dollar-denominated capital guaranteed structured product linked to a basket of equity indices;
- BOC Horizon EUR: euro-denominated capital guaranteed structured product linked to a euro-denominated equity index;
- SEK 100% Capital Guaranteed, 100% Participation Himalayan World Index Linked Deposit: SEK-denominated capital guaranteed structured product with 100% participation in the performance of a basket of equity indices; and
- Avantage: euro-denominated capital guaranteed structured product linked to the performance of a basket of indices.

The Bank had two *schuldschein* loans due March 2038 with a total principal amount of €20 million which were bailed in.

The final conversion of the excess amount for each holder into ordinary shares of the Bank and cash deposits involved prior interim conversions in accordance with the Bail-in Decrees as summarised below:

Excess Amount Conversion

- 37.5% of the excess amount was converted into Class A Shares;
- 22.5% of the excess amount was converted into a "title" governed by the terms of Annex A to the Bail-in Decrees ("**Title A**"); and
- 40% of the excess amount was converted into a "title" governed by the terms of Annex B to the Bail-in Decrees ("**Title B**").

Title A Conversion

Each holder's Title A was converted in accordance with its terms as follows:

- 4/9ths of the principal amount of Title A was converted into Class A Shares; and
- 5/9ths of the principal amount of Title A, together with an additional amount representing interest (if any) thereon as calculated in the manner provided in Annex A to the Bail-in Decrees, was converted into a deposit at a conversion rate of €1.00 for each €1.00 of the aggregate amount so converted ("**Deposit A**").

Title B Conversion

Each holder's Title B was converted in accordance with its terms as follows:

- 1/4th of the principal amount of Title B, together with accrued interest (if any) thereon as calculated in the manner provided in Annex B to the Bail-in Decrees, was converted into a deposit at a conversion rate of €1.00 for each €1.00 of the aggregate amount so converted ("**Deposit B**"); and
- 3/4ths of the principal amount of Title B, together with accrued interest (if any) thereon as calculated in the manner provided in Annex B to the Bail-in Decrees, was converted into a deposit at a conversion rate of €1.00 for each €1.00 of the aggregate amount so converted (together with Deposit A, the "**Affected Deposits**").

Deposits Conversion

- All of Deposit B and 12% of the Affected Deposits were converted into deposits with no fixed term; and
- 88% of the Affected Deposits were converted, in equal proportions, into three new fixed term deposits with terms of 6, 9 and 12 months, respectively, with the Bank,

(collectively, the "**New Deposits**").

Accordingly, 15.1% of the excess amount (plus amounts equivalent to accrued interest on Title A or Title B, if any) for each holder have been converted into current cash deposits and 37.4% of the excess amount (plus amounts equivalent to accrued interest on Title A or Title B, if any) for each holder have been converted into fixed term cash deposits.

Class A Shares Conversion

All of the Class A Shares resulting from the interim conversions described above (comprising 47.5% of the excess amount for each holder) were further converted into ordinary shares of the Bank. For more details on the conversion of the Class A Shares into ordinary shares, see Section 3.3.2.4 (*Conversion into Shares*).

Residual Holdings

A holder of deposits and other products of the Bank may be only partially converted pursuant to the Bail-in Decrees. Whether or not a holder has a residual holding of deposits or products following the bail-in and conversion described above depended on whether such holder was eligible for:

- In relation to conventional cash deposits and capital guaranteed structured deposit products, €100,000 in protection under the Operation of Deposit Protection and Resolution of Credit and Other Institutions Scheme Regulations of 2013;
- In relation to conventional cash deposits and capital guaranteed structured deposit products, protection pursuant to the provisions of Annex D to the Bail-in Decrees, which provides, amongst other things, additional exceptions for deposits of credit institutions and the Government and lower conversion percentages for deposits of insurance companies (and joint venture insurance companies and supplementary pension funds) and charities approved by the Cypriot Ministry of Finance; and/or
- In relation to investment products, €20,000 in protection under the Establishment and Operation of an Investor Compensation Fund for Clients of Banks Regulations of 2004 to 2007.

3.3.2.4 Conversion into Shares

The Bail-in Decrees effected a reduction in share capital, a share split and the conversion and consolidation of Class A Shares and Class D Shares into only one class of shares, the ordinary shares of the Bank as described in the following paragraphs. Although contemplated by the Bail-in Decrees, there were no conversions into Class B Shares or Class C Shares.

Share Capital Reduction

The nominal value of each:

- ordinary share was reduced from €1.00 to €0.01; and
- Class D Share was reduced from €1.00 to €0.01.

Share Split

Following the share capital reduction, each Class A Share with nominal value of €1.00 was split into 100 Class A Shares with nominal value of €0.01 each.

Share Capital Conversion and Consolidation

Following the share split and share capital reduction described above, each Class A Share and Class D Share with nominal value of €0.01 was converted into one ordinary share with nominal value of €0.01.

Following the conversion of Class A Shares and Class D Shares into ordinary shares, every 100 ordinary shares with nominal value of €0.01 held by each shareholder were converted into one ordinary share of €1.00 each. Any remaining ordinary shares of a nominal value of €0.01 not consolidated (being any number of shares below 100 which may be falling short in reference to each shareholder) were cancelled and the total amount of the nominal value of the ordinary shares which was cancelled was applied to write off the accumulated losses of the Bank up to 29 March 2013.

The ordinary shares resulting from the conversion of the classes of shares issued under the Bail-in Decrees comprise the sole class of the Bank's share capital and have the same rights and equal ranking with the Existing Shares.

Share Premium Reserve

In accordance with the Bail-in Decrees, the balance of the Bank's share premium reserve was reduced to zero and the total amount of the reduction was applied to write off accumulated losses of the Bank up to 29 March 2013.

3.3.2.5 Impact of the Recapitalisation

The Bank's accumulated losses of €2,786.9 million were written off through a reduction in the Bank's share capital of €2,353.3 million, the utilisation of the Bank's share premium reserves of €428.3 million and the write off of the equity component of convertible subordinated loan stock of €5.3 million. Because the Bank was not able to establish a reliable measure of the fair value of the ordinary shares issued pursuant to the Recapitalisation as a result of the suspension from trading of the ordinary shares of the Bank, the unavailability of financial information and the continued negotiations between the Government and the Troika that resulted in the MoU and EAP, the Bank assigned a fair value to the ordinary shares issued by reference to the carrying value of uninsured deposits, subordinated securities and other products of the Bank extinguished pursuant to the Recapitalisation. in relation to the ordinary shares issued to Laiki Bank in compensation for its assets and liabilities transferred to the Bank, the Bank accounted for this transaction by reference to the fair value of the individually identifiable assets and liabilities acquired for which a reliable fair value could be established. As a result of the above accounting treatment, no profit or loss arises from these transactions. See also Section 2.3.9 (*The independent auditor's report in respect of the Bank's consolidated financial statements for the year ended 31 December 2013 is qualified and contained an emphasis of matter. The independent auditor's review conclusion in respect of the Bank's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2014 is qualified and contained an emphasis of matter*).

Following the Recapitalisation, the Bank was in compliance with the minimum requirement for Core Tier 1 capital ratio and the Resolution Authority announced, on 30 July 2013, that the Bank was no longer under resolution.

The Ordinary Shares of the Bank as at 30 July 2013 are comprised of the following categories:

- Ordinary Shares issued to bailed in holders of uninsured conventional cash deposits, capital guaranteed structured deposit products, investment products and *schuldschein* loans (the "**Bail-in Shares**");
- diluted Existing Shares and Ordinary Shares issued to bailed in holders of Capital Securities (the "**Diluted Shares**"); and
- Ordinary Shares issued to Laiki Bank in compensation for the assets and liabilities of Laiki Bank transferred to the Bank pursuant to the Laiki Transfer Decrees (the "**Laiki Shares**").

Following the issue of the Bail-in Decrees, certain depositors and third parties secured (on an ex-parte basis) interim orders from the Cypriot courts and Greek courts restricting the Bank from taking any steps for the implementation of the Bail-in Decrees in respect of deposits. Accordingly, as at 30 July 2013, deposits totalling approximately €297 thousand were subject to these interim orders and appeared in the books of the Bank as if the Bail-in Decrees were not applicable to them. These actions have been and are being contested by the Bank before the appropriate courts.

The following table shows the composition of the Bank's share capital as at 30 July 2013:

Share capital of the Bank as of 30 July 2013

Category	No. of Ordinary Shares	Percentage of total share capital (%)
Bail-in Shares	3,873,269,066	81.4
Diluted Shares	23,732,848	0.5
Laiki Shares	858,708,764	18.1
Total	**4,755,710,678**	**100.0**

Following the Capital Raising (as defined in Section 4.2.1 (*Key Terms of the Share Capital Increase*)), the Ordinary Shares of the Bank as at the date of this Prospectus are comprised of the following categories:

- the Bail-in Shares;
- the Diluted Shares;
- the Laiki Shares;
- the Placing Shares (as defined in Section 4.2.1 (*Key Terms of the Share Capital Increase*)); and
- the Open Offer Shares (as defined in Section 4.2.1 (*Key Terms of the Share Capital Increase*)).

On the date of this Prospectus, deposits totalling approximately €297 thousand are subject to interim orders and appear in the books of the Bank as if the Bail-in Decrees were not applicable to them.

The following table shows the composition of the Bank's share capital as at the date of this Prospectus:

Share capital of the Bank as of the date of this Prospectus

Category	No. of Ordinary Shares	Percentage of total share capital (%)
Bail-in Shares(1)	3,873,269,066	43.4
Diluted Shares	23,732,848	0.3
Laiki Shares	858,708,764	9.6
Placing Shares	3,733,623,899	41.8
Open Offer Shares	433,042,768	4.9
Total	**8,922,377,345**	**100.0**

(1) Bail-in Shares includes shares in respect of all court orders lifted to date but do not include approximately €297 thousand of shares subject to interim orders. See Section 3.10.2.3 (*Factors Affecting Comparability of Financial Information—The Recapitalisation*).

3.3.2.6 Release of New Deposits

The Bank has recently released some of the New Deposits issued by the Bank pursuant to the Recapitalisation. See Section 3.5.6 (*History and Development of the Group*) and Section 3.5.7 (*Recent Developments*).

The released deposits are subject to the restrictive measures relating to overseas transfers currently applicable in the Cypriot banking system. Section 3.22.3.9 (*Capital Control Measures*).

3.3.3 Piraeus Bank Acquisition of the Greek Operations of the Bank

In March 2013, the Greek operations of the Bank, Laiki Bank and Hellenic Bank, were acquired by Greece's Piraeus Bank, which was selected for this transaction by the Hellenic Financial Stability Fund. Piraeus Bank acquired in total assets with a book value of €20 billion and liabilities of €14 billion of these branches.

The loans, fixed assets and deposits of the banking and leasing operations of the Group in Greece were sold to Piraeus Bank in accordance with a decree issued by the Resolution Authority on 26 March 2013, the Sale of the Greek Operations of Bank of Cyprus Public Company Ltd Decree of 2013 (the "**Greek Operations Decree**"). The Bank's loss on disposal of its Greek operations to Piraeus Bank was €1.4 billion and, as a result of this disposal, the Group has written off in 2012 a deferred tax asset of €0.3 billion in Greece as this was no longer considered as recoverable.

3.3.4 Marfin Bank Romania Acquisition of Certain of the Romanian Operations of the Bank

On 25 April 2013, in accordance with the Romanian Operations Decree, certain assets (which included customer loans and related collateral, cash and other liquid assets) and liabilities of the Romanian branch, as well as all staff related to servicing the relevant contracts, were transferred to Marfin Bank Romania. The gross assets and customer deposits transferred to Marfin Bank Romania amounted to €82.0 million and €77.0 million, respectively and the Group's loss on disposal was €4.5 million.

3.4 RESTRUCTURING PLAN

The Group has prepared the Restructuring Plan, which was approved by the CBC in November 2013. The Restructuring Plan charts the Group's strategy, business model and risk appetite.

The Restructuring Plan defines the strategic objectives and actions the Group should take to create a safer, smaller, more focused institution capable of supporting the recovery of the Cypriot economy by:

- Rebuilding trust and confidence of both depositors and investors.
- Preserving the Group's status as the cornerstone of the domestic economy, continuing to support both businesses and households.
- Building a resilient institution, able to effectively manage its portfolio of assets and withstand further external shocks and economic turbulence.
- Smoothly integrating the operations of ex Laiki Bank, maximising synergies and bottom-line impact for the combined entity through the realisation of synergies.
- Enhance the capital adequacy of the Group by generating capital through profitability, deleveraging and disposal of non-core assets.

The Restructuring Plan sets specific medium-term financial targets that prioritise the stability and viability of the Group. One of the more important targets is the compliance with the minimum capital adequacy requirements set forth by the CBC, with the Bank's Core Tier 1 capital ratio remaining above the CBC's target of 9% throughout the Restructuring Plan period. The Group considers the achievement of a superior Core Tier 1 capital ratio as a target more important than profitability, shielding the Bank from further shocks and eventually enabling the Group's credit rating to improve, facilitating access to capital markets for funding in the medium term.

3.4.1 Key Performance Indicators and Restructuring Plan Progress Report

Following consultation between the Bank and the CBC, the following Key Performance Indicators ("**KPIs**"), including medium-term targets, have been selected reflecting the priorities of the Group: asset quality, funding, capital and efficiency. These will be published on a quarterly basis in order for the public to assess the progress of the Restructuring Plan and the financial performance of the Group.

The below table shows the KPIs, the medium-term target for each KPI (set at December 2017, which is the end of the Restructuring Plan period) and the latest statistics for each KPI.

Group KPIs		**Actual 31 December 2013**	**Actual 30 June 2014**	**Medium-term target Dec-2017**
Asset Quality	90+DPD provision coverage	38%	39%	>50%
	Provisioning charge (cost of risk) (year to date)	3.7%	2.5%	<1.5%
	90+DPD (€ millions)	13,003	12,591	<10,000
Funding	Loans to deposits ratio (net)	145%	148%	<150%
Capital	CET 1 capital ratio	10.4%*	11.3%	>10%
	Leverage ratio (assets/equity)	11.1x	10.1x	<12x
Efficiency	Cost-to-income ratio (year-to-date)	47%	38%	<45%
	Net interest margin (year-to-date)	3.54%	4.12%	>2.5%
	Number of branches in Cyprus	133	130	125
	Group employees in Cyprus	4,247	4,232	<4,100

* As amended following publication of final transitional provisions by the CBC.

3.4.2 Commentary about the Evolution of Key Performance Indicators

Asset Quality

The provisioning coverage of 90+DPD has increased to 39% at 30 June 2014, up from 38% at 31 December 2013. The annualised provisioning charge for the six months ended 30 June 2014 was 2.5%, compared to a provisioning charge of 3.7% for the year ended 31 December 2013.

Funding

The net loans to deposits ratio totalled 148% at 30 June 2014, compared to 145% at 31 December 2013.

Capital

In August and September 2014, the Bank raised total gross proceeds of €1 billion through the Capital Raising (as defined in Section 4.2.1 (*Key Terms of the Share Capital Increase*)) hereof.

As of 30 June 2014, the Bank's CET 1 ratio was 11.3%. The capital increase of €1 billion from the Capital Raising, combined with deleveraging actions completed after the first quarter of 2014, has strengthened the Bank's CET 1 ratio (CRD IV/CRR – transitional basis) to 15.6% and its CET 1 ratio (CRD IV/CRR – fully loaded basis) to 15.1%, which is significantly ahead of European peers. In addition, the Leverage ratio has improved to 10.1x at 30 June 2014, compared to 11.1x at 31 December 2013.

Efficiency

The cost to income ratio for the six months ended 30 June was 38%, compared to a ratio of 47% for the year ended 31 December 2013. The net interest margin for the six months ended 30 June 2014 was 4.12%, compared to 3.54% for the year ended 31 December 2013. Branches in Cyprus have been reduced to 130 branches as at 30 June 2014 compared to 133 branches as at 31 December 2013. The number of Group employees in Cyprus totalled 4,232 as at 30 June 2014, compared to 4,247 employees at 31 December 2013.

3.4.3 Commentary about the Operational Progress of the Restructuring Plan

In order to ensure timely and effective implementation of its Restructuring Plan, more than 45 distinct work packages have been identified and are being implemented. The high importance packages relating to the Bank's strategic pillars, including the progress accomplished so far are set out below:

Restructuring and Recoveries Division

The creation of the Restructuring and Recoveries Division ("**RRD**"), as part of the new organisational structure, aims to manage arrears across all portfolios. The RRD currently manages a large and delinquent loan portfolio of €11.4 billion in Cyprus. Since its set up, the RRD has put mechanisms in place to ensure delinquencies in all portfolios are addressed at the earliest possible stage. Retail loans are addressed via the collections call centre, which applies specific contact strategies, and the retail and SME arrears management unit, which provides restructuring solutions to viable customers. Business support centres have been set up throughout Cyprus to help address delinquent SME clients and the major corporate and mid corporate units of RRD have been set up to focus entirely on the larger customers.

Strengthening Risk and Corporate Governance Framework

As a result of implementing new and stricter credit risk management policies and processes in line with the Group's conservative risk appetite and strategy under the Restructuring Plan, the Risk Management Division ("**RMD**") function has been reassessed and reorganised to improve and enhance credit risk monitoring and reporting. As part of the reorganisation process, new departments have been created to address particular risks, and new subdivisions have been created within existing departments.

Integration and Lean Operating Model

The new Group organisational structure has been published together with detailed structures for all divisions. The Cyprus branch network reduction is on track with 73 branches closed since June 2013. The IT systems migration was successfully completed in June 2014. Through a VRS and salary cuts implemented during 2013, personnel numbers in Cyprus have been reduced by 24% and personnel expenses by 35% on an annualised basis.

Restoring Trust and Strengthening of Deposit Base

Regarding deposits retention, a monitoring mechanism has been set up and implemented. New deposit campaigns have been launched. A deposit retention and gathering plan has already been implemented as part of the overall consumer banking strategy. In line with this strategy, customer segmentation within the consumer banking division has already been completed.

Deleverage

Since April 2014, the Group has disposed of its Ukrainian operations, its investment in Banca Transilvania, a loan portfolio in Serbia, its interest in GHES and a loan portfolio in the UK. For more information, see Section 3.5.6 (*History and Development of the Group*) and Section 3.5.7 (*Recent Developments*).

3.5 BUSINESS DESCRIPTION OF THE GROUP

3.5.1 Overview

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, Ayia Paraskevi, Strovolos, 2002 Nicosia, Cyprus, telephone number +357 22 122100. The Bank is a public company, limited by shares under the Companies Law 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 has a primary listing on the main market of the CSE and a secondary listing on ATHEX. It is also a public company for the purposes of the Cyprus Income Tax Law, 118(I)/2002 (as amended). Since 19 March 2013, the listed ordinary shares of the Bank (currently comprised of the Listed Shares) have been suspended from trading on the CSE and ATHEX.

The Group is the leading banking and financial services group in Cyprus. The Group currently operates through a total of 267 branches, of which 130 operate in Cyprus, 131 in Russia, four in the United Kingdom, one in Romania and one in the Channel Islands. The Group has four representative offices in Russia, Ukraine and China. At 30 June 2014, gross loans and advances to customers in Cyprus before fair value adjustments on initial recognition accounted for 89.2% of the Group's total gross loans and advances to customers, excluding loans and advances held for sale. As of 30 June 2014, the Group employed 6,747 staff worldwide. In April 2014, the Group completed the sale of its Ukrainian business (see Section 3.7.9.6 (*Ukraine*)). At 31 December 2013 and 30 June 2014, the Group's total assets amounted to €30.3 billion and €28.6 billion, respectively. The Group recorded a total loss after tax attributable to its owners of €2.0 billion for the year ended 31 December 2013 and a total profit after tax attributable to its owners of €81.4 million for the six months ended 30 June 2014.

The Group offers a wide range of financial products and services which include consumer and SME banking, corporate banking, international banking services, investment banking, brokerage, fund management, private banking and life and general insurance.

3.5.2 Credit Ratings

Fitch has affirmed the Bank’s long-term credit rating of CC. Moody’s has upgraded the bank to Caa3 (with stable outlook). The following table presents the most recent credit ratings of the Bank issued by Moody’s (17 November 2014) and Fitch (4 July 2014).

Credit Rating Agency	**Rating Assigned**
Moody's *(last date of rating 17 November 2014)*	
Long-term Deposit Rating:	Upgraded to "Caa3", with stable outlook on 17 November 2014
Short-term Deposit Rating:	Affirmed at "Not-Prime" on 17 November 2014
Standalone BFSR:	Affirmed at "E" with stable outlook on 17 November 2014
Fitch *(last date of rating 4 July 2014)*	
Long-term Issuer Default Rating:	Upgraded to "CC" on 4 July 2014
Short-term Issuer Default Rating:	Upgraded to "C" on 4 July 2014
Viability Rating:	Affirmed at "CC" on 4 July 2014

The long-term ratings reflects the ability of a particular business to pay off its long-term liabilities and is denoted with a letter from A to C. Within this spectrum, there are different degrees of each rating, which Moody's denotes with a number from 1 to 3 and which Fitch denotes with a positive or negative sign. Credit rating assists investors in their assessment of the market value and the investment risk level of a particular business. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

On 31 October 2011 the European Securities and Markets Authority announced the registration of DBRS, S&P, Moody's and Fitch as Credit Rating Agencies. Their registration was issued pursuant to the European Regulation No. 1060/2009 on Credit Rating Agencies and is the result of careful and coordinated assessment of the above Credit Rating Agencies applications by the supervisory authorities of all EU member states.

3.5.3 Competitive Strengths

The Bank believes that its key strengths include the following:

3.5.3.1 The Leading Bank in Cyprus

The Bank is the leading bank in Cyprus, based on loans, deposits and number of branches, with a market share (based on CBC data) in loans in Cyprus of 39.5% and a market share (based on CBC data) in deposits in Cyprus of 25.5% at 30 June 2014. As such, it plays an important role in the Cypriot economy and is poised to benefit from the improving macroeconomic situation in the country.

Cyprus has been a member of the EU since 2004 and adopted the euro as its currency in 2008. As a result of its strategic position in the Eastern Mediterranean region, its access to the EU single market, its low tax rates and its developed legal, accounting and banking sectors, it has developed into a regional international business hub as well as a popular tourist destination.

Although Cyprus was deeply affected by the global economic crisis, actions taken by the Government and the Troika - including the reforms being implemented under the EAP - have put the Cypriot economy on the road to recovery. A flexible economy has allowed for significant and rapid adjustments in consumer prices, wages and property. The recession has proven less severe than expected, with the unemployment rate well below that of Greece and Spain, and GDP expected to return to growth in 2015. As a result, Standard & Poor's Credit Market Services ("**Standard & Poor's**") and Dominion Bond Rating Service ("**DBRS**") recently upgraded the Government's credit rating and Cyprus returned to the capital markets in June 2014 with the issue of a €750 million benchmark bond. See Section 3.22.2 (*The Macroeconomic Environment in Cyprus*).

3.5.3.2 A Strengthened Management Team with Significant Turn-around Experience

As part of its restructuring, the Bank made a number of key management hires. These include John Hourican, the CEO and former head of investment banking at The Royal Bank of Scotland Group ("**RBS**"), and Euan Hamilton, the head of the RRD, who previously was responsible for the sale or run-down of approximately £75 billion of assets at RBS following its bailout by the UK government. Both have substantial experience in bank restructuring and debt collection and recovery. They are supported by a strong senior management team with long-standing experience of the banking and financial services market in Cyprus. See Section 3.18 (*Management and Corporate Governance*).

3.5.3.3 Aggressive Management of Non-performing Loans

The Bank has made significant changes to its management and operational structure to improve the management of its non-performing loans. The RRD centralises the management and recovery of delinquent loans across the Group and is also responsible for monitoring all exposures above €100 million, whether performing or not. It currently manages a large and delinquent loan portfolio of €11.4 billion. Since its set up, the RRD has put mechanisms in place to ensure delinquencies in all portfolios are addressed at the earliest possible stage. Retail loans are addressed via the collections call centre, which applies specific contact strategies, and the retail and SME arrears management unit, which provides restructuring solutions to viable customers. Business support centres have been set up throughout Cyprus to help address delinquent SME clients and the major corporate and mid corporate units of RRD have been set up to focus entirely on the larger customers.

3.5.3.4 A Strong Capital Structure as a Result of the Capital Raising

In August and September 2014, the Bank raised total gross proceeds of €1 billion through the Capital Raising (as defined in Section 4.2.1 (*Key Terms of the Share Capital Increase*)) hereof.

As of 30 June 2014, the Bank's CET 1 ratio was 11.3%. The capital increase of €1 billion from the Capital Raising, combined with deleveraging actions completed after the first quarter of 2014, has strengthened the Bank's CET 1 ratio (CRD IV/CRR – transitional basis) to 15.6% and its CET 1 ratio (CRD IV/CRR – fully loaded basis) to 15.1%, which is significantly ahead of European peers.

In addition to strengthening the Bank's capital base, the Bank believes that the Capital Raising has provided the following additional strategic benefits:

- increased the Bank's ability to meet regulatory tests and withstand potential exogenous shocks;
- improved stakeholders' confidence in the Bank;
- expedited the implementation of the Restructuring Plan;
- improved funding options, enhancing the Bank's ability to access the capital markets;
- provided a path to the Bank's listing of its ordinary shares; and
- positioned the Bank to stimulate and benefit from the recovery of the Cypriot economy.

Following the Capital Raising, in September 2014, Moody's placed the Bank's long-term deposit rating of Ca on review for upgrade. The Bank's long-term deposit rating was upgraded to Caa3 by Moody’s on 17 November 2014.

In addition, on 26 October 2014, the Bank announced the results of the ECB's Comprehensive Assessment, which consisted of both an asset quality review ("**AQR**") and an EU-wide stress test. After giving effect to the €1 billion gross proceeds of the Capital Raising in September 2014, the AQR Adjusted CET 1 ratio (based on transitional arrangements as of 1 January 2014) of the Bank was 11.53%, the Adjusted CET 1 ratio after the baseline scenario was 11.62% and the Adjusted CET 1 ratio after the adverse scenario was 5.85%, resulting in a theoretical aggregated capital surplus of €81 million. For more information on the ECB's Comprehensive Assessment, see Section 3.5.7 (*Recent Developments*).

3.5.4 Strategy

The Group intends to achieve the objectives set out in the Restructuring Plan and to position itself to support the recovery of the economy in Cyprus through the following measures:

3.5.4.1 Shrink to Strength

The Group has been disposing of non-essential assets and operations in order to focus on its core business in Cyprus. It has exited its businesses in Greece and Ukraine, and it is in the process of selling certain assets in Romania and continues to examine its remaining international operations in terms of profitability and synergies with its core domestic business. In Cyprus, the Bank has simplified its organisational structure and rationalised its branch network and headcount to improve efficiency. It will continue to rationalise its loan portfolio to improve its capital and funding positions.

3.5.4.2 Focus on Asset Quality

A key priority for the Group is to increase the quality of its loan portfolio. In December 2013, the Group established the RRD to manage the Group's NPL portfolio, pro-actively restructuring, collecting or selling delinquent loans and managing all large exposures. As a result, the first quarter of 2014 showed the first reduction in NPLs after 16 consecutive quarterly increases. While the Group's NPL ratio remains high, at 57.6% of gross loans as at 30 June 2014, the loan portfolio is adequately collateralised and adequately provisioned. As at 30 June 2014, the Group had a maximum exposure to risk in respect of its loans and advances to customers of €20.1 billion, but the fair value of net collateral held by the Group was €19.3 billion, leaving a net exposure to credit risk of €781.3 million. Total provisions at 30 June 2014 were €3.3 billion. See Section 3.17 (*Selected Statistical and Other Information*). The Group has recently implemented a new lending policy with tighter credit approval requirements. Going forward, the Group intends to focus on growth in lower-risk retail products and customers, as well as targeted business sectors for SME and corporate customers, such as professional services, education, energy, green project and information and communication technology.

3.5.4.3 Diversify Funding Sources

Historically, customer deposits provided the principal source of funding for the Group. However, as part of the Recapitalisation, a significant proportion of deposits were converted into equity, with customer deposits falling during 2013 from €28.4 billion as at 31 December 2012 to €15.0 billion as at 31 December 2013. Customer deposits stood at €13.8 billion as at 30 June 2014. In addition, together with many other Southern European banks, the Group lost access to the capital markets as a source of funding during this period. As a consequence, the Group is currently heavily reliant on central bank funding, which comprised 41.1% of its funding at 30 June 2014.

The Group intends to steadily reduce its central bank funding, both in absolute terms and as a percentage of total funding, and has already repaid approximately €3,010 million of central bank funding since April 2013. The Bank currently has €7,500 million of ELA funding and €890 million of ECB funding. The Bank has also implemented a deposit gathering and retention campaign to grow its deposit base as confidence in the Cyprus banking system returns. Following the completion of the Capital Raising, the Group intends to resume issuing debt securities in the capital markets as and when market conditions allow.

3.5.4.4 Increase Fee Income

The Bank will seek to increase its fee income to increase revenues without a corresponding increase in capital requirements. To this end, the IBS division is shifting its focus from deposit gathering to international transaction services. The Corporate Banking Division is focusing on fee generating activities such as factoring, debt collection, assessment services, ledger administration and trade finance. The Bank is also looking to increase its distribution of bancassurance products through its branch network. The Wealth, Brokerage and Asset Management division generates most of its income in the form of fees and commissions and is expected to be an additional driver of fee income growth. As the economic recovery in Cyprus takes hold, CISCO should also see an increase in investment banking and advisory fees.

3.5.5 Primary Objectives

According to Article 3 of the Bank's Memorandum of Association, as amended, the primary objectives of its establishment are:

1. To carry on the business of banking, that of an investment company and that of brokerage of any kind as well as the business of Leasing, of Hire Purchase, of Factoring, of Forfeiting and to establish, manage and carry on branches and agencies in and outside Cyprus and to appoint managers, officers and agents for the purpose of carrying on the same with such powers and on such terms and conditions as may be deemed expedient.

2. To lend or advance money on such security and on such terms and conditions as may be thought fit or without security; to discount, buy, sell and deal in bills of exchange, promissory notes, coupons, drafts, Bills of Lading, warrants, debentures, scrip and other instruments and securities, whether negotiable or not and to carry out any transactions relevant thereto; to grant and issue letters of credit and circular notes; to buy, sell and deal in gold and silver in bullion and specie, goods, merchandise and produce and any other transactions relevant thereto. To acquire, hold, issue on commission, underwrite and deal with stocks, funds, shares, debentures, debenture stock, bonds, obligations, securities and investments of all kinds, and to carry on any other transaction relevant thereto. To negotiate loans and advances, to receive money and valuables on deposit or for safe custody or otherwise, to collect and transmit dividends and interest and other moneys and securities of all kinds, and to manage, develop, realise and turn to account any personal property and transact all kinds of agency business commonly transacted by bankers. To afford the services of transmission of money, of issuing and managing methods of payment, including credit cards, traveller's cheques and banker's drafts.

3. To acquire any such shares, stock, debentures, debentures stock, bonds, notes, obligations or securities by original subscription, contract, tender, purchase, exchange, underwriting, participation in syndicates or otherwise, and whether or not fully paid up and to subscribe for the same subject to such terms and conditions (if any) as may be thought fit.

4. To exercise and enforce all rights and powers conferred by or incident to the ownership of any such shares, stock, obligations or other securities, including, without prejudice to the generality of the foregoing, of such powers of veto or control as may be conferred by virtue of the holding by the Bank of some special proportion of the issued or nominal amount thereof and to provide managerial and other executive, supervisory and consultant services for or in relation to any company in which the Bank is interested, upon such terms as may be thought fit.

5. To undertake and execute any trust, the undertaking whereof may seem desirable and also to undertake the offices of executor, administrator, receiver, treasurer or auditors, and to keep for any company, government authority or body any registers relating to any stocks, fund, shares or securities and to undertake any duties in relation to the subscription of transfers, the issue of certificates or otherwise.

6. To establish and to manage mutual funds, unit trusts, investments, investment companies and investment trusts in Cyprus and elsewhere and to advise generally in relation to the said activities or any of them and to demand and charge for such services on a fee basis or on a commission basis or on a profit-sharing basis or on a participation basis or otherwise or to perform such services or any of them gratuitously.

7. To establish companies and associations for the prosecution or execution of undertakings, works, projects, or enterprises of any description, whether of a private or public character in Cyprus or elsewhere and to acquire, underwrite and dispose of shares and interests in such companies or associations or in any other company or association or in the undertakings thereof.

8. To undertake and carry out insurance business of any kind and of any nature including life assurance business, industrial assurance business, bond investment insurance business, fire insurance business, accident insurance business, marine aviation and transit insurance business, employer's liability insurance business, workmen's compensation insurance business, burglary and theft insurance business and any other insurance business.

9. To purchase, take on lease or in exchange, hire, erect, construct or otherwise acquire and hold any estate or interest in Cyprus or in any country or place where the Bank proposes to establish or has established any branch or agency or transacts or is proposing to transact business, any offices, houses, buildings, lands, easements, licenses or rights, and any real or

personal property of any kind necessary or convenient for the Bank's business and to sell and let such of them or such portions thereof as may not be required for occupation by the Bank.

The remaining objectives of the Bank are detailed in its Memorandum, which is a public document and has been filed with the Registrar of Companies in Cyprus.

3.5.6 History and Development of the Group

On 1 January 1899, a group of Cypriot businessmen, headed by Ioannis Economides, founded the "Nicosia Savings Bank". In December 1912, after a petition by its members to the British High Commissioner, "Nicosia Savings Bank" was converted into a company and changed its name to "Bank of Cyprus".

In 1930, the Bank of Cyprus was registered as a limited liability company and started to offer a full range of banking services as Cyprus' main local bank.

In 1943, the Bank of Cyprus merged with the Bank of Famagusta and the Bank of Larnaca. In the years that followed, it merged with banking institutions from other towns which enabled it to extend its reach all over Cyprus.

In 1951, the Bank of Cyprus entered the insurance sector with the founding of General Insurance of Cyprus. In 1955, it opened its first overseas branch to serve the Cypriot community in London.

The Bank of Cyprus established its first branch in Greece in 1991 and, in 1994, the Bank established the life insurance company, Eurolife.

In August 1999, the Bank became the holding company of the Group, replacing Bank of Cyprus (Holdings) Limited. In August 1999, the ordinary shares of the Bank were admitted to trading on the main market of the CSE and, in November 2000, the ordinary shares of the Bank were admitted to trading on the main market of ATHEX.

In 2007, the Group secured licences for the provision of banking services in Romania and Russia.

In 2008, the Bank successfully completed the acquisition of the Ukrainian Bank PJSC Bank of Cyprus (former JSC AvtoZAZbank) and at the same time signed and completed an agreement for the acquisition of an 80.0% interest in Uniastrum in Russia.

In June 2010, the Group completed the sale of 100% of the share capital of its subsidiary Leadbank LLC (former Bank Kypra LLC) to CJSC Renaissance Capital.

In March 2012, the Bank completed the sale of 100% of the share capital of its subsidiary, Bank of Cyprus Australia Ltd (established by the Bank in 2000), to Bendigo and Adelaide Bank Limited.

In June 2012, the banking business carried out by the Bank's United Kingdom branch was transferred to a banking subsidiary (Bank of Cyprus UK Limited). Bank of Cyprus UK Limited is incorporated in the United Kingdom and is authorised and regulated by the Prudential Regulation Authority and regulated by the Financial Conduct Authority.

In June 2012, the Bank applied to the Government for capital support because its capital ratios were lower than the regulatory minimum levels, primarily as a result of the impairment of its exposures to Greek government debt (which resulted in the Bank recording a €1.7 billion impairment loss) and the deterioration of its loan portfolio quality, primarily in Greece, due to ongoing weak economic conditions.

On 25 March 2013, the Government and the Eurogroup reached an agreement on the key elements and principles necessary for a future macroeconomic adjustment programme to aid the struggling Cypriot economy, including downsizing of the financial sector and restructuring of the banking sector. Following the decisions of the Eurogroup meeting, the Resolution Authority appointed a special administrator for the Bank on 25 March 2013. On 29 March 2013, all members of the Bank's Board of Directors resigned from office and the Resolution Authority issued the first set of Laiki Transfer Decrees and Bail-in Decrees under the Resolution Law. The Bank was under resolution until 30 July 2013, a period during which it was restructured and recapitalised in accordance with the terms of the Bail-in Decrees. During its period under resolution:

- the Group disposed of the loans, fixed assets and deposits of its Greek banking operations to Piraeus Bank pursuant to the Greek Operations Decree;
- the Group acquired certain assets and liabilities, including customer deposits of €4.2 billion and ELA of €9.1 billion, of Laiki Bank pursuant to the Laiki Transfer Decrees;
- the Group disposed of certain assets and liabilities of its Romanian operations to Marfin Bank Romania pursuant to the Romanian Operations Decree; and
- the Resolution Authority effected the Recapitalisation of the Bank pursuant to the Bail-in Decrees.

For a more detailed description of the recapitalization and restructuring of the Group during this period, see Section 3.3 (*Restructuring of the Bank and Laiki Bank*).

In August 2013, the Bank was reinstated as an eligible counterparty by the ECB for monetary policy operations following the Bank's exit from resolution.

On 10 September 2013, the Bank held its annual general meeting of shareholders and a new Board of Directors was elected and approved thereafter by the CBC.

In October 2013, the Bank completed the sale of its subsidiary Kyprou Asset Management M.F.M.C. in Greece to Alpha Trust Mutual Fund Management S.A. In the same month, the Board of Directors appointed Mr. John Patrick Hourican as Group chief executive officer. Mr. Hourican was appointed to the Board of Directors of the Bank on 26 November 2013.

In January 2014, the Bank released the six-month time deposits that comprised part of the New Deposits issued by the Bank pursuant to the Recapitalisation, and which had been subject to restrictive measures pursuant to the Capital Controls Decree. Although, under the Capital Controls Decree, the Bank had the option of rolling over these deposits into new time deposits with fixed-terms equal to that of the initial deposits, it chose not to exercise this option at all with respect to the six-month deposits released in January 2014. The released deposits are subject to the general restrictive measures currently applicable in the Cypriot banking system.

In April 2014, the Bank partially released the nine-month time deposits that comprised the second tranche of the New Deposits issued by the Bank pursuant to the Recapitalisation and which had been subject to restrictive measures pursuant to the Capital Controls Decree. The Bank has released and converted these nine-month deposits as follows:

- one-third of the deposits was immediately released and available in customer current accounts;
- one-third of the deposits was converted into three-month time deposits maturing and automatically released on 29 July 2014; and
- one-third of the deposits was converted into six-month time deposits maturing and automatically released on 31 October 2014.

The released deposits are subject to the general restrictive measures currently applicable in the Cypriot banking system.

In April 2014, the Group completed two disposals in connection with its Restructuring Plan and divestment of non-core businesses:

- the sale of its Ukrainian business, consisting of its holding of 99.8% in PJSC Bank of Cyprus and its loans with Ukrainian exposures, to Alfa Group, the Russian banking group, for approximately €198.9 million comprising €98.9 million received and €100.0 million deferred up to 31 March 2015; and
- the sale of its 9.99% equity stake in Banca Transilvania, a Romanian bank, for approximately €82.0 million.

In May 2014, the Bank sold loans extended to Robne Kuce Beograd, a Serbian real estate management company, to Piraeus Bank for approximately €165.0 million, which has had a positive impact on the Bank's liquidity and capital position. The loans were transferred to the Bank following the acquisition of certain operations of Laiki Bank pursuant to the Laiki Transfer Decrees.

In June 2014, the Group substantially completed its integration of ex-Laiki Bank operations through the migration of information technology systems across all divisions.

On 1 July 2014, the Public Debt Management Office of the Republic of Cyprus repaid €950.0 million of an outstanding €1,987.0 million sovereign bond held by the Bank. The bond was transferred to the Bank in March 2013 as part of the acquisition of certain assets and liabilities of Laiki Bank. The bond was pledged as collateral with the ECB and the Bank used the proceeds of repayment to reduce its ECB funding by €550 million and ELA by €400 million. As the bond was transferred to the Bank at fair value and redeemed at nominal value, the Group recognized an accounting profit of €99.8 million for the second quarter of 2014, which had a positive impact of €99.8 million or 0.4 percentage points on the Group's CET 1 ratio.

3.5.7 Recent Developments

On 4 July 2014, Fitch upgraded the Bank's long-term issuer default rating from Restricted Default to CC, upgraded its short-term issuer default rating from Restricted Default to C and affirmed its viability rating at CC. In September 2014, following the Capital Raising, Moody's placed the Bank's long-term deposit rating of Ca on review for upgrade. The Bank's long-term deposit rating was upgraded to Caa3 by Moody's on 17 November 2014. Each of Fitch and Moody's is established in the EU and is registered under Regulation (EC) No. 1060/2009 (as amended).

On 29 July 2014, the Bank released the three-month time deposits resulting from the nine-month time deposits that comprised the second tranche of the New Deposits issued by the Bank pursuant to the Recapitalisation. These deposits had initially matured on 30 April 2014 and were converted into three-month time deposits to be automatically released on 29 July 2014. The released deposits are subject to the general restrictive measures currently applicable in the Cypriot banking system.

On 30 July 2014, following an amendment to the Bail-in Decrees by the Ministry of Finance of Cyprus, the Bank announced that existing shareholders of the Bank may terminate any fixed term deposits, prior to their scheduled maturity, provided that such deposits are used to purchase ordinary shares of the Bank pursuant to the Open Offer and Retail Offer (both as described in Section 4.2.1 (*Key Terms of the Share Capital Increase*)).

On 31 July 2014, the Bank partially released the twelve-month time deposits that comprised the third tranche of the New Deposits issued by the Bank pursuant to the Recapitalisation and which had been subject to restrictive measures pursuant to the Capital Controls Decree. The Bank has released and converted these twelve-month deposits as follows:

- one-third of the deposits was immediately released and available in customer current accounts;

- one-third of the deposits was converted into three-month time deposits, which matured on 30 October 2014 and were automatically released on 30 October 2014; and
- one-third of the deposits was converted into six-month time deposits maturing and automatically released on 30 January 2015.

The released deposits are subject to the general restrictive measures currently applicable in the Cypriot banking system.

On 11 September 2014, the Group disposed of its interest in GHES, a company incorporated in Romania and the owner of the JW Marriott Bucharest Grand Hotel, consisting of (i) a facility agreement between GHES and the Bank's Romanian branch, (ii) the Group's 35.3% shareholding in GHES and (iii) a subordinated loan agreement from GHES. The sale consideration was €95.0 million, which improved the Bank's liquidity position. The loss on disposal is approximately €1 million, which was recognised in the third quarter of 2014. The sale had a positive impact of approximately €7 million on the Bank's capital position.

On 18 September 2014, the Bank completed the Capital Raising, in which it raised total gross proceeds of €1 billion. For a more detailed description of the Capital Raising, see Section 4.2.1 (*Key Terms of the Share Capital Increase*) hereof.

On 22 September 2014, in a letter to the Bank, the CBC requested that all members of the Board of Directors resign (with the possibility of re-election) effective as of the date of the AGM on 20 November 2014, in order to allow a new Board of Directors to be chosen by shareholders, including new shareholders following the Capital Raising. On 20 November 2014, the current Board of Directors was elected at the AGM.

On 26 October 2014, the Bank announced the results of the ECB's Comprehensive Assessment, which consisted of both an AQR and an EU-wide stress test. The AQR involved a review of the quality of banks' assets, including the adequacy of asset and collateral valuation and related provisions. The stress test examined the resilience of banks' balance sheets to different stress scenarios using a common methodology developed by the European Banking Authority ("**EBA**") and applied across all participating banks. The Comprehensive Assessment was based on a capital benchmark of 8% Common Equity Tier 1 (CET 1) ratio, including transitional arrangements of CRR/CRD IV, for both the AQR and the baseline stress test scenario. For purposes of the stress test the minimum ratios applied across all participating banks were set at 8% CET1 ratio for the baseline scenario and 6.5% CET1 ratio for the adverse scenario. As a result of the application of the AQR and the stress test, before giving effect to the Capital Raising, the AQR Adjusted CET1 ratio (based on transitional arrangements as of 1 January 2014) of the Bank is estimated at 7.28%, the Adjusted CET1 ratio after the baseline scenario is estimated at 7.73% and the Adjusted CET1 ratio after the adverse scenario is estimated at 1.51%, resulting in a theoretical aggregated capital shortfall of the Comprehensive Assessment of an estimated €919 million. However, after giving effect to the €1 billion gross proceeds of the Capital Raising in September 2014, the AQR Adjusted CET1 ratio (based on transitional arrangements as of 1 January 2014) of the Bank increases to 11.53%, the Adjusted CET1 ratio after the baseline scenario increases to 11.62% and the Adjusted CET1 ratio after the adverse scenario increases to 5.85%, resulting in a theoretical aggregated capital surplus of €81 million.

The total AQR adjustments as at 31 December 2013 amounted to €731 million, of which €277 million related to specific provisions and €554 million related to collective provisions. These adjustments had a negative impact on the prudential Common Equity Tier 1 (CET1) ratio of the Bank. The Bank considers that the AQR adjustments calculated as part of the Comprehensive Assessment in no way indicate that the Bank was not in compliance with IFRS. Moreover, it is noted that the Bank has not been made aware, in the context of the AQR, of any accounting errors or of any of its accounting policies not being in compliance with IFRS.

Following the Comprehensive Assessment, which was fundamentally a prudential exercise, the SSM has requested the Group to review certain of its accounting estimates relating to provisions in light of the higher degree of conservatism applied in the AQR. If required, any such changes in estimates would be reflected in the Group's financial statements for year 2014. Further, while the AQR and stress test did not show a capital shortfall for the Group after giving effect to the Capital Raising, in connection with the AQR, the SSM has requested the Bank to review certain of its accounting estimates, such as those relating to provisions, on a prospective basis. This may adversely affect the Bank's capital position and its financial results going forward.

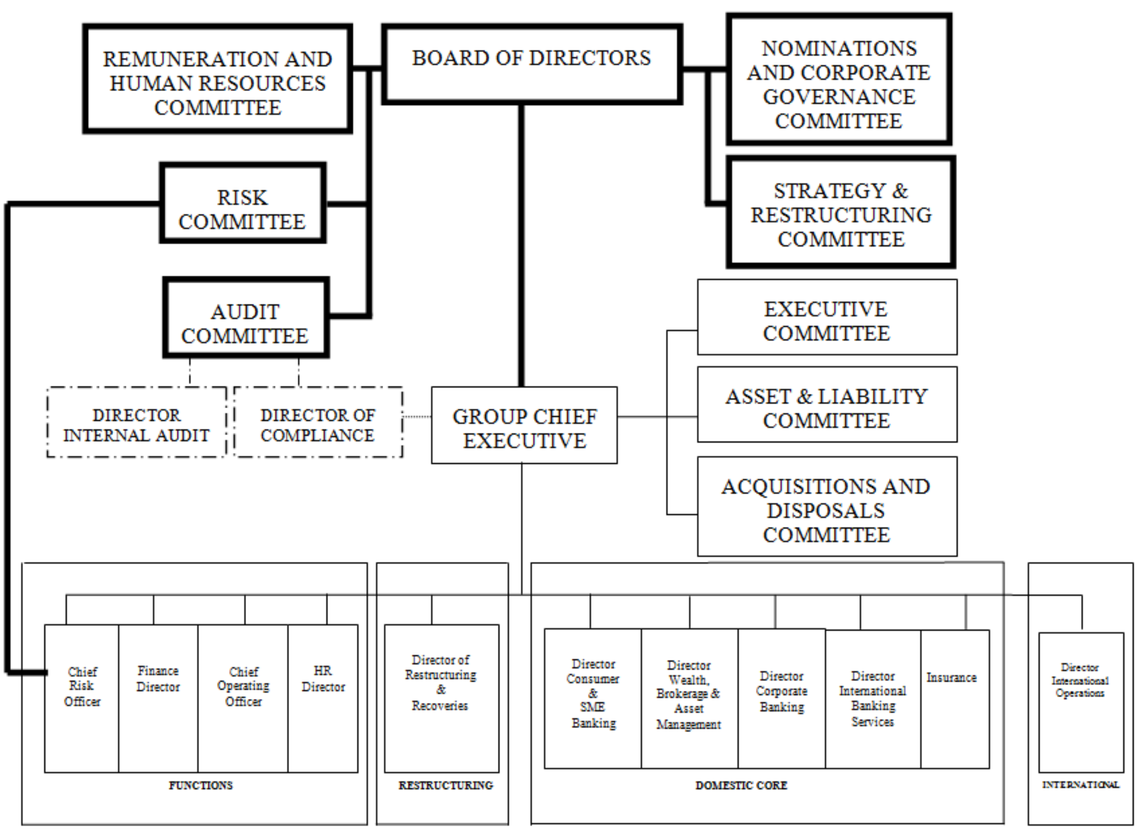
On 31 October 2014, the Bank sold a UK loan portfolio owned by the Group and largely composed of residential and commercial real estate-backed facilities (the "**UK Loan Portfolio**") to purchasers selected through a competitive process. The nominal value of the UK Loan Portfolio, as at the cut-off date for the transaction, was £289 million. The transaction will enhance the Group's liquidity and will have a small positive impact on the Group's CET 1 capital due to the release of risk weighted assets. The UK Loan Portfolio is not related to the Group's wholly-owned subsidiary, Bank of Cyprus UK Ltd ("**BOC UK**"), but is part of the wider UK loan portfolio transferred to the Group pursuant to the Laiki Transfer Decrees.

On 20 November 2014, the current Board of Directors was elected at the AGM. For more information, see Section 3.18 (*Management and Corporate Governance*).

3.6 GROUP MANAGEMENT STRUCTURE AND LEGAL ORGANISATIONAL STRUCTURE

3.6.1 Group Management Structure

In December 2013, the Group's chief executive officer made significant changes to the management structure of the Group. The structure chart below sets out the key officers, committees and divisions of this new management structure:



See Section 3.18 (*Management and Corporate Governance*) for further information on the role of the Board of Directors and the committees of the Board of Directors.

3.6.2 Legal Organisational Structure

The Bank is the holding company of the Group. The following table indicates the main companies and branches included within the Group as of the date of this Prospectus:

Company	Country	Activities	Percentage holding (%)	Percentage of voting rights (%)
Bank of Cyprus Public Company Ltd	Cyprus	Commercial bank	N/A	N/A
The Cyprus Investment and Securities Corporation Ltd (CISCO)	Cyprus	Investment banking, asset management and brokerage	100	100
General Insurance of Cyprus Ltd	Cyprus	General insurance	100	100
EuroLife Ltd	Cyprus	Life insurance	100	100
Kermia Ltd	Cyprus	Property trading and development	100	100
Kermia Properties & Investments Ltd	Cyprus	Property trading and development	100	100
Kermia Hotels Ltd	Cyprus	Hotel business	100	100
BOC Ventures Ltd	Cyprus	Inactive	100	100
Tefkros Investments Ltd	Cyprus	Inactive	100	100
Bank of Cyprus Mutual Funds Ltd	Cyprus	Inactive	100	100
Cytrustees Investment Public Company Ltd	Cyprus	Closed-end investment company	53	53
Diners Club (Cyprus) Ltd	Cyprus	Inactive	100	100
BOC Russia (Holdings) Ltd	Cyprus	Intermediate holding company	80	80
Finerose Properties Ltd	Cyprus	Financing services	100	100
Hydrobius Ltd	Cyprus	Special purpose entity	-	-
Laiki Capital Public Co Ltd	Cyprus	Holding company	67	67
Laiki Financial Services Ltd	Cyprus	Investment banking, asset management and brokerage	67	67
Paneuropean Ltd	Cyprus	Investment company	100	100
Philiki Ltd	Cyprus	Investment company	100	100
Cyprialife Ltd	Cyprus	Investment company	100	100
JCC Payment Systems Ltd	Cyprus	Card processing transaction services	75	75
Bank of Cyprus Public Company Ltd (branch of the Bank)	Greece	Administration of guarantees and holding of real estate properties	N/A	N/A
Kyprou Leasing SA	Greece	Leasing	100	100
Kyprou Commercial SA	Greece	Financing of motor vehicles and other consumer products	100	100
Kyprou Properties SA	Greece	Property management	100	100
Kyprou Zois (branch of EuroLife Ltd)	Greece	Life insurance	100	100
Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd)	Greece	General insurance	100	100

Company	Country	Activities	Percentage holding (%)	Percentage of voting rights (%)
Bank of Cyprus UK Ltd (formerly BOC Advances Ltd)	United Kingdom	Commercial bank	100	100
BOC Financial Services Ltd	United Kingdom	Financial advice on investment products and life insurance	100	100
Misthosis Funding Plc	United Kingdom	Inactive	-	-
Misthosis Funding (Holding) Ltd	United Kingdom	Inactive	-	-
Bank of Cyprus (Channel Islands) Ltd	Bailiwick of Guernsey	Commercial bank	100	100
Tefkros Investments (CI) Ltd	Bailiwick of Guernsey	Investment fund	100	100
Bank of Cyprus Romania (branch of the Bank)	Romania	Commercial bank	N/A	N/A
Cyprus Leasing Romania IFN SA	Romania	Leasing	100	100
CB Uniastrum Bank LLC	Russia	Commercial bank	80	80
Leasing Company Uniastrum Leasing	Russia	Leasing	80	80
MC Investment Assets Management LLC	Russia	Special purpose entity	-	-
Kyprou Finance (NL) B.V.	Netherlands	Financing services	100	100

In addition to the above companies, as of the date of this Prospectus, the Bank had 100% shareholding in the companies below. The main activity of these companies is the ownership and management of immovable property and other assets.

Cyprus: Timeland Properties Ltd, Cobhan Properties Ltd, Bramwell Properties Ltd, Elswick Properties Ltd, Birkdale Properties Ltd, Newington Properties Ltd, Innerwick Properties Ltd, Lameland Properties Ltd, Longtail Properties Ltd, Citlali Properties Ltd, Endar Properties Ltd, Ramendi Properties Ltd, Ligisimo Properties Ltd, Thames Properties Ltd, Moonland Properties Ltd, Polkima Properties Ltd, Nalmosa Properties Ltd, Smooland Properties Ltd, Emovera Properties Ltd, Estaga Properties Ltd, Skellom Properties Ltd, Blodar Properties Ltd, Spaceglowing Properties Ltd, Threefield Properties Ltd, Guarded Path Properties Ltd, Lepidoland Properties Ltd, Stamoland Properties Ltd, Ecunaland Properties Ltd, Tebane Properties Ltd, Cranmer Properties Ltd, Calomland Properties Ltd, Vieman Ltd, Les Coraux Estates Ltd, Natakon Company Ltd, Karmazi (Apartments) Ltd, Kermia Palace Enterprises Ltd, Oceania Ltd, Dominion Industries Ltd, Ledra Estates Ltd, Eurolife Properties Ltd, Elias Houry Estates Ltd, Auction Yard Ltd, Laiki Bank (Nominees) Ltd, Laiki Lefkothea Center Ltd, Labancor Ltd, Imperial Life Assurance Ltd, Philiki Management Services Ltd, Laiki EDAK Ltd, Nelcon Transport Co. Ltd, Steparco Ltd, Joberco Ltd, Zecomex Ltd, Domita Estates Ltd, Memdes Estates Ltd, Obafemi Holdings Ltd, Pamaco Platres Complex Ltd, Gosman Properties Ltd, Odaina Properties Ltd, Vameron Properties Ltd, Thryan Properties Ltd, Icecastle Properties Ltd, Otoba Properties Ltd, Edoric Properties Ltd, Belvesi Properties Ltd, Ingane Properties Ltd, Indene Properties Ltd, Canosa Properties Ltd, Silen Properties Ltd, Kernland Properties Ltd, Unduma Properties Ltd, Iperi Properties Ltd, Warmbaths Properties Ltd, Salecom Ltd, Melsolia Properties Ltd, Nimoland Properties Ltd, Lozzaria Properties Ltd, Danoma Properties Ltd, Kimrar Properties Ltd, Jobelis Properties Ltd, Rimokin Properties Ltd, Tavoni Properties Ltd, Pekiro Properties Ltd, Limestone Properties Ltd, Turnmill Properties Ltd, Fairford Properties Ltd and Metin Properties Ltd.

Romania: Otherland Properties Dorobanti SRL, Pittsburg Properties SRL, Battersee Real Estate SRL, Trecoda Real Estate SRL, Green Hills Properties SRL, Bocaland Properties SRL, Buchuland Properties SRL, Commonland Properties SRL, Romaland Properties SRL, Janoland Properties SRL, Blindingqueen Properties SRL, Fledgego Properties SRL, Hotel New Montana SRL, Loneland Properties SRL, Unknownplan Properties SRL and Frozenport Properties SRL.

In addition, as of the date of this Prospectus, the Bank had 100% shareholding in the intermediate holding companies below.

Cyprus: Otherland Properties Ltd, Pittsburg Properties Ltd, Battersee Properties Ltd, Trecoda Properties Ltd, Bonayia Properties Ltd, Bocaland Properties Ltd, Buchuland Properties Ltd, Commonland Properties Ltd, Romaland Properties Ltd, BC Romanoland Properties Ltd, Blindingqueen Properties Ltd, Fledgego Properties Ltd, Janoland Properties Ltd, Threerich Properties Ltd, Loneland Properties Ltd, Unknownplan Properties Ltd, Frozenport Properties Ltd., Zunimar Properties Ltd, Melgred Properties Ltd, Imoreth Properties Ltd, Tantora Properties Ltd and Imroda Properties Ltd.

Ukraine: Leasing Finance LLC, Corner LLC and Omiks Finance LLC.

3.6.2.1 Investments in Associates and Joint Ventures

The following table sets out the Group's associates and joint ventures as of the date of this Prospectus which are accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary company nor a joint venture.

Company	**Country of incorporation**	**Interest held by Group (%)**	**Reported book value (€000)**
CNP Cyprus Insurance Holdings Ltd	Cyprus	49.9	106,264
Marfin Diversified Strategy Fund plc	Isle of Man	90.0 approximately of the units of the fund	101,553
Byron Capital Partners Ltd	United Kingdom	70.0	5,322
Interfund Investments Plc	Cyprus	23.1	2,961
Aris Capital Management LLC	United States	30.0	-
Rosequeens Properties SRL	Romania	33.3	-

CNP Cyprus Insurance Holdings Ltd

As part of the acquisition of certain operations of Laiki Bank pursuant to the decrees issued by the CBC in its capacity as Resolution Authority, 49.9% of CNP, the parent company of a group of insurance companies in Cyprus and Greece, was acquired by the Group. CNP holds deposits with companies within the Group amounting to €16.7 million as at 30 June 2014.

Interfund Investments Plc

The Group has a 23.1% interest in Interfund Investments Plc, which is a closed-end investment company in Cyprus, listed on the CSE.

Aris Capital Management LLC

The Group's holding in Aris Capital Management LLC of 30.0% was transferred to the Group following the acquisition of certain operations of Laiki Bank.

Rosequeens Properties SRL

The Group owns 33.3% of the share capital of Rosequeens Properties SRL which owns a shopping mall in Romania. The shareholding was acquired after the Bank took part in a public auction for the settlement of due balances.

Marfin Diversified Strategy Fund plc and Byron Capital Partners Ltd

The Group's investments in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc were acquired by the Group as part of the acquisition of certain operations of Laiki Bank pursuant to decrees issued by the Resolution Authority. The management shares of the Marfin Diversified Strategy Fund Plc are 100% owned by Byron Capital Partners Ltd. The Group is a party to a shareholder agreement with the other shareholder of Byron Capital Partners Ltd and this agreement stipulates a number of matters which require consent by both shareholders. Significant management judgement is required in interpreting the provisions of this shareholder agreement and concluding whether matters requiring the consent by both shareholders are substantive with respect to directing the relevant activities of the two investee entities or conveying rights that are of a protective nature.

3.7 REVIEW OF GROUP OPERATIONS

3.7.1 Banking and Financial Services Overview

The majority of the Group's revenue is derived from banking and financial services, which accounted for 94.5% and 91.9% of total revenue from continuing operations for the years ended 31 December 2013 and 2012, respectively, and 96.7% of total revenue from continuing operations for the six months ended 30 June 2014. Gross loans and advances to customers before fair value adjustments on initial recognition represented 88.1% and 90.4% of the Group's total assets as at 31 December 2013 and 2012, respectively, and 87.1% of the Group's total assets as at 30 June 2014. As of 31 December 2013 and 31 December 2012, the Group's gross loans and advances to customers before fair value adjustments on initial recognition was €26.7 billion and €28.1 billion, respectively. As of 30 June 2014, the Group's gross loans and advances to customers before fair value adjustments on initial recognition was €24.9 billion. As of 31 December 2013 and 2012, the Group's customer deposits were €15.0 billion and €28.4 billion, respectively, reflecting a 47.4% decrease which was primarily attributable to the bail-in of depositors pursuant to the Recapitalisation, customer deposit outflows and the disposal of the Greek banking operations. As of 30 June 2014, the Group's customer deposits were €13.8 billion, reflecting a 7.8% decrease from 31 December 2013, primarily as a result of seasonality, the release of the 6-month deposits and the first tranche of the 9-month time deposits that were blocked pursuant to the decrees relating to the Recapitalisation and the relaxation of capital controls by the CBC. The Group's net loans (excluding loans and advances classified as held for sale) to deposits ratio increased from 85.7% as at 31 December 2012 to 145.4% as at 31 December 2013 and 145.4% as at 30 June 2014. The 90+DPD Ratio increased from 27.4% as at 31 December 2012 to 48.6% and 49.8% as at 31 December 2013 and 30 June 2014, respectively, mainly as a result of the increasing economic turmoil in Cyprus which commenced in the latter half of 2012 and intensified after the March 2013 Eurogroup events.

The Group's gross loans and advances to customers before fair value adjustments on initial recognition by customer sector follows:

	31 December 2013		30 June 2014	
	€ billion	**% of total**	**€ billion**	**% of total**
Consumer	8.4	31.3	5.9	23.9
SME	6.1	22.9	2.6	10.4
Corporate	12.2	45.8	4.1	16.3
	26.7	100.0	12.6	50.6
Restructuring and recovery[(1)]				
of which:				
- Corporate	-	-	5.8	23.5
- SME	-	-	1.5	6.0
- Recoveries	-	-	4.1	16.3
Total restructuring and recovery	-	-	11.4	45.8
International banking services	-	-	0.8	3.3
Wealth management	-	-	0.1	0.3
Total	**26.7**	**100.0**	**24.9**	**100.0**

(1) During the second quarter of 2014, a significant proportion of the Group's credit portfolio was transferred to the RRD (see Section 3.7.6 (*Restructuring and Recoveries Division*)). For a discussion of the Group's loans and advances to customer by type of customer, please see Section 3.10.7.2 (*Loans and Advances to Customers—Customer Analysis*).

Additionally, as at 30 June 2014, €418.7 million of loans and advances to customers before fair value adjustment on initial recognition were classified as held for sale, consisting of €270.1 million of loans and advances to corporate customers, €136.1 million of loans and advances to SME customers and €12.5 million of loans and advances to retail customers.

The Group's gross loans and advances to customers in Cyprus before fair value adjustments on initial recognition, by customer sector, follows:

	31 December 2013		30 June 2014	
	€ billion	**% of total**	**€ billion**	**% of total**
Consumer	7.9	34.3	5.5	25.0
SME	5.2	22.7	1.9	8.4
Corporate	9.9	43.0	2.5	11.2
	23.0	100.0	9.9	44.6
Restructuring and recovery[(1)]				
of which:				
- Corporate	-	-	5.8	26.3
- SME	-	-	1.5	6.8
- Recoveries	-	-	4.1	18.3
Total restructuring and recovery	-	-	11.4	51.4
International banking services	-	-	0.8	3.6
Wealth management	-	-	0.1	0.4
Total	**23.0**	**100.0**	**22.2**	**100.0**

(1) During the second quarter of 2014, a significant proportion of the Group's credit portfolio was transferred to the RRD (see Section 3.7.6 (*Restructuring and Recoveries Division*)). For a discussion of the Group's loans and advances to customer by type of customer, please see Section 3.10.7.2 (*Loans and Advances to Customers—Customer Analysis*).

The 90+DPD Ratio for retail loans in Cyprus was 29.5% and 17.9%, for SME loans in Cyprus was 59.4% and 51.4% and for corporate loans in Cyprus was 61.3% and 53.2%, as at 31 December 2013 and 30 June 2014, respectively. As of 30 June 2014, 87.7% of the Group's credit portfolio was funded and 12.3% was unfunded (87.0% and 13.0% respectively, as at 31 December 2013). The Group's unfunded credit consists of acceptances and endorsements, guarantees, documentary credits and undrawn formal standby facilities, credit lines and other commitments to lend.

As of 31 December 2013 and 30 June 2014, retail customers accounted for 59.9% and 54.9%, respectively, of the Group's total deposits in Cyprus and 70.5% and 65.6%, respectively, of the Group's total deposits in Cyprus were time deposits.

The Group's lending is divided between corporate, SME and consumer customers and, after the transfer of loans to the RRD during the second quarter of 2014, the criteria used to allocate customers to each lending business line was revised. As of the date of this Prospectus, in Cyprus, the Bank currently regards any company with available credit lines with the Bank in excess of an aggregate principal amount of €6 million, or having a minimum annual credit turnover of €10 million, as falling within the corporate category, while any company with facilities with the Bank, excluding loans in respect of a primary residence, in the range of €260,000 and €6,000,000, as falling within the SME category. All other customers fall within the consumer sector, which comprises personal customers and small businesses with facilities from the Bank of up to €260,000, excluding residential loans.

3.7.2 Consumer Banking

The Group offers a wide range of consumer products and services to its customers in Cyprus through a network of 130 retail branches located in key towns and regions of Cyprus. These include current accounts, deposits (for more detail, see Section 3.10.7.2 (*Loans and Advances to Customers*)), home loans, student loans, personal loans, business loans for micro business, hire purchase finance for new cars and credit cards (the Bank is the only financial institution that offers American Express products in Cyprus).

Most of the Bank's consumer lending takes the form of mortgage loans, overdraft accounts with predetermined credit limits and personal and hire purchase loans. The Bank offers flexible mortgage loans according to the needs of its customers. For small business lending, security is almost 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.

The Bank has developed a detailed consumer banking strategy in line with the Restructuring Plan, which is based on the following key elements:

- *Improving customer experience through all channels*. Customer service standards for branch appearance, cashier and telephone service (e.g. response time and length of customer queues) and training programmes for staff on these customer service standards have been developed and rolled out. The customer's experience is continuously monitored through call centre collection of customer feedback and market research. The migration of information technology systems, which was completed in June 2014 across all divisions, also improved the efficiency of customer service through the Bank's alternative distribution channels such as its ATM network, e-banking platform (1bank) and mobile banking. 1bank offers customers the opportunity to carry out banking transactions through the phone or internet 24 hours a day, seven days a week.
- *Retain and increase deposits while managing costs*. Targeted marketing campaigns employing mass and social media, mail and the internet are used to communicate the Bank's recovery and renewed strength. Following the migration of IT systems, the Bank has adjusted its customer segmentation into "premier", "mass affluent" and "mass" in order to tailor its products and services to customer needs and implement loyalty schemes. Premier customers are retail customers with deposits with the Bank of between €75,000 and €500,000, mass

affluent customers are retail customers with deposits with the Bank of between €25,000 and €75,000 and mass customers are retail customers with deposits with the Bank of less than €25,000.

- *Manage and improve quality of loan portfolio*. The consumer loan portfolio is monitored in order to identify potential customers who might default or require restructuring solutions. The Bank has implemented targets on asset quality, based on 90+DPD targets for each branch, and collectability, based on a percentage of arrears from the previous month to be collected by each branch in the current month.
- *Prudent new lending and enhanced fee generation*. As a result of the economic crisis in Cyprus, the Bank has adopted a more conservative approach to new consumer lending, with a greater emphasis on risk-averse lending criteria in line with the Loan Origination Directive. Small businesses with viable business models and the potential to benefit from any potential recovery in the economy are targeted for the purposes of providing short-term financing.
- *Stabilise deposit balances while managing costs*. Targeted marketing campaigns use mass and social media, mail and the internet to communicate the Bank's recovery and renewed strength to potential customers. Deposit accounts are monitored daily in order to identify and contact clients who are potential depositors or have increased their rate or size of withdrawals or account activity.
- *Improve retail network effectiveness and efficiency*. In order to improve its operational efficiency after the absorption of the domestic operations of Laiki Bank, the Bank has rationalised its branch network and decreased the total number of branches in Cyprus to 130 as of 30 June 2014 down from 203 shortly after the absorption of the ex-Laiki Bank operations in 2013. The Bank has redesigned its IT processes and in-branch systems to improve efficiency and reduce manual input. In addition, the number of staff servicing consumers has been reduced from 1,907 in 2012 to 1,455 in 2013. The Bank's new customer segmentation into "premier", "mass affluent" and "mass" allows the Bank to assign relationship officers or supervisors with the right level of experience and knowledge of the appropriate deposit and investment products for each segment.
- *Enhance profitability with a focus on fee generation.* The consumer banking division continues to focus on fee-generating activities such as hire purchase finance for new cars and credit cards (the Bank is the only financial institution that offers American Express products in Cyprus). In addition, the Bank cross-sells its fee-generating activities to the former customers of Laiki Bank.

The consumer banking strategy has been approved by the Board of Directors and a detailed action plan with key dates and responsibilities has been developed and is monitored on an ongoing (monthly) basis with progress reported directly to the Board of Directors.

3.7.3 SME Banking

The Group's banking facilities for SMEs comprise overdraft accounts, loans of fixed maturity, invoice discounting, domestic factoring, trade finance, 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 SME lending in Cyprus is channelled through 14 business centres, which are separate from the Bank's retail branch network.

For SME lending, security is almost always taken in the form of personal and corporate guarantees from the owners/ shareholders 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.

The Bank has developed a detailed SME banking strategy in line with the Restructuring Plan, which is based on the following key elements:

- *Improve / provide superior quality of service*. In order to improve the quality of the Group's service offering to SMEs, the Group has developed and implemented consistent customer service standards across its branches and improving its existing systems and processes. The Group has developed customer service standards for SME unit appearance, staff behaviour and telephone service (response time). Training programmes for staff have been developed and rolled out. The Group has also implemented new systems and processes that improve the speed at which client requests are authorised and approved.

- *Improve quality of new advances*. The strategy for new advances is directed to viable customers with proven repayment ability based on the Bank's lending policy/criteria and the Loan Origination Directive. The SME division will monitor the general economic and industry performance indicators and will develop internal tools which will allow it to assess and identify the growth potential as well as the risks of promising sectors of the domestic economy such as professional services, tourism and hospitality, education, energy, health, information and communication and green projects. The analysis of promising sectors will involve discussions with the economic research and finance division on economic and industry performance indicators, such as NPL statistics produced by the CBC (see Section 3.22.1.4 (*Cyprus Banking System by Assets*)).

- *Manage and improve quality of existing advances/collection processes*. Given the high proportion of non-performing SME loans in the Group's portfolio, the restructuring and recovery of these loans is of critical importance. The Bank has implemented targets on asset quality, based on 90+DPD targets for each business centre, and collectability, based on a percentage of arrears from the previous month to be collected by each business centre in the current month. The Bank has developed tools and action plans for customers at an early stage of delinquency, which have been implemented in order to improve collections prospects and provide sustainable and viable restructuring solutions. The SME banking division is working closely with the RRD team in developing these strategies.

- *Stabilise deposit balances while managing costs*. Targeted marketing campaigns use mass and social media, mail and the internet to communicate the Bank's recovery and renewed strength to potential customers. Deposit accounts are monitored daily in order to identify and contact clients who are potential depositors or have increased their rate or size of withdrawals or account activity.

- *Support for SMEs through financing and financial assistance planning*. The SME division assists a selection of SMEs with their financial business planning, taking account of their banking activity, financial performance ratios and prospects. The SME division is in the process of developing cash flow calculation and loan repayment tools for the Bank's website. In January 2014, the consumer and SME division of the Bank established a new department of European relations which focuses on the provision of loans to SMEs which are partially administered, funded or guaranteed by the European Investment Fund ("**EIF**") and/or the European Investment Bank ("**EIB**"). The Cyprus Entrepreneurship Fund ("**CYPEF**") was recently created by the Government to strengthen entrepreneurship in Cyprus by providing financing to SMEs on favourable terms, including reduced interest rates, potentially reduced collateral requirements and extended loan maturities and grace periods. Amounts dedicated from the Government to CYPEF are made available through the EIB and CYPEF is managed by the EIF. The EIF was established in 1994 to provide financial support for SMEs in Europe and the EIB and the European Commission have a 62.1% and 30.0% equity stake, respectively, in the EIF. The European relations department is in the process of developing products backed by the CYPEF. As of 30 June 2014, the Bank had €22.8 million (Jeremie

FRSP I and II) in loans to SMEs which were partially funded by the EIF and €3.6 million (Jeremie FLPG) in loans to SMEs which were partially guaranteed by the EIF.

- *Enhance profitability with a focus on fee generation*. The SME banking division continues to focus on fee-generating activities such as credit cards, trade finance, transaction banking services and corporate finance.

3.7.4 Corporate Banking

The Bank offers corporate clients a wide range of products and services, including:

- overdraft accounts, loans, asset finance or hire purchase facilities, project finance and trade finance;
- savings accounts, notice accounts, fixed term deposits and specialised deposit schemes;
- trade finance products such as short-term import finance, letters of guarantee, documentary credits, bills for collection, negotiation of foreign bills, import and export factoring, spot and forward contracts in foreign exchange;
- factoring services, including full service factoring, confidential invoice & cheque discounting and international factoring;
- corporate finance advisory services; and
- cash management.

Most of the Group's corporate lending takes the form of loans bearing interest rates which vary according to each customer's credit risk. Maturities of corporate loans in the Bank's portfolio typically 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.

The Group's corporate lending in Cyprus is channelled through corporate banking centres, which are separate from the Bank's retail branch network. After transferring large exposures and delinquent accounts to the RRD, in line with the Restructuring Plan, the number of corporate banking centres in Cyprus has been reduced from 10 in 2013 to four in April 2014. In addition, the number of staff in the corporate banking division has been reduced from 145 shortly after the absorption of the ex-Laiki Bank operations in 2013 to 60 after the separation of the RRD from the corporate banking division in April 2014.

Specialised factoring products and services are also promoted to Corporate and SME customers, by 22 specialist officers and supported by 35 operations staff of the Factoring Services Department under the Corporate Division.

In line with the Restructuring Plan, the responsibility for all corporate exposures greater than €100 million (whether performing or non-performing) has been transferred to the RRD. In addition, corporate exposures of more than €6 million and/or corporate clients with a minimum annual credit turnover of €10 million which are, in each case, more than 60 days past due have also been assigned to dedicated teams of credit officers supervised by the RRD for restructuring. For a discussion on the collection process for these corporate loan portfolios, see Section 3.7.6.2 (*Collection Process for Delinquent Loans*) below. These transfers of the large and mid-market corporate loan portfolios to the RRD have left the corporate banking division with a corporate loan portfolio in Cyprus of €2.5 billion as of 30 June 2014.

The transfer to the RRD of a substantive proportion of the corporate loan portfolio has allowed the corporate banking division to focus on servicing existing corporate clients with a healthy credit history and providing new lending to corporate clients in promising and export-orientated sectors of the domestic economy. To the extent the RRD is able to rehabilitate any corporate clients successfully, it is expected that these corporate clients will be transferred back to the corporate banking division.

The Bank has developed a detailed corporate banking strategy in line with the Restructuring Plan, which is based on the following key elements:

- *Enhance profitability with a focus on fee generation.* The corporate banking division continues to focus on fee generating activities such as factoring, debtor collection, assessment services, ledger administration, and trade finance. Transaction banking and cash management services will be launched for large corporate customers with high credit turnover and with a need for specialised electronic services. Relevant products will cater for liquidity management, payments and reporting. Furthermore, corporate finance services will be promoted in cooperation with CISCO and the cross selling of credit cards and insurance products in conjunction with the consumer business line is also being undertaken.
- *Adopting a customer-centric culture to provide high quality service*. In order to provide high-quality service, the corporate banking division has assigned its most experienced relationship managers to "prime" clients with advances of €20 to €100 million, an annual credit turnover of more than €25 million and/or significant market influence. The relationship managers are responsible for the development of account plans which identify and address their financing needs (as well as those of their key shareholders and executives) and promote the cross-selling of products such as payroll services or corporate credit cards. In order to maintain the quality of service provided by its relationship managers, the corporate banking division has implemented a policy of no more than 10 "prime" customer groups per relationship manager. With respect to the rest of corporate banking client base, a limited number of customer groups (approximately 20) have been allocated to relationship officers, with the objective of maximising the quality of customer service and the effectiveness of account monitoring.
- *Targeted new lending to promising sectors of the domestic economy*. The corporate banking division has begun to monitor the general economic and industry performance indicators and has started to develop internal tools which will allow it to assess and identify the growth potential as well as the risks of promising sectors of the domestic economy such as professional services, tourism and hospitality, education, energy, health, information and communication and green projects. The analysis of promising sectors involves discussions with the economic research department and finance division on economic and industry performance indicators, such as NPL statistics produced by the CBC (see Section 3.22.1.4 (*Cyprus Banking System by Assets*)). The corporate banking division works with the economic research department to formulate industry performance indicators, which rank each sector using a number of key performance indicators. As of 30 June 2014, 29.1% of the Group's total loan portfolio in Cyprus was concentrated in the real estate and construction sectors (see Section 2.3.10 (*A significant proportion of the Group's loan portfolio is comprised of non-performing loans, a significant proportion of which are comprised of large corporate exposures and exposures to the real estate and construction economic sectors*)). However, following the transfer of corporate loans to the RRD, the corporate banking division has been left with a corporate loan portfolio which is more diversified with concentrations in the trade, hotels and catering, manufacturing and services sectors. Industry expertise is also being developed through the collection and analysis of industry-specific information for use by relationship officers and managers. Specific clients with a healthy risk profile in the targeted sector are approached with a tailored financing package to address their specific needs.
- *Protecting the quality of the corporate loan portfolio*. "Early warnings" such as the reduction of inflows into current accounts are used to identify clients that are at risk of default. The quality of new lending is also maintained by adhering to the new Group lending policy which has imposed tighter credit approval requirements in line with the recently enacted Loan Origination Directive. In addition, the corporate banking division is developing a close working relationship with the RRD in order to assess pre-arrear options for clients with early warning signs of default and implementing efficient post-restructuring procedures for

corporate clients that have been rehabilitated by the RRD. For a description of the process for the management of delinquent corporate loans, see Section 3.7.6 (*Restructuring and Recoveries Division*).

- *Retain deposits while managing costs*. Deposit accounts are monitored daily in order to identify and contact clients who are potential depositors or that have increased their rate or size of withdrawals or account activity. In particular, the corporate banking division has identified customer groups with deposits of more than €500,000 and/or which withdrew substantive amounts of funds before 25 March 2013 and is implementing, in conjunction with the Group's wealth management division, a customised action plan to reaffirm the Group's relationship with these customer groups. In particular, the Bank is promoting the services of the wealth management division to key persons (such as major shareholders, directors and senior management) at these customer groups. The development of new consumer deposit products for "premier" customers are being promoted to key executives to foster a closer institutional relationship with these customer groups.

3.7.5 International Banking Services

IBS is a division that specialises in the offering of banking services in Cyprus to the international customers of the Bank, particularly international business companies whose ownership and business activities lie outside Cyprus. The Bank operates eight international business units in Cyprus which are staffed with highly-qualified, experienced and multilingual personnel, including Russian speakers. IBS also manages four representative offices outside of Cyprus (two in Russia and one in each of Ukraine and China) which support business relations. The Bank has long-standing arrangements with over 700 corporate service providers ("**Introducers**") who are an important source of customer referrals for IBS. IBS is an important contributor of fee income and liquidity for the Bank.

IBS's revenue is derived primarily from interest income on deposits and loans and fee and commission income generated from international payments, foreign exchange transactions and trade finance instruments. As of 31 December 2013 and 30 June 2014, IBS accounted for 27.0% and 26.0%, respectively, of the Group's total deposits. The majority of deposits originated through IBS are from individuals and entities domiciled in Russia and other member countries of the Commonwealth of Independent States, as well as Ukraine.

IBS has faced significant challenges following the Recapitalisation in restoring the confidence of its international customers and Introducers. The Bank has developed a detailed IBS strategy in line with the Restructuring Plan, which is based on:

- *Enhancing customer service based on customer characteristics.* Through its experienced, trained and dedicated personal bankers, IBS's objective is to offer high-quality customer service based on its understanding of the needs and characteristics of each particular customer segment. IBS utilises information technology based service channels and products to offer fast, reliable, cost effective and customised banking solutions based on each customer segment's needs. One of IBS's primary objectives is the reactivation of existing clients' accounts.
- *Rebuilding relationships with, and retaining the deposits of, large corporate customers.* Because large corporate customers were the most affected by the bail-in of the Bank's depositors pursuant to the Recapitalisation and now constitute a significant portion of the Bank's shareholders, a key focus for IBS has been the strengthening of relationships with its large corporate customers by offering dedicated service and continuous information.
- *Rationalising international business unit network and becoming more cost-efficient.* IBS has reduced the size of its international business unit network from 13 in March 2013 to eight in June 2014 which includes an international business unit specialising in the service of shipping customers. The IBS network also includes two international lending units. IBS staff levels increased from approximately 260 immediately prior to the Recapitalisation to approximately

530 due to the absorption of employees of ex-Laiki Bank. As a result of the VRS implemented in 2013, as well as staff transfers to other divisions, IBS has reduced its staff to approximately 350 as of 31 October 2014.

Reflecting the emphasis of the Eurogroup Statement on Cyprus on the improvement of Cyprus' anti-money laundering ("**AML**") framework and given the nature of IBS's business with international clients, a new AML risk management department has been established within IBS in order to enhance "know-your-customer" procedures and controls.

3.7.6 Restructuring and Recoveries Division

An important component of the Group's new operational structure is the establishment of the RRD for the purposes of centralising and streamlining the management of its delinquent loans. The RRD is responsible for the management of all activity relating to corporate exposures greater than €100 million, debt restructuring and debt collection and recovery on delinquent loans across all customer segments and all corporate exposures of more than €6 million and/or corporate clients with a minimum annual credit turnover of €10 million which are, in each case, more than 60 days past due. It currently manages a large and delinquent loan portfolio of €11.4 billion.

The RRD was first established in December 2013 and, from 1 January 2014 to 30 June 2014, it has:

- sold the Group's largest single-name NPL exposure, loans extended to Robne Kuce Beograd, a Serbian real estate management company, to Piraeus Bank for approximately €165.0 million and a realised accounting gain of €27 million;
- restructured approximately €2.0 billion backlog of loans requiring restructuring by establishing streamlined restructuring processes;
- restructured approximately €1.2 billion facilities for the Bank's top 30 corporate exposures;
- collected €260.0 million through the new collections process instituted by the RRD; and
- initiated the appointment of 14 receivers, for the recovery of debt.

The RRD has developed its strategy with the assistance of its external advisors. The strategies include specific responsibilities, procedures and strategies for collection and restructuring for each customer segment. To maintain flexibility in restructuring problem loans, the RRD's strategies are reviewed and updated by the Group on an ongoing basis. The Bank is currently working towards implementing the strategy developed with the assistance of its external advisors, including both the transfer of clients in and out of RRD and the criteria around these transfers.

3.7.6.1 RRD Structure

As of 30 June 2014, the RRD is an independent unit staffed by 480 full-time employees dedicated to the management of large and delinquent loans. The RRD is organised as follows:

- *Retail and SME arrears management.* Four call centres staffed by a total of 46 credit officers focused on consumer loan collections. Customers addressed by these call centres have increased from approximately 3 thousand in November 2013 to approximately 17 thousand in June 2014. The retail arrears management department employs 59 customer relationship officers and another 61 customer relationship officers have been allocated to eight business support units focused on debt collection and restructuring in relation to SME loans. As of 30 June 2014, the business support units were responsible for managing a SME portfolio of €1.5 billion.
- *Corporate management services.* All corporate exposures greater than €100 million are managed by the major corporates management team. As of 30 June 2014, the major corporates management team was responsible for managing a total corporate loan portfolio of

€3.6 billion. The major corporates management team is comprised of 37 full-time employees supported by external accountants and consultants. Each corporate group was assigned a small team of dedicated officers to develop a tailored action plan for the group. An action plan has been internally agreed and is in the process of being executed for each corporate group managed by the major corporates management team.

In addition, corporate exposures of more than €6 million and/or corporate clients with a minimum annual credit turnover of €10 million which are, in each case, more than 60 days past due have also been assigned to centralised and regional mid-corporates management teams which are staffed by a total of 53 full-time employees. An action plan has been developed for all corporate loans of more than €45 million and senior management of the RRD continue to conduct a case-by-case review for all corporate exposures greater than €30 million. As of 30 June 2014, the mid-corporates management team was responsible for managing a total corporate loan portfolio of €2.3 billion.

- *Debt recovery services*. Centralised and regional teams dedicated to the execution of debt collection and legal repossession are staffed by a total of 214 full time employees.
- *Financial solutions*. Four full-time employees provide advanced technical support on restructuring solutions and other related projects.
- *Strategy and analytics*. Five full-time employees are engaged in analysing and defining delinquent portfolio segments based on the status of the borrower and the size of exposure. The determination of portfolio segments is critical to the development of effective and efficient collection and restructuring strategies. This department is also in charge of monitoring the performance of the loan portfolios under management by the RRD and implementing the transfer of loan portfolios between the RRD and the relevant business division of the Bank.

3.7.6.2 Collection Process for Delinquent Loans

The RRD has designed and implemented the following collection processes for delinquent loans:

- *Retail*. In the early delinquency stage, the retail branch officer assigned to the customer concerned may be responsible for contacting the customer and offering restructuring solutions if certain criteria are met. However, in general, once the loan concerned is 30 days past due, it is automatically handled by the call centres which employ a client contact strategy for collection. If the loan concerned remains overdue for more than 70 days, responsibility for the collection and the provision of more sophisticated restructuring solutions is assumed by the retail and SME arrears management unit. At any stage during the process, the client account can be transferred to the retail and SME arrears management unit for restructuring; however, the front-line customer relationship always remains with the branch.
- *SME*. In the early delinquency stage, the business centre officer assigned to the business concerned is responsible for making contact and offering restructuring solutions. In general, once the loan concerned is 60 days past due, it is transferred to the business support units for collection. A loan may also be transferred to the business support units even if there are no arrears depending on the risk profile and portfolio segment to which the customer or loan is assigned. Unlike retail clients who maintain a front-line customer relationship with the branch, SME clients are transferred to RRD on a group basis, which includes all client relationships within the SME group.
- *Corporate*. In the early delinquency stage, the corporate banking centre officer assigned to the corporate group concerned is responsible for making contact and offering restructuring solutions. In general, once the loan concerned is 60 days past due, it is transferred to corporate management services at which point meetings are scheduled with the customer at the corporate banking centre to discuss restructuring solutions. The RRD maintains a flexible approach to restructuring corporate accounts and delinquent loans may be transferred to

corporate management services before they have reached 60 days past due depending on the circumstances. Like SME clients, corporate clients are transferred to RRD on a group basis, which includes all client relationships within the corporate group.

Once loans are at the latest recovery stage, they are transferred to the debt recovery services teams based on objective criteria. In general, loans are transferred to the debt recovery services teams when they are determined by the appropriate Group credit committee to be non-viable. The debt recovery service is further developing recovery techniques, including accelerated settlement actions whereby court and settlement or restructuring actions are taken in parallel to full legal actions or, in the case of large exposures, the appointment of a receiver, in each case, depending on the portfolio segment to which the relevant borrower or loan is assigned.

3.7.6.3 Restructuring Solutions

In taking into consideration the current economic circumstances and the financial difficulties of its borrowers, the Bank will consider providing assistance in the form of modifying the terms and conditions of the contract in order to provide the borrower concerned with the ability to service the debt or refinance the contract, either partially or fully. These measures are called forbearance measures and other forms of forbearance also include measures that restructure the borrower's business and/or measures that restructure the borrower's financing.

Restructuring solutions may be of a short or long-term nature or combination thereof. Short-term restructuring solutions are defined as restructured repayment solutions of a duration which is less than five years. In the case of loans for the construction of commercial property and project finance, a short-term solution may not exceed three years.

Short-term restructuring solutions can include the following:

- *Interest only*: during a defined short-term period, only interest is paid on credit facilities and no principal repayment is made.
- *Reduced payments*: a decrease in the amount of repayment instalments over a defined short-term period in order to accommodate the borrower's new cash flow position.
- *Arrears and/or interest capitalisation*: the capitalisation of arrears and/or of accrued interest arrears to the principal. This constitutes forbearance of the arrears and the addition of any unpaid interest to the outstanding principal balance for repayment under a rescheduled program.
- *Grace period*: an agreement allowing the borrower a defined delay in fulfilling the repayment obligations usually with regard to the principal.
- *Interest rate reduction*: permanent or temporary reduction of interest rate (fixed or variable) into a fair and sustainable rate.

Long-term restructuring solutions can include the following:

- *Extension of maturity*: extension of the maturity of the loan which allows a reduction in instalment amounts by spreading the repayments over a longer period.
- *Additional security*: when additional liens on unencumbered assets are obtained as additional security from the borrower in order to compensate for the higher risk exposure and as part of the restructuring process.
- *Forbearance of penalties in loan agreements*: waiver, temporary or permanent, of violations of covenants in the loan agreements.
- *Rescheduling of payments*: the existing contractual repayment Schedule is adjusted to a new sustainable repayment program based on a realistic, current and forecasted, assessment of the cash flow generation of the borrower.

- *Strengthening of the existing collateral*: a restructuring solution may entail the pledge of additional security, for instance, in order to compensate for the reduction in interest rates or to balance the advantages the borrower receives from the restructuring.
- *New loan facilities*: new loan facilities may be granted during a restructuring agreement, which may entail the pledge of additional security and in the case of inter-creditor arrangements the introduction of covenants in order to compensate for the additional risk incurred by the Group in providing a new financing to a distressed borrower.

In the case of large corporate exposures, restructuring solutions involving more complex techniques such as mezzanine financing and debt-for-equity swaps can be employed.

3.7.7 Wealth, Brokerage and Asset Management Division

The wealth, brokerage and asset management division of the Bank oversees the provision of institutional wealth, private banking, global markets and investment banking services. These services are provided through the sub-divisions and subsidiaries of the Bank as set out in following paragraphs. The income for this division is mainly derived from fees and commissions from the provision of investment products and services and the provision of custody and trust services. For the years ended 31 December 2013 and 2012, the wealth, brokerage and asset management division contributed 2.9% and 4.1%, respectively, of the Group's total fee and commission income. For the six months ended 30 June 2014 and 2013, the wealth, brokerage and asset management division contributed 1.7% and 2.9%, respectively, of the Group's total fee and commission income. As of 31 December 2013 and 30 June 2014, the wealth, brokerage and asset management division accounted for 1.5% and 1.8%, respectively, of the Group's total deposits. The Group's assets under management, including on and off balance sheet assets under management, was €2,438.8 million, €1,299.7 million, €1,121.7 million and €1,260.6 million as at 31 December 2012, 31 December 2013, 30 June 2013 and 30 June 2014, respectively. Assets under management include customer deposits of the division and assets of the customers which are under execution, advisory or discretionary management of the wealth, brokerage and asset management division.

3.7.7.1 Institutional Wealth and Global Markets

This sub-division focuses on the provision of investment and risk management services. The sub-division is split in three distinct areas of activity: institutional wealth management, global markets execution and treasury sales.

- *Institutional Wealth Management* is responsible for institutional clients, such as pension and provident funds, insurance companies, family offices and investment funds, and provides such entities with financial services ranging from basic banking to investment services. Investment products offered include fixed income, structured products, commodities, mutual/hedge funds, global equities and foreign exchange. As of 30 June 2014, the institutional wealth management department had a client list of 37 institutional clients.
- *Global Markets Execution* acts as a multi-asset platform for all departments of the Group that require an execution venue for global financial instruments. Departments that utilise the services of global markets execution include institutional wealth and global markets, private banking and asset management.
- *Treasury Sales* offers risk management and foreign exchange trading tools to clients across all of the Group's business lines. In addition to spot foreign exchange (including foreign exchange margin trading), the department also offers customized risk solutions for corporations that address both market and asset price risk, including derivative products to hedge exposures to interest rates, foreign exchange, commodities and/or inflation. The treasury sales department is also responsible for designing and hedging structured investment products.

3.7.7.2 Private Banking

This sub-division focuses on the provision of investment and banking services to high net worth individuals, both domestic and international. The services provided include execution, advisory and discretionary asset management services, with booking centres in Cyprus and the Channel Islands. The range of investment products offered include equities, bonds, foreign exchange, commodities, mutual funds, hedge funds and tailor-made structured products. Private banking works with selected fund managers from around the world. Each private banking client has a dedicated relationship manager who is responsible for that client's particular financial needs. Relationship managers are supported by a team of specialists with expertise ranging from banking and credit to investment advice.

3.7.7.3 Wealth Management Services

Wealth management services is an operations service centre for the other sub-divisions of the wealth, brokerage and asset management division. It is responsible for custody and trust services, banking and credit services, regulatory reporting and operations.

Custody and trust works with internal clients of private banking, institutional wealth and global markets in respect of off-balance sheet investments. Custody and trust also has an external client base consisting of private funds, investment companies and pension funds. Banking and credit services is a centralized support department that serves private banking, institutional wealth and global markets. Regulatory reporting provides compliance and management information systems. Operations is responsible for processing new clients and management of back office and other internal processes.

3.7.7.4 Investment and Energy Strategy

Investment and energy strategy is a recently established department of the Bank that serves the wealth, brokerage and asset management division in the areas of investment research and management, as well as for the energy sector. It formulates the department's investment strategy for the management of client assets and structures model investment portfolios for wealth, brokerage and asset management division clients.

3.7.7.5 The Cyprus Investment and Securities Corporation Ltd ("CISCO")

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 investment banking, asset management and brokerage services. CISCO has a financial service provider licence from the CySEC and is a member of the CSE and a remote member of ATHEX. Its market share for brokerage activities on the CSE reached 17.9% in 2013 (2012: 23.0%).

CISCO's investment banking sub-division provides a range of services in the field of corporate finance and capital markets which include company valuations, capital restructuring, financial planning and feasibility studies, as well as the execution of equity and debt issues. The asset management department manages portfolios of financial instruments on a discretionary basis for customers, most of which are domestic pension and provident funds but also include insurance companies, investment companies and high-net-worth individuals both domestically and internationally (in cooperation with the institutional wealth and global markets and private banking sub-divisions of the Group's wealth, brokerage and asset management division). CISCO's brokerage department provides for the execution of client orders and corporate actions in the CSE, ATHEX and a number of other international markets including the New York Stock Exchange and has acted, during the last three years, for more than 18,500 investors.

3.7.7.6 Laiki Financial Services Ltd

Pursuant to the Laiki Transfer Decrees, the Bank acquired a 66.6% equity stake in Laiki Capital Public Company Limited ("**Laiki Capital**"), which is the listed parent holding company for Laiki Financial Services Ltd ("**LFS**"). LFS provide investment banking, asset management and brokerage activities.

3.7.7.7 Restructuring Plan Objectives

The Bank has developed a detailed wealth, brokerage and asset management division strategy in line with the Restructuring Plan, which is based on the following key elements:

- *Enhance customer relationship management.* By expanding and promoting a holistic approach to customer relationship management and by providing a broad range of services to meet the majority of client needs, the wealth, brokerage and asset management division aims to improve its competitive position within the market.
- *Focusing on investment banking opportunities.* Although the Cypriot economic crisis has caused significant damage to the financial and other economic sectors of Cyprus, it also presents opportunities for CISCO's investment banking division to provide services focused on potential privatisation initiatives, as well as corporate restructuring and mergers and acquisitions in cooperation with the Bank's corporate banking division. In particular, as a result of the discovery of hydrocarbons off Cyprus' coastline, and the significant potential that this industry can offer to Cyprus, the Bank has recently established an investment and energy strategy unit which is dedicated to providing investment advice and energy sector expertise.
- *Explore global brokerage and asset management opportunities.* The wealth, brokerage and asset management division has expanded its existing multi-asset platform to address the needs of its institutional and retail clients. In addition, the wealth, brokerage and asset management division intends to further develop and expand its existing global diversified portfolio offering, including its participation in the development and management of a potential sovereign wealth fund for Cyprus.

On 14 November 2014, the Bank delivered a binding offer to Laiki Capital for the purchase by the Bank of 100% of Laiki Capital’s investment in LFS. If the Bank’s binding offer is accepted by Laiki Capital, the operations of LFS will be consolidated with the operations of CISCO.

3.7.8 Insurance Services

Insurance services accounted for 5.6% and 6.8% of the Group's total revenue in Cyprus for the year ended 31 December 2013 and 2012, respectively, and 3.1% and 8.4% of the Group's total revenue in Cyprus for the six months ended 30 June 2014 and 2013, respectively. The Group's life assurance business in Cyprus is conducted by Eurolife while the Group's general insurance business in Cyprus is conducted by General Insurance of Cyprus Ltd ("**GIC**"), both wholly-owned subsidiaries of the Bank.

3.7.8.1 Life Assurance

For the year ended 31 December 2013, Eurolife's total operations generated an income net of claims, commissions and expenses of €11.0 million (€23.1 million for the year ended 31 December 2012) and for the six months ended 30 June 2014, Eurolife's total operations generated an income net of claims, commissions and expenses of €9.3 million (€0.1 million for the six months ended 30 June 2013). As of 30 June 2014, Eurolife's net asset value and value of in-force was €61.5 million and €95.8 million, respectively. According to official returns to the Cypriot Superintendent of Insurance, Eurolife had a 26.1% share of premium income of the Cypriot life assurance market for the year ended 31 December 2013 and a 24.6% share of premium income of the Cypriot life assurance market for the six months ended 30 June 2014.

Eurolife offers a range of unit-linked protection and savings products, augmented by a number of supplementary benefits which include, amongst others, disability and critical illness cover. Eurolife distributes its products through a network of 183 tied agents and the Bank's branch network. For the year ended 31 December 2013 and the six months ended 30 June 2014, the Bank estimates that approximately 86.3% and 82.0%, respectively, of Eurolife's new business was exclusively attributable to its agency network and that referrals from the Bank accounted for approximately 13.7% and 18.0%, respectively, of new business.

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.

As of 30 June 2014, Eurolife had total funds of €462.0 million, of which €363.4 million represented funds attributable to unit linked policies where the investment risk is passed on to policyholders. A further €82.4 million represented the deficiency reserve of Eurolife which is invested in short-term money market instruments, corporate bonds and government bonds. In addition, €5.6 million represented funds attributable to group pension contracts under Eurolife's management. The remaining €10.6 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 operates a branch in Greece under the name Kyprou Zois, which offers credit insurance and savings products to the Bank's customers. Kyprou Zois has been operating in Greece since 2001 and offers bancassurance products with no independent distribution network. Following the sale of the Group's Greek banking operations to Piraeus Bank pursuant to the Greek Operations Decree, Kyprou Zois is currently operated as a run-off business. The Bank is exploring the possibility of transferring the portfolio to another insurance company.

3.7.8.2 General Insurance

For the years ended 31 December 2012 and 2013, GIC's operations generated income net of claims, commissions and expenses of €12.5 million and €9.6 million, respectively, and for the six months ended 30 June 2013 and 2014, GIC's operations generated income net of claims, commissions and expenses of €3.4 million and €7.1 million, respectively. For the years ended 31 December 2012 and 2013, GIC's net claims ratio in Cyprus was 49.5% and 40.4%, respectively, and GIC's combined ratio in Cyprus was 89.7% for both years. For the six months ended 30 June 2013 and 2014, GIC's net claims ratio in Cyprus was 44.2% and 36.3%, respectively, and GIC's combined ratio in Cyprus was 89.8% and 74.3%, respectively. For the year ended 31 December 2013, GIC ranked first in terms of premiums generated in the general insurance market in Cyprus, with a market share of 12.7%, according to the official statistical information of the Insurance Association of Cyprus. According to the preliminary statistical information of the Insurance Association of Cyprus for the six months ended 30 June 2014, GIC ranked first in terms of premiums generated in the general insurance market in Cyprus, with a market share of 14.2%.

GIC offers its products through the Bank's branch network (53.9%), by direct channels (23.2%) and through agents (22.9%). GIC has 164 agents and brokers who are remunerated on a commission basis and also employs a salaried sales force of 30 people (including call centre sales officers) who are based in GIC's branches throughout Cyprus.

GIC possesses a licence and offers insurance cover under 15 insurance technical classes, including: accident, ship’s liability, general liability, vehicles, goods in transit, credit, fire and natural perils, legal expenses and other damage to property.

The accounting class of fire and other damage to property is GIC's main business and during the year ended 31 December 2013 accounted for approximately 43.2% of gross premium income (47.6% during the year ended 31 December 2012) and during the six months ended 30 June 2014 accounted for approximately 35.3% of gross premium income (51.5% during the six months ended 30 June 2013). As of 30 June 2014, GIC had an approximately 20.0% share of the fire insurance market in Cyprus.

GIC'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 GIC has traditionally had a relatively low maximum retention level. However, because of the low value of much of the property insured, approximately 70.3% of GIC's fire policies as of 30 June 2014 fall within its retention level. The remaining business is reinsured on a treaty and facultative basis with Munich Re and other international reinsurers.

GIC sells motor and home insurance to customers directly through its call centre established in 2000 and also through its salaried sales force 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 Munich Re and other international reinsurers.

GIC's investments amounted to €49.4 million as at 30 June 2014, of which approximately €0.6 million was invested in equities and mutual funds, €1.5 million in non-equities, €1.8 million in properties and the remainder in bank deposits. GIC's investment portfolio is held with the Bank and managed by CISCO in accordance with conservative investment guidelines.

GIC operates a branch in Greece under the name Kyprou Asfalistiki. Following the sale of the Group's Greek banking operations to Piraeus Bank pursuant to the Greek Operations Decree, GIC entered into an agreement with an insurance provider in Greece to whom its business will be transferred as and when the policies issued by Kyprou Asfalistiki expire. The transfer process began in April 2014.

3.7.8.3 CNP

As part of the acquisition of the ex-Laiki Bank operations under the Laiki Transfer Decrees, 49.9% of CNP, the parent company of a group of insurance companies in Cyprus and Greece, was acquired by the Group. At 30 June 2014, CNP held deposits with companies within the Group amounting to €16.7 million.

CNP is a major competitor to GIC and Eurolife. As of 30 June 2014, according to the preliminary statistical information of the Insurance Association of Cyprus, CNP ranked second in terms of premiums generated in the general insurance market in Cyprus with a market share of 11.1% and ranked third in terms of premiums generated in the life insurance market in Cyprus with a market share of 20.9%. CNP Assurances S.A. ("**CNP France**"), a French insurance company, owns the other 50.1% of CNP.

CNP France has recently instituted arbitration proceedings in relation to CNP against the Bank in London. For more information, see Section 3.20.6 (*CNP – Arbitration*).

3.7.9 International Operations

The international operations division ("**IO division**") is responsible for the following international operations and assets of the Group:

- all international banking subsidiaries of the Group in the United Kingdom, Russia and Channel Islands;
- the management of the loan portfolio transferred to the Bank from Laiki Bank's branch in the United Kingdom on 1 April 2013;
- the winding-down and disposal of the Group's remaining loan portfolio and related collateral in Romania;
- the management of several international exposures and loans;
- the management of the Group's participation in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc; and
- supporting the Group's Treasury division in the management of funding gaps associated with Laiki Bank's international subsidiaries in Romania and Serbia. As a result of the Bank's acquisition of certain assets and liabilities of Laiki Bank (see Section 3.3 (*Restructuring of the Bank and Laiki Bank*)), the Bank acquired Laiki Bank's funding exposures to Laiki Bank's

bank and financial services subsidiaries in Romania, Serbia, Ukraine and Greece (see Section 2.3.24 (*The Bank has significant exposures to subsidiaries of Laiki Bank*)).

The IO division is responsible for assessing, negotiating and supporting the implementation of strategic objectives in relation to international operations and assets of the Group acting also as the liaison between Group operations and divisions in Cyprus and local management of the international operations, asset or subsidiary concerned.

In line with the Restructuring Plan, the International Corporate Banking Unit ("**ICB**") was created as a sub-division of the IO division to focus on the restructuring and management of large international exposures and loans of the Group.

3.7.9.1 Russia

The Group operates in the Russian market primarily through Uniastrum. Uniastrum was founded in 1994, is headquartered in Moscow and, as of August 2014, had a regional network of 126 branches, including 80 regional offices in 45 Russian regions. The Group also provides leasing services through a subsidiary in Russia.

In line with the Group's Restructuring Plan and divestment of non-core business, the Group has closed 57 outlets and retired approximately 1,257 employees in Russia since December 2013, which has had the effect of reducing operating costs. To further optimise Uniastrum's branch network and overall costs and enhance its operational efficiency at all business levels, the Group implemented the following during 2014:

- recruited a new chief executive officer, a new chief operating officer, a new head of recoveries, a new head of internal audit and a new head of compliance;
- revised Uniastrum's organizational structure in line with banking best practices;
- revised recovery procedures, recruited experienced personnel, improved collaboration with the Group and adopted other initiatives to improve recoveries and collection of bad debts;
- developed a three-year business strategy that will focus on the Russian SME and corporate sectors;
- the Group has recruited an independent firm to perform a review of the Group's Russian operations and Uniastrum intends to take corrective measures as necessary to address any identified risk, control and operational weaknesses;
- Uniastrum examined the adequacy of its current provisioning levels under Russian accounting standards. Based on the results of this exercise, Uniastrum took, and is continuing to take, capital strengthening actions which include, amongst other things, sales of certain loans to an existing Group-owned Russian problematic assets management company;
- set deadlines to integrate Group policies into Uniastrum; and
- took steps to increase deposit balances and liquidity buffers of Uniastrum.

The Group's operations in Russia suffered a loss before tax of €51.8 million and €42.7 million for the years ended 31 December 2013 and 2012, respectively, primarily as a result of provisions for impairment of loans and advances. Uniastrum establishes provisions based on Russian accounting standards for CBR reporting purposes and IFRS for Group reporting purposes. The Group's operations in Russia suffered a loss before tax of €17.6 million and €18.2 million for the six months ended 30 June 2014 and 2013, respectively. As of 31 December 2013 and 30 June 2014, the Russian loan portfolio was €1.4 billion and €1.3 billion, respectively, and comprised 5.3% and 5.2%, respectively, of the Group's gross loans and advances to customers before fair value adjustments on initial recognition and including loans and advances classified as held for sale.

The Bank expects to provide additional funding or capital to Uniastrum as a result of ongoing internal reviews of Uniastrum's loan provisioning levels and/or, in particular, if the CBR determines that Uniastrum should increase provisions on specific customer loans as a result of its review of Uniastrum's loan portfolio. Although the CBR completed its review of Uniastrum's loan portfolio in October 2014, Uniastrum has not yet received the CBR's formal conclusions and requirements from this review.

In February 2014, the CBR issued a report to the Group's Russian bank subsidiary, Uniastrum, which identified, amongst other things, non-compliance by Uniastrum in relation to certain reporting requirements of the CBR including, for example, to the AML/CTF area, as well as deficiencies in Uniastrum's risk and internal control environment. The CBR has imposed fines on Uniastrum of RUB60,000 in relation to its non-compliance with reporting requirements. See also Section 2.3.20 (*The Group is exposed to operational risk*) and Section 2.3.22 (*The Group is exposed to the risk of fraud and illegal activities*).

Retail Banking

Uniastrum's retail banking products and services include personal loans, mortgage loans, current accounts, deposits, credit cards and cash operations and money transfers. As of 31 December 2013 and 30 June 2014, the Russian retail loan portfolio was €399.1 million and €361.2 million, respectively, and comprised 27.9% and 27.7%, respectively, of the Group's total Russian loan portfolio.

SME Banking

Uniastrum also offers a variety of products and services for financing for SMEs based or operating in the Russian Federation, including trade credit and credit guaranteed by the Moscow Small Enterprise Assistance Fund. As of 31 December 2013 and 30 June 2014, the Russian SME loan portfolio was €256.7 million and €245.3 million, respectively, and comprised 18.0% and 18.8%, respectively, of the Group's total Russian loan portfolio.

Corporate Banking

Uniastrum offers corporate clients a range of products and services designed in collaboration with the Group, including cash management, investment loans and deposits, all of which are available to Russian and foreign businesses operating in a wide variety of sectors in all parts of the Russian Federation. Uniastrum's corporate lending programme is geared towards developing and expanding the clients' existing businesses through the provision of financing for working capital, the acquisition of property and equipment, upgrading of production facilities, major repairs and maintenance of property and equipment, debt refinancing and trade finance. As of 31 December 2013 and 30 June 2014, the Russian corporate loan portfolio was €773.3 million and €697.2 million, respectively, and comprised 54.1% and 53.5%, respectively, of the Group's total Russian loan portfolio.

3.7.9.2 United Kingdom

Bank of Cyprus UK Ltd

The Bank has operated in the United Kingdom since 1955. On 25 June 2012, the banking business carried out by the United Kingdom branch of the Bank, was transferred to BOC UK, a wholly owned subsidiary of the Bank which is incorporated in the United Kingdom and is authorised and regulated by the Prudential Regulation Authority and regulated by the Financial Conduct Authority. On 1 April 2013, pursuant to the Laiki Transfer Decrees, BOC UK acquired customer deposits amounting to €325.2 million and certain liquid assets from the United Kingdom branch of Laiki Bank. With the exception of these customer deposits and certain liquid assets, no other assets, liabilities, premises, staff or other obligations of the United Kingdom branch of Laiki Bank have been transferred to BOC UK.

BOC UK operates in the United Kingdom through four business centres and banking outlets in London and Birmingham specialising in the provision of banking services to smaller businesses and property entrepreneurs. As of 31 December 2013 and 30 June 2014, the BOC UK loan portfolio stood at €682.5 million and €738.0 million, respectively, and comprised 2.6% and 2.9%, respectively, of the Group's gross loans and advances to customers before fair value adjustment on initial recognition and including loans and advances classified as held for sale. As of 31 December 2013 and 30 June 2014, customer deposits were stable at €1.2 billion.

The Board of the Bank has approved the provision of an unlimited guarantee to the Bank of England for any liabilities of Bank of Cyprus UK Limited under the Sterling Monetary Framework ("**SMF**"). The SMF is the framework which governs the Bank of England's operations in the Sterling money markets, including its dealings with banks. The SMF allows participants to take advantage of a number of facilities provided by the Bank of England, including access to emergency liquidity assistance. BOC UK does not currently have any liabilities under the SMF.

United Kingdom Branch of Laiki Bank

On 1 April 2013, the customer loans and advances as well as the premises (6 properties) of the United Kingdom branch of Laiki Bank were transferred to the Group pursuant to the Laiki Transfer Decrees. As of 31 December 2013 and 30 June 2014, customer loans and advances before fair value adjustments on initial recognition amounted to €561.6 million and €395.5 million, respectively. Responsibility for the sale of the premises maintained by the United Kingdom branch of Laiki Bank has been assumed by the Group's valuation and estate department. In line with the Restructuring Plan's objective for the disposal of non-core assets, on 31 October 2014, the Bank sold the UK Loan Portfolio. The nominal value of the UK Loan Portfolio, as at the cut-off date for the transaction, was £289.0 million (€361.0 million based on the pounds sterling to Euro exchange rate established by the Bank as at 30 June 2014). Following the sale of the UK Loan Portfolio, the Group retained a loan portfolio with a nominal value of £59.0 million (€73.7 million based on the pounds sterling to Euro exchange rate established by the Bank as at 30 June 2014) as at 31 October 2014. The retained loan portfolio continues to be administered by the United Kingdom branch of Laiki Bank under a service level agreement with the Bank. However, the Bank expects to arrange for BOC UK to assume the administration of the retained loan portfolio in the first quarter of 2015, subject to obtaining consent from the Prudential Regulation Authority in the United Kingdom.

With the exception of customer advances, customer deposits, premises and certain liquid assets, no other assets, liabilities, staff or other obligations of the United Kingdom branch of Laiki Bank have been transferred to the Bank or BOC UK.

3.7.9.3 Channel Islands

In 1996, the Bank established Bank of Cyprus (Channel Islands) Ltd ("**BOC CI**"), a wholly-owned subsidiary incorporated in the Bailiwick of Guernsey and which is licensed under the Banking Supervision (Bailiwick of Guernsey) Law of 1994 and the Protection of Investors (Bailiwick of Guernsey) Law of 1987. As of 31 December 2013 and 30 June 2014, BOC CI had total assets of £134.0 million and £134.0 million, respectively. Its main activities are deposit-taking and lending, as well as the provision of private banking and international investment and brokerage services.

3.7.9.4 Greece

The Group exited Greece, a market in which it has operated for the last 22 years, through the disposal of loans, own use fixed assets and deposits of its banking and leasing operations in Greece to Piraeus Bank pursuant to the Greek Operations Decree in March 2013. The Group's remaining activities and assets in Greece following the disposal to Piraeus Bank include the provision of insurance services through the Greek branch of Eurolife, the management of a €245.7 million, as at 30 June 2014, contingent off balance sheet exposure comprised of letters of guarantee issued by the Bank before the date of the Greek Operations Decree (which no longer have the benefit of security and collateral as a result of the disposal of the loans to Piraeus Bank) and the management of a real estate portfolio, consisting of properties repossessed before March 2013 that were not part of the assets sold to Piraeus Bank under the Greek Operations Decree. Responsibility for the management of the Group's real estate assets and letters of guarantee exposure in Greece has been assumed by the Group's operations division. See Section 3.9 (*Property, Plant and Equipment*) for more detail on the Group's real estate in Greece.

3.7.9.5 Romania

On 25 April 2013, in accordance with the Romanian Operations Decree, certain assets (which included customer loans and related collateral, cash and other liquid assets) and liabilities of the Romanian branch of the Group, as well as all staff related to servicing the relevant contracts, were transferred to Marfin Bank Romania. The gross assets and customer deposits transferred to Marfin Bank Romania amounted to €82.0 million and €77.0 million, respectively. The Bank completed the sale of its 9.99% equity stake in Banca Transilvania, a Romanian bank, for approximately €82.0 million in April 2014.

In line with the Restructuring Plan's objective for the disposal of non-core assets, the Bank's Romanian branch has not engaged in new loan origination activities and is concentrating on the management and deleveraging of its remaining loan portfolio and the disposal of real estate assets in Romania obtained as part of customer loan settlements. The Group's loans and advances to customers before fair value adjustment on initial recognition in Romania decreased from €550.2 million as at 31 December 2012 to €493.0 million as at 31 December 2013. The Group's loans and advances before fair value adjustment on initial recognition to customers in Romania was €370.9 million (excluding loans and advances classified as held for sale) and €484.6 million as at 30 June 2014 and 2013, respectively.

As of 30 June 2014, the Group had a real estate portfolio in Romania with a book value of €212.0 million. On 11 September 2014, the Group disposed of its interest in GHES, including (i) the facility agreement between GHES and the Bank's Romanian branch, (ii) the Group's 35.3% shareholding in GHES and (iii) the subordinated loan agreement from GHES. The sale consideration was €95.0 million.

3.7.9.6 Ukraine

In April 2014, the Bank completed the sale of its Ukrainian business, consisting of its holding of 99.8% in PJSC Bank of Cyprus and its loans with Ukrainian exposures, for approximately €198.9 million, comprising €98.9 million received and €100.0 million deferred up to 31 March 2015.

3.7.9.7 International Corporate Banking

The ICB was established in September 2013 and is responsible for cross-border loans of international corporate customers and syndications (€445.3 million at 30 June 2014). The ICB also assists the Group's international banking subsidiaries in the management of their corporate clients and large projects (co-managing €263.0 million at 30 June 2014). As of 30 June 2014, the ICB managed a total portfolio of €708.3 million. In addition, the ICB assists the Group's overseas subsidiaries in the handling of their corporate portfolios, with the aim of ensuring a consistent approach and analysis in each jurisdiction.

3.7.10 Group Compliance Division

The Group Compliance Division ("**GCD**") is an independent department responsible for facilitating the management of compliance risk and, with executive management, developing a corporate culture of compliance through staff training, the implementation of policies relating to regular reporting and cross-Group communication on compliance matters and the monitoring of the compliance function across the Group. Compliance risk is the risk of impairment to the Group's business model, reputation and financial condition from the failure to comply with laws and regulations, internal standards and policies. The scope of the compliance function also includes advising on compliance regulatory requirements, market conventions and codes of practice promoted by industry associations.

The functional activities of the GCD are organised through the following departments, each of which has distinct responsibilities and covers specific risk areas:

- *The Regulatory and Ethics Compliance Department*. The overall objective of this department is to establish and maintain an ethical corporate culture for the Group and its primary responsibilities include facilitating the identification, management and monitoring of compliance risk, reporting on key compliance issues, monitoring and supporting key corporate governance responsibilities, monitoring new legislation and regulations, supporting Group subsidiaries and branches with their compliance matters and managing the training of staff on regulatory and compliance matters; and

- *The Money Laundering Compliance Department*. This department is divided into four sub-departments:

  (i) The Money Laundering Risk Monitoring Team is primarily responsible for investigating alerts, carrying out internal investigations, submitting reports on suspicious transactions to the financial intelligence unit and responding to compliance queries (including from correspondent banks);

  (ii) The Money Laundering Assurance Team is primarily responsible for onsite anti-money laundering visits and risk-control self assessments;

  (iii) The Money Laundering Risk Assessment Team performs due diligence on new and existing client accounts, politically exposed persons and other high risk customers, sanctions reviews and assesses correspondent banks and third parties (introducers); and

  (iv) The Operations Team administers information technology systems and the policy and procedural framework of the department, as well as the required reporting to the CBC. The operations team is also responsible for training staff on anti-money laundering issues and for monitoring overseas operations.

The following anti-money laundering policies have been approved by the Board of Directors:

- *Risk Appetite Statement and Guidelines in relation to Mitigating Risk Pertaining to Money Laundering and Terrorist Financing*. This policy provides a framework for executive management and the Board of Directors to more clearly define a risk based strategy for the prevention and suppression of money laundering and terrorist activities.

- *Policy Relating to the Prevention of Money Laundering and Terrorism Financing*. This policy sets out rules on the appointment of a compliance officer for each subsidiary company, performance of due diligence on customers and transaction parties and the retention of appropriate records and data for at least 10 years.

  For all Group entities that are required by applicable rules and regulations to have a compliance division, a unit must be established with responsibility for the prevention and suppression of money laundering and terrorist financing. Where there is no requirement for a compliance division, the relevant compliance officer must have access to adequate resources. In each case, the functional reporting line of the relevant compliance officer is to the Director of Group Compliance.

- *Customer Acceptance Policy*. This policy sets out the framework for the evaluation of customer risk, including establishing guidelines for identifying high-risk industries and entities (e.g. politically exposed persons, trusts and client accounts) and prohibiting the establishment of a business relationship with certain persons (e.g. persons connected with sanctioned countries).

For those politically exposed persons not caught by the general prohibition on the establishment of a business relationship, this policy requires enhanced due diligence to be performed and the approval of senior management before a business relationship is established and, thereafter, the monitoring of account activity.

- *Sanctions Policy*. This policy sets out instructions on the treatment of, and compliance, with sanctions administered by the United Nations, the EU and other applicable bodies (e.g. Office of Foreign Assets Control of the U.S. Department of the U.S. Treasury). This policy includes information on affected countries, guidance on the type of transaction covered and instructions on internal reporting.

For more information, see Section 2.3.22 (*The Group is exposed to the risk of fraud and illegal activities*) and Section 3.22.3.14 (*Money Laundering and Terrorist Financing*).

The Regulatory and Ethics Compliance Department has issued and the Board of Directors has approved the following Group policies:

- Complaints Management policy;
- Competition Law policy;
- New products and services policy;
- Anti-bribery policy;
- Data protection policy;
- Market abuse procedure;
- Regulatory developments and communications with competent authorities;
- MiFID obligations on personal transactions; and
- Conflict of Interest policy.

The following policies are in process of being finalised (or approved by the Board of Directors):

- Regulatory Governance Compliance policy;
- Fit and Probity policy; and
- Corporate Governance Compliance policy.

3.8 INVESTMENTS

Total investments (both unencumbered investments and investments pledged as collateral) decreased by €1,697.1 million or 47.6% from €3,567.2 million at 31 December 2011 to €1,870.1 million at 31 December 2012, then increased by €1,562.6 million to €3,432.7 million in 2013, driven principally by the acquisition of Cyprus government bonds acquired from Laiki Bank, and increased a further €105.4 million to €3,538.0 million at 30 June 2014.

In June 2013, the Group exchanged €180.0 million of government bonds issued by the Republic of Cyprus pursuant to an exchange offer conducted by the Government. The new bonds bore equal rates to those being exchanged and had maturities of six to ten years. The exchange constituted a modification of terms, rather than resulting in the derecognition of the bonds being exchanged. For the bonds offered for exchange, there was objective evidence of impairment, as among other things there was a decrease in the estimated future cash flows due to the maturity extension using current market yields, instead of the original effective interest rate. As a result, during the year 2013 the Group had recognised impairment losses of €6.9 million relating to the exchanged bonds.

On 1 July 2014, the Public Debt Management Office of the Republic of Cyprus repaid €950.0 million of an outstanding €1,987.0 million sovereign bond held by the Bank. The bond was transferred to the Bank in March 2013 as part of the acquisition of assets and liabilities of Laiki Bank. The bond was pledged as collateral with the ECB and the Bank used the proceeds of repayment to reduce its ECB funding by €550 million and ELA by €400 million. As the bond was transferred to the Bank at fair value and redeemed at nominal value, the Group recognised an accounting profit of €99.8 million for the second quarter of 2014, which had a positive impact of €99.8 million or 0.4 percentage points on the Group's CET 1 ratio.

Except as described herein, there were no additional material investments from 30 June 2014 to the date of this Prospectus and no material investments are in progress.

The table below shows the carrying value of the Group's investments (excluding investments pledged as collateral under repurchase agreements with banks, as described below) at the dates indicated:

	31 December			30 June
	2011(1)	**2012**(1)	**2013**(1)	**2014**(1)
		(€'000)		
Investments				
Investments at fair value through profit or loss	26,345	21,818	25,160	30,087
Investments available-for-sale	534,803	402,547	161,258	78,615
Investments held to maturity	1,055,406	–	–	–
Investments classified as loans and receivables	1,012,570	710,968	2,573,437	2,757,357
Total	**2,629,124**	**1,135,333**	**2,759,855**	**2,866,059**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see Section 3.1.1 (*Presentation of Financial Information*).

3.8.1 Investments Pledged as Collateral under Repurchase Agreements with Banks

Certain of the Group's investments have been pledged as collateral under repurchase agreements with banks as set forth in the table below. All investments pledged as collateral can be sold or repledged by the counterparty.

	31 December			30 June
	2011(1)	**2012**(1)	**2013**(1)	**2014**(1)
		(€'000)		
Investments pledged as collateral under repurchase agreements with banks				
Investments at fair value through profit or loss	26,544	–	–	–
Investments available-for-sale	718,719	694,287	672,809	671,984
Investments held to maturity	148,698	–	–	–
Investments classified as loans and receivables	44,109	40,460	–	–
Total	**938,070**	**734,747**	**672,809**	**671,984**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see Section 3.1.1 (*Presentation of Financial Information*).

3.8.2 Investments at Fair Value through Profit or Loss

The table below analyses investments at fair value through profit or loss:

Investments at fair value through profit or loss	Trading investments	Other investments at fair value through profit or loss	Total
		(€'000)	
30 June 2014[1]			
Debt securities	42	17,243	17,285
Equity securities	4,046	–	4,046
Mutual funds	8,756	–	8,756
	12,844	**17,243**	**30,087**
Cyprus Government	–	17,235	17,235
Banks and other corporations	42	8	50
	42	**17,243**	**17,285**
31 December 2013[1]			
Debt securities	103	15,549	15,652
Equity securities	2,953	–	2,953
Mutual funds	6,555	–	6,555
	9,611	**15,549**	**25,160**
Cyprus Government	–	15,413	15,413
Banks and other corporations	103	136	239
	103	**15,549**	**15,652**
31 December 2012[1]			
Debt securities	96	13,955	14,051
Equity securities	2,557	–	2,557
Mutual funds	5,210	–	5,210
	7,863	**13,955**	**21,818**
Cyprus Government	–	13,042	13,042
Banks and other corporations	96	913	1,009
	96	**13,955**	**14,051**

Investments at fair value through profit or loss	**Trading investments**	**Other investments at fair value through profit or loss**	**Total**
		(€'000)	
31 December 2011[(1)]			
Debt securities	1,935	44,227	46,162
Equity securities	6,434	85	6,519
Mutual funds	208	–	208
	8,577	**44,312**	**52,889**
Cyprus Government	–	17,662	17,662
Other governments	–	481	481
Banks and other corporations	1,935	26,084	28,019
	1,935	**44,227**	**46,162**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see Section 3.1.1 (*Presentation of Financial Information*).

3.8.3 Investments Available for Sale

The table below analyses investments available-for-sale:

	31 December			30 June
	2011[(1)]	2012[(1)]	2013[(1)]	2014[(1)]
	(€'000)			
Investments available-for-sale				
Debt securities	1,207,548	1,032,302	733,658	729,755
Equity securities	45,974	64,532	98,606	19,561
Mutual funds	–	–	1,803	1,283
	1,253,522	**1,096,834**	**834,067**	**750,599**
Geographical distribution of debt securities by country of issuer				
Cyprus	2,662	2,119	7,571	3,642
Greece	2,815	–	–	–
United Kingdom	155,055	9,867	6,365	6,193
France	513,542	509,745	476,818	491,358
Germany	99,883	59,688	58,258	59,142
Ukraine	3,857	3	1	1
Italy	21,294	51,536	52,211	53,308
Other European countries	274,071	102,572	106,175	89,529
Other countries	75,495	2,197	2,052	1,997
European Financial Stability Facility and European Investment Fund	10,131	284,787	14,617	14,590
Supranational organisations	48,743	9,788	9,590	9,995
	1,207,548	**1,032,302**	**733,658**	**729,755**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see Section 3.1.1 (*Presentation of Financial Information*).

3.8.4 Investments Classified as Loans and Receivables

The table below analyses investments classified as loans and receivables:

	31 December			30 June
	2011[(1)]	2012[(1)]	2013[(1)]	2014[(1)]
	(€'000)			
Investments classified as loans and receivables				
Debt securities	1,056,679	751,428	2,573,437	2,757,357
Cyprus government	511,833	749,981	2,572,940	2,756,854
Other governments	544,846	–	–	–
Banks and other corporations	–	1,275	300	306
Local authorities	–	172	197	197
	1,056,679	**751,428**	**2,573,437**	**2,757,357**

	31 December			30 June
	2011(1)	**2012**(1)	**2013**(1)	**2014**(1)
		(€'000)		
Geographical distribution of debt securities by country of issuer				
Cyprus	511,833	751,428	2,573,437	2,757,357
Greece..	544,846	−	−	−
	1,056,679	**751,428**	**2,573,437**	**2,757,357**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see Section 3.1.1 (*Presentation of Financial Information*).

3.8.5 Reclassification of Investments

The Group classifies financial assets into the following categories: at fair value through profit or loss, available-for-sale, held-to-maturity or loans and receivables. The appropriate classification of financial assets is determined at the time of initial recognition. In addition, under the amendments to IAS 39 and IFRS 7, it is permissible to reclassify certain financial assets out of the financial assets at fair value through profit or loss (trading assets) and the available-for-sale classifications into the loans and receivables classification. The Group has undertaken the following reclassifications of investments:

Reclassification of trading investments to loans and receivables − On 1 April 2010, in light of the crisis prevailing in global markets, the Group identified the investments which it had no intention to trade or sell in the foreseeable future. These investments in debt securities (with a carrying value of €34.8 million at the date of reclassification) were reclassified from trading investments to loans and receivables.

Reclassification of available-for-sale investments to loans and receivables − On 1 October 2008 and 30 June 2011, the Group reclassified certain available-for-sale debt securities (with a carrying value of €163.4 million and €164.0 million, respectively, at the date of reclassification) to investments classified as loans and receivables, in view of the fact that there was no active market for these debt securities and the Group had the intention and ability to hold these securities in the foreseeable future.

Reclassification of held-to-maturity investments to available-for-sale investments − On 1 November 2012, the Group reassessed its policies in respect of the management of its investment portfolio in view of its efforts to strengthen its liquidity and capital adequacy ratios and decided to reclassify all debt securities previously classified as held-to-maturity (with a carrying value of €87.7 million at the date of reclassification) to investments available-for-sale, in order to be able to sell these securities as and when required. As a result, in accordance with the Group's accounting policies and IFRS, the Group is not allowed to classify any investments as held-to-maturity until November 2014.

There were no reclassifications during 2013 or in the first six months of 2014.

3.9 PROPERTY, PLANT AND EQUIPMENT

As of the date of this Prospectus, the Group's property is comprised of land and premises used in the Bank's operations. The net book value of the Group's property (cost and valuation) and equipment is as follows:

	31 December			30 June
	2011	2012	2013	2014
		(€'000)		
Freehold property[(1)]	401,399	419,498	368,962	326,008
Improvements on leasehold property	31,119	26,066	10,231	8,227
Total	**432,518**	**445,564**	**379,193**	**334,235**
Equipment	40,670	37,629	35,211	32,150
Property and Equipment	**473,188**	**483,193**	**414,404**	**366,385**

(1) Freehold property includes land amounting to €133.2 million, €143.0 million and €142.4 million as at 31 December 2013, 2012 and 2011, respectively, for which no depreciation is charged.

The Group's policy is to periodically revalue its properties (typically, every three to five years). As a consequence of the prevailing economic conditions in Cyprus and Greece and their impact on the real estate market in those countries, property revaluations were performed as at 30 June 2013, which resulted in a net loss on revaluation of €16.4 million for the year ended 31 December 2013 (2012: €15.7 million), which was recognised in the consolidated statement of comprehensive income and an impairment loss of €4.9 million for the year ended 31 December 2013 (2012: €3.2 million), which was recognised in the consolidated income statement. The valuations were carried out by independent qualified valuers, on the basis of market value using observable prices and/or recent market transactions depending on the location of the property. The net book value of freehold property, on a cost less accumulated depreciation basis, as at 31 December 2013, 2012 and 2011 would have amounted to €241.3 million, €255.1 million and €237.4 million, respectively.

The Group has encumbered property amounting to €90.2 million at 31 December 2013 (2012: nil) and €88.9 million at 30 June 2014. For further information regarding encumbered assets, see Section 3.11.2.1 (*Encumbered and Unencumbered Assets*).

As of the date of this Prospectus, 18 of the Group's retail branch premises are owned by the Group while the remaining 112 retail branch premises are leased. In addition, the Group's head offices, including the Group's headquarters in Nicosia, are owned by the Group. These properties and leases are managed by the Group's operations division.

The Group's operations division also manages:

- the Group's real estate portfolio in Cyprus and Greece which is principally comprised of real estate which had been seized by the Group as a result of enforcing loan collateral as part of customer loan restructurings. The Group's real estate portfolio in Romania is managed by the IO division but the sale of repossessed real estate in Romania is coordinated with the Group's operations division (see Section 3.7.9.5 (*Romania*)); and
- the Group's two property development companies in Cyprus, Kermia Ltd ("**Kermia**") and Kermia Properties & Investments Ltd ("**KPI**").

As of 30 June 2014, the Group had own use and investment properties in Greece with a total book value of €176.6 million. As of 30 June 2014, the Group had own use and investment properties in Cyprus, including the properties owned by Kermia and KPI, with a total book value of €481.8 million.

Kermia and KPI are both wholly-owned subsidiaries of the Group with total assets as at 30 June 2014 of €35.7 million and €16.6 million, respectively. 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.

In line with the Restructuring Plan, the Group's operations division is focused on the disposal of the Group's real estate portfolio in Greece and Cyprus, including the Group's interests in Kermia and KPI. See Section 2.1.4 (*Exposure to the Cypriot residential real estate market makes the Group vulnerable to developments in this market*) for a discussion of the risks involved in the disposal of real estate in Greece and Cyprus.

There were no material changes on the Group's property from 30 June 2014 to the date of this Prospectus.

3.10 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion should be read in conjunction with the audited and unaudited consolidated financial statements and the notes thereto incorporated by reference in this Prospectus. The following condensed financial information relating to the years ended 31 December 2011, 2012 and 2013 are based on the annual audited consolidated financial statements for the years ended 31 December 2011, 2012 and 2013 which have been audited by the Group's independent auditors, Ernst & Young Cyprus Ltd. These financial statements are incorporated by reference in this Prospectus, see Section 3.1.5 (Incorporation by Reference). The consolidated financial statements for the years 2011, 2012 and 2013 have been audited by the statutory external auditors of the Group, Ernst & Young Cyprus Ltd. The interim condensed consolidated financial statements for the six months ended 30 June 2014 are based on the interim condensed consolidated financial statements of the Group for the six months ended 30 June 2014 which have not been audited by the external auditors of the Group. The independent external auditors of the Group, Ernst & Young Cyprus Ltd, have conducted a review of these financial statements in accordance with International Standards on Review Engagements 2410. The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2014 are incorporated by reference in this Prospectus. See Section 3.1.5 (Incorporation by Reference). In addition, the comparability of the below financial information is limited in some respects. See Section 3.1.1 (Presentation of Financial Information) and Section 3.1.2 (Comparability of Results).

3.10.1 Overview

The Group is the leading bank and financial services group in Cyprus, with total assets of €28.6 billion at 30 June 2014. The Group currently operates through a total of 267 branches, of which 130 operate in Cyprus, 131 in Russia, four in the United Kingdom, one in Romania and one in the Channel Islands. The Group has four representative offices in Russia, Ukraine and China. As at 30 June 2014, the Group employed 6,747 staff worldwide.

From 25 March through 30 July 2013 the Bank was under resolution, during which:

- the Group disposed of the loans, fixed assets and deposits of its Greek banking operations to Piraeus Bank;
- the Group acquired certain assets and liabilities, including customer deposits of €4.2 billion and ELA funding of €9.1 billion, of Laiki Bank;
- the Group disposed of certain assets and liabilities of its Romanian operations to Marfin Bank Romania; and
- the Resolution Authority effected the Recapitalisation, in which the claims of uninsured depositors, holders of debt securities and other creditors were converted into equity.

Following its resolution, the Group has prepared a Restructuring Plan which was approved by the CBC in November 2013 and which defines the Group's strategy, business model and risk appetite. The Restructuring Plan aims to enable the Group to overcome its current difficulties and gradually normalise its performance. The Restructuring Plan sets specific medium-term financial targets that prioritise the stability and viability of the Group. One of the more important targets is the compliance with the minimum capital adequacy requirements set forth by the CBC, with the Group's CET 1 remaining above the CBC's target of 8% plus Pillar II add-ons, throughout the Restructuring Plan period. The Group considers the achievement of a superior CET 1 capital ratio as a more important target than profitability, shielding the Group from further shocks and eventually enabling the Group's credit rating to improve, facilitating access to capital markets for funding in the medium term.

3.10.2 Presentation and Comparability of Financial Information

3.10.2.1 Presentation of Financial Information

The discussion below relates to the results of the Group for the years ended 31 December 2011, 2012 and 2013 and for the six months ended 30 June 2013 and 2014.

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2014 have not been audited by the Group's external auditors. Ernst & Young Cyprus Ltd, the independent auditors of the Group, have conducted a review of these financial statements in accordance with International Standards on Review Engagements 2410. The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2014 are incorporated by reference in this Prospectus. The consolidated financial statements of the Group for the years ended 31 December 2011, 2012 and 2013 have been audited by Ernst & Young Cyprus Ltd, the independent auditors of the Group. These financial statements are incorporated by reference in this Prospectus. See Section 3.1.5 (*Incorporation by Reference*).

The independent auditor's reports on the consolidated financial statements for the years ended 31 December 2011, 2012 and 2013 and the independent auditor's review conclusion on the consolidated financial statements for the six months ended 30 June 2014 are included in this Prospectus beginning on page F-1.

The consolidated balance sheet as at 31 December 2013, which is presented as comparatives in the interim condensed consolidated financial statements for the six months ended 30 June 2014, has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki Bank acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc acquired as part of the Laiki Bank acquisition.

The interim consolidated income statement for the six months ended 30 June 2013 and the consolidated income statement for the year ended 31 December 2013 include the results of the assets and liabilities acquired from Laiki Bank from the date of acquisition as well as the results of the Greek operations sold to Piraeus Bank until the date of sale, both of which occurred in March 2013. The interim consolidated income statement for the six month period ended 30 June 2013, which is presented as comparative information in the interim condensed consolidated financial statements for the six months ended 30 June 2014, has been re-presented to reflect the reclassification of the Group's operations in Ukraine as discontinued operations and restated to reflect final adjustments on the acquisition date fair values related to the Laiki Bank acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc acquired as part of the Laiki Bank acquisition.

The financial information for the year ended 31 December 2012, which is presented as comparatives in the consolidated financial statements for the year ended 31 December 2013, has been re-presented to present the reclassification of the Group's operations in Greece from continuing to discontinued operations and restated to reflect the adoption of IAS 19 (Revised 2011).

The financial information for the year ended 31 December 2011, which is presented as comparatives in the consolidated financial statements for the year ended 31 December 2012, has been restated to reflect the change in accounting policy with respect to IAS 19 "Employee Benefits" and the recognition of actuarial gains or losses arising from defined benefit plans adopted by the Group from 1 January 2012. The consolidated income statement for the year ended 31 December 2011 has not been re-presented to reflect the Group's operations in Ukraine and Greece as discontinued operations.

As a result of the above restatements, the balance sheet information in this Prospectus relating to the year ended 31 December 2013 has been extracted from the comparative financial information included in the interim condensed consolidated financial statements for the six months ended 30 June 2014 as included in the Mid-Year Financial Report 30 June 2014 of the Group and is therefore different from the balance sheet information for the year ended 31 December 2013 as included in the 2013 Annual Financial Report of the Group.

As a result of the above restatements, the financial information in this Prospectus relating to the year ended 31 December 2012, has been extracted from the comparative financial information included in the consolidated financial statements for the year ended 31 December 2013 as included in the 2013 Annual Financial Report of the Group and is therefore different from the consolidated financial statements for the year ended 31 December 2012 as included in the 2012 Annual Financial Report of the Group.

The financial information in this Prospectus relating to the year ended 31 December 2011 has been extracted from the comparative financial information included in the consolidated financial statements for the year ended 31 December 2012 as included in the 2012 Annual Financial Report of the Group and is therefore different from the consolidated financial statements for the year ended 31 December 2011 as included in the 2011 Annual Financial Report of the Group.

The independent auditor's report in respect of the Group's consolidated financial statements as at and for the year ended 31 December 2013 is qualified with respect to (a) the inability of the Bank to apply the requirements of IFRS for the bail-in of uninsured deposits and debt securities pursuant to the 2013 Recapitalisation due to the specific conditions and uncertainties that existed at the time of the transaction and (b) any adjustments that could have been determined to be necessary to the consolidated income statement had the auditors been able to satisfy themselves as to the fair value of the ordinary shares issued for the Group's recapitalisation through the bail-in of uninsured deposits and debt securities and for the consideration transferred for the acquisition of certain assets and liabilities of the Laiki Bank. The Group's equity and financial positions were not affected by the accounting of these transactions giving rise to these qualifications and the Bank does not expect these qualification to be repeated in 2014. Refer to notes 3.2.2 and 54.2 to the consolidated financial statements for the year ended 31 December 2013. The independent auditor's report on the consolidated financial statements for the years ended 31 December 2012 and 2013 also contained an emphasis of matter as to the Bank's conclusion with respect to going concern, as set forth in Note 3.1 of the consolidated financial statements for the year ended 31 December 2012 and Note 4.1 of the consolidated financial statements for the year ended 31 December 2013. The independent auditor's report in respect of the Group's consolidated financial statement for the year ended 31 December 2011 contained an emphasis of matter as to the Bank's conclusions with respect to going concern while not complying with minimum capital adequacy ratios, as set forth in Note 3.1 and Note 49 of the consolidated financial statements for the year ended 31 December 2011.

3.10.2.2 Non-Performing Loans

The Group classifies its loan portfolio into three categories: neither past due nor impaired, past due but not impaired, and impaired. Past due loans are those with delayed payments or in excess of authorised credit limits. Impaired loans are those which are not considered fully collectible and for which a provision for impairment has been recognised on an individual basis or for which incurred losses exist at their initial recognition.

In February 2014, the CBC issued the Loan Provisioning Directive, which provides guidance to banks for loan impairment policy and procedures for provisions. The purpose of the Loan Provisioning Directive is to ensure that credit institutions have in place adequate provisioning procedures for the identification of credit losses and prudent application of IFRS in the preparation of their financial statements. The Loan Provisioning Directive requires certain disclosures in relation to the loan portfolio quality, provisioning policy and level of provision. The disclosures are in addition to and do not replace the disclosures contained in the Group's consolidated financial statements. The Loan Provisioning Directive is effective from 21 February 2014 and requires the new disclosure requirements to be published on an annual and semi annual basis, starting from 31 December 2013. Information from the Group's disclosures under the Loan Provisioning Directive for the year ended 31 December 2013 and for the six months ended 30 June 2014 are included in Section 3.17.1.9 (*Non-Performing Loans*).

The disclosures required include NPLs, which are defined in the NPL Directive, which became effective as of 1 July 2013. In accordance with the NPL Directive, a customer is classified as an NPL if:

- it is in arrears of interest or capital or any other charges for a period of more than 90 days;
- it is in excess of its contractual limit on a continuous basis for a period of more than 90 days; and/or
- it has been restructured and at the time of restructuring was classified as an NPL or was in arrears or in excess for a period of more than 60 days or has been restructured twice within a period of 18 months.

Restructured loans remain as NPLs for six months following commencement of the new repayment schedule of capital instalments or in the case of gradually increasing instalments, six months from the first month from which the higher instalment is due. In the case of lump-sum payments or bullet payments at maturity in excess of 20% of the loan amount, the loan remains as an NPL until its maturity. For a further discussion of the Group's NPLs, see Section 3.17 (*Selected Statistical and Other Information*).

On 5 August 2014, the EBA published a final draft of the implementing technical standards on supervisory reporting on forbearance and non-performing exposures under Article 99(4) of Regulation (EU) No 575/2013. These technical standards are expected to enter into force before the end of 2014. The CBC has informed credit institutions in Cyprus that their reporting obligations under the NPL Directive will continue until the year ended 31 December 2014. The EBA's technical standards focus on a 90-day past due threshold for non-performing exposures, while the definition of forbearance focuses on concessions extended to debtors who face, or may face, difficulties in meeting payments. The adoption of these standards by the European Commission will harmonise the definition of NPLs across all Member States.

3.10.2.3 Factors Affecting Comparability of Financial Information

The changes carried out in the Recapitalisation and the disposals carried out by the Group thereafter have significantly transformed the operations of the Group, resulting in the sale of a substantial portion of the Group's international operations, the conversion of a proportion of its liabilities into equity and the acquisition of certain operations of Laiki Bank and changes in the Group's funding.

On 26 March 2013, the Group’s loans, property and equipment, fixed assets and deposits of the banking and leasing operations of the Group in Greece were sold to Piraeus Bank in accordance with a decree issued by the Resolution Authority. As a result, the main banking and leasing operations in Greece, are presented as discontinued operations.

Based on the above, the results of the Group's operations in Greece for the years 2012 and 2013 are presented in this Prospectus after reclassification as discontinued operations and are presented in the income statement of the Group for the reporting years, at the "Loss after tax from discontinued operations". The consolidated results for the year 2011 as presented in the Prospectus have not been reclassified and as a result are not considered comparable to the years 2012 and 2013.

As a result of the factors discussed below, the Group's operating results for certain of the financial periods discussed in the Prospectus are not directly comparable to the operating results for other financial periods discussed herein.

The Recapitalisation

From 25 March to 30 July 2013, the Group was under resolution and was recapitalised pursuant to a number of decrees issued by the Resolution Authority, as a result of which the claims of uninsured depositors, holders of debt securities and other creditors were converted into equity. The Recapitalisation is described in greater detail in Section 3.3.2 (*Recapitalisation of the Bank*). In the Recapitalisation, €3,863.0 million of customer deposits, €122.5 million of debt securities and subordinated loan stock and €459.4 million of CECS were converted into common shares of the Bank. Existing shareholders and holders of debt securities converted into equity also contributed €2,353.3 million through the reduction in the nominal value of share capital and the utilisation of share premium. Following the Recapitalisation, and up to the date of this Prospectus, share capital increased by approximately €2,948.1 million.

Following the issue of the Bail-in Decrees, a number of the affected depositors filed claims against the Bank and other parties (including the CBC and the Ministry of Finance) on the ground, inter alia, that the Resolution of Credit and Other Institutions Law of 2013 and the various Decrees issued by virtue of the law to implement the bail-in, were in conflict with the Constitution of the Republic of Cyprus and the European Convention on Human Rights. In some of the actions, interim orders were issued prohibiting the Bank from treating the deposits of the applicants in question as bailed-in, i.e., converted into shares.

The ordinary shares which under the Bail-in Decrees correspond to the deposits which are subject to these interim orders are included in equity in the consolidated balance sheet as "Shares subject to interim orders", with an equivalent debit balance included in "Other liabilities" within total liabilities. During the six months ended 30 June 2014, 58,625 thousand ordinary shares were transferred from "Shares subject to interim orders" to the share capital account following the lifting of the interim orders applicable to those shares. The ordinary shares which were subject to interim orders as at 30 June 2014 amounted to 297 thousand ordinary shares. For more information, see Section 3.20.4 (*Bail-in Related Litigation—Depositors*).

Laiki Bank Acquisition

In March 2013, the Group acquired certain assets (including a €1.2 billion receivable owing to Laiki Bank from the Bank in connection with the sale of the Group's Greek operations) and liabilities of Laiki Bank pursuant to a series of decrees issued by the Resolution Authority. In connection with the acquisition, the Resolution Authority appointed an international firm to carry out a valuation of the assets and liabilities transferred to the Group. The fair value of the assets transferred was €15.1 billion (including a €1.2 billion receivable owing to Laiki Bank from the Bank in connection with the sale of the Group's Greek operations), including €8.7 billion of loans and advances to customers and €2.7 billion of investments. The fair value of the liabilities transferred included €4.2 billion of customer deposits and €9.1 billion of ELA funding. The compensation transferred by the Bank to Laiki Bank was set pursuant to a decree issued on 30 July 2013 at 18.056371% of the total share capital of the Bank (prior to the Capital Raising). Because of the suspension of trading of the Bank's ordinary shares and the significant uncertainties present at the time, the Bank was not able to establish a reliable measure of the fair value of the ordinary shares issued in connection with the acquisition of the assets and liabilities of Laiki Bank and in its 2013 financial statements set the fair value of the ordinary shares issued to equal the fair value of identifiable assets and liabilities acquired for which a reliable fair value could be established.

The fair value of assets and liabilities acquired from Laiki Bank was finalised during the three months ended 31 March 2014.

The table below sets out the final fair values of the identifiable assets and liabilities acquired from Laiki Bank and its subsidiaries that are incorporated in the Republic of Cyprus and have been transferred to the Group.

Fair values recognised on acquisition	**(€'000)**
Assets	
Cash and balances with central banks	406,685
Placements with banks	1,294,458
Amounts receivable from the Bank	1,153,000
Investments	2,430,044
Loans and advances to customers	8,659,000
Property, plant and equipment and intangible assets	129,779
Deferred tax asset	417,002
Investments in associates and joint ventures	236,977
Other assets	374,083
Total assets	**15,101,028**
Liabilities	
Amounts due to banks	1,233,564
Funding from central banks	9,102,528
Customer deposits	4,177,445
Other liabilities	127,149
Deferred tax liability	5,131
Total liabilities	**14,645,817**
Non-controlling interests	5,324
Total identifiable net assets at fair value	**449,887**
Fair value of consideration transferred (comprising 858,709 thousand shares of nominal value €1.00 each)	**449,887**

On 1 April 2013 the Group also acquired the customer deposits of the UK branch of Laiki Bank, amounting to €325.2 million.

The fair value of loans and advances to customers acquired from Laiki Bank amounts to €8,659.0 million. The gross amount of loans and advances to customers before fair value on initial recognition is €10,688.9 million. Of the total gross amount, €3,902.6 million were considered to be impaired as of the acquisition date. The fair value of these impaired loans amounts to €2,420.4 million.

The contribution to losses for the year ended 31 December 2013 by the acquired operations of Laiki Bank in the Group's consolidated income statement amounted to losses of €49.3 million. From the date of acquisition to 31 December 2013, the operations of Laiki Bank have contributed €334.9 million to net interest income.

For information regarding the loans and advances to customers acquired from Laiki Bank, see Section 3.17.1.3 (*Credit Quality of Loans and Advances to Customers*).

Disposals

During the financial periods under review, the Group disposed of a number of its international operations, including the following:

- In March 2013, the banking and leasing operations of the Group in Greece were sold to Piraeus Bank for a total cash consideration paid by the Group to Piraeus Bank of €1,153.0 million. The loans and fixed assets sold amounted to €7,866.3 million and the deposits sold amounted to €7,653.7 million. The loss on the disposal was €1,365.6 million. As a result of this transaction, the Group wrote off in the 2012 financial year a deferred tax asset of €0.3 billion in Greece, as this was no longer considered recoverable.

- In April 2013, the Group disposed of certain assets of its Romanian branch (including customer loans and related collateral, cash and other liquid assets) amounting to €82.0 million and liabilities including customer deposits amounting to €77.0 million to Marfin Bank Romania. The loss on disposal was €4.5 million.
- In October 2013, the Group completed the sale of its Greek subsidiary Kyprou Asset Management AEDAK to Alpha Trust Mutual Fund Management S.A., resulting in a loss to the Group which is not material.
- In April 2014, the Group sold its business in Ukraine comprising its 99.77% holding in PJSC Bank of Cyprus, the funding provided by the Group to PJSC Bank of Cyprus and its loans with Ukrainian exposures, to the Alfa Group, the Russian banking group. The total consideration was €198.9 million, comprising €98.9 million received and €100.0 million deferred until 31 March 2015. The loss resulting from the sale was €114.2 million.
- In April 2014, the Group sold its 9.99% equity stake in Banca Transilvania, in Romania, for approximately €82 million. The transaction resulted in an accounting gain of €47.5 million.
- In May 2014, the Group sold loans extended to Robne Kuce Beograd, a Serbian real estate management company, which represented one of the Group's largest concentration of non-performing loans, to Piraeus Bank, for approximately €165 million. The transaction resulted in an accounting gain of €27.3 million.
- On 11 September 2014, the Group disposed of its interest in GHES, a company incorporated in Romania and the owner of the JW Marriott Bucharest Grand Hotel, consisting of (i) a facility agreement between GHES and the Bank's Romanian Branch, (ii) the Group's 35.3% shareholding in GHES and (iii) a subordinated loan agreement from GHES. The sale consideration was €95.0 million, which improved the Bank's liquidity position. The loss on disposal is approximately €1 million, which will be recognised in the third quarter of 2014. The sale had a positive impact of approximately €7 million on the Bank's capital position.
- On 31 October 2014, the Bank sold the UK Loan Portfolio owned by the Group and largely composed of residential and commercial real estate-backed facilities to purchasers selected through a competitive process. The nominal value of the loan portfolio, as at the cut-off date for the transaction, was £289 million. The transaction will enhance the Group's liquidity and will have a small positive impact on the Group's CET 1 capital due to the release of risk-weighted assets. The loan portfolio is not related to the Group's wholly-owned subsidiary, Bank of Cyprus UK Ltd, but is part of the wider UK loan portfolio transferred to the Group pursuant to the Laiki Transfer Decrees.

3.10.3 Factors Affecting Results of Operations

3.10.3.1 The Cypriot Economy and the Macroeconomic Adjustment Programme

The Cypriot economy entered into a deep recession in 2013 following the bailout agreement signed with the EU and the IMF. Real GDP contracted by 5.4% in the year following a contraction of 2.4% the year before. The average unemployment rate rose to 15.9% and consumer prices declined by 0.4%.

The Troika agreed the EAP with the Cypriot Government on 2 April 2013. The EAP covers the period from 2013 to 2016 and incorporates a financial assistance package for Cyprus of up to €10 billion. To date €4.84 billion of financing has been disbursed, with a further €436 million scheduled to be disbursed following the conclusion of the fifth review, which is still subject to the approval processes of both the EU and the IMF.

While the recession in 2013 has been deep, the contraction of real GDP was considerably less than initially anticipated. This better performance reflects a number of factors. Some sectors, particularly tourism and business services, proved more resilient than expected. Also, private consumption was influenced by smoothing effects and the drawing down of past savings. In the foreign sector, a steep drop in imports resulted in net exports having a significant positive contribution to growth. In all, the economy showed significant flexibility, as evidenced in declining inflation rates and falling unit labour costs, with the result that the contraction in nominal GDP was steeper than for real GDP.

Given the better than initially expected performance of the economy in 2013 and to date in 2014, the European Commission and the IMF have both revised their 2014 growth forecasts upwards. The European Commission has revised its expectation for a contraction in real GDP from 4.8% to 4.2% in the fourth Troika review of Cyprus' EAP. The IMF in its Article IV Consultation Country Report for Cyprus published in late October 2014 projects the decline in real GDP at 3.2% in 2014 and the European Commission in its Autumn 2014 European Economic Forecast projects a decline of 2.8% in 2014. However, unemployment remains high, although signs of stabilisation are emerging. Growth in 2015 is projected at 0.4% (IMF Article IV Consultation Country Report for Cyprus, October 2014 and European Commission European Economic Forecast, Autumn 2014), with the recovery constrained by the high level of private sector debt. In a statement dated 25 July 2014, following the fifth Troika review of the EAP, the Troika noted that risks in Cyprus remain significant, related to constraints in the supply of credit, as well as to the ongoing crisis in Ukraine. It also emphasised the importance of putting in place without delay an effective legal framework for foreclosure and insolvency in order to ensure adequate incentive to borrowers and lenders to collaborate in order to reduce the level of non-performing loans. See Section 3.22.2 (*The Macroeconomic Environment in Cyprus*).

3.10.3.2 Liquidity

In connection with the Recapitalisation, €3,863.0 million of customer deposits were converted into common equity of the Bank, significantly reducing its deposit base. The majority of the uninsured deposits that were not converted into equity were converted into fixed-term deposits with a term of six, nine and twelve months beginning on 1 August 2013, renewable by the Bank at its option for a further equal term. On 31 January 2014, the six-month time deposits maturing on that date were released by the Bank and amounts thereunder can be withdrawn by depositors. On 30 April 2014, the nine-month deposits of €930.0 million maturing on that date were partially released in three equal tranches, effective 30 April, 29 July and 30 October 2014. On 30 July 2014, the twelve month time deposits of approximately €927 million maturing on 31 July 2014 were released in three equal tranches, effective 30 July 2014, 30 October 2014 and 30 January 2015. Amounts released are subject to the general restrictive measures applicable in the Cypriot banking system. In addition, following an amendment to the Bail-in Decrees issued by the Ministry of Finance on 31 July 2014, the shareholders of the Bank may terminate a fixed term deposit created by virtue of the Decrees prior to its maturity and use the funds for the purchase of ordinary shares of the Bank under the terms of the Capital Increase.

The bail-in of depositors in the Recapitalisation significantly eroded investor confidence in Cyprus. In response to this, in March 2013, the Ministry of Finance of Cyprus imposed temporary restrictive measures on the free flow of funds in order to limit deposit outflows that could lead to instability of the financial system. These measures included maximum limits on withdrawals, transfers to other financial institutions within Cyprus, the movement of funds out of Cyprus and mandatory rollovers of maturing fixed deposits and notice accounts. All restrictions relating to domestic transfers within Cyprus have been lifted, with only the restrictions relating to the flow of funds out of Cyprus remaining in place.

As a result of the financial crisis in Cyprus, the Bank has had limited access to other sources of liquidity, particularly the interbank and wholesale markets. Consequently, the Bank has relied increasingly on central bank funding, which represented 39.7% of total liabilities as at 31 December 2013, including €9.1 billion of ELA funding transferred from Laiki Bank.

In August 2013, the Bank was reinstated by the ECB as an eligible counterparty for monetary policy operations, allowing the Bank to obtain liquidity from the ECB. Following this, the Bank had €1.4 billion of ECB funding as at 30 June 2014.

3.10.4 Recent Developments

3.10.4.1 Repayment of Cyprus sovereign bond

On 1 July 2014, the Public Debt Management Office of the Republic of Cyprus repaid €950.0 million of an outstanding €1,987.0 million sovereign bond held by the Bank. The bond was transferred to the Bank in March 2013 as part of the acquisition of assets and liabilities of Laiki Bank. The bond was pledged as collateral with the ECB and the Bank used the proceeds of repayment to reduce its ECB funding by €550 million and ELA by €400 million. As the bond was transferred to the Bank at fair value but redeemed at nominal value because it was repaid earlier than initially expected, the Group recognised an accounting profit of €99.8 million for the second quarter of 2014, which had a positive impact of €99.8 million or 0.4 percentage points on the Group's CET 1 ratio.

3.10.4.2 Capital Raising

On 4 July 2014, the Board of Directors of the Bank resolved to explore investor interest for a potential capital increase to expedite the implementation of the Group's Restructuring Plan in tandem with the further strengthening of the Group. The Capital Raising was structured in three phases in order to enable a successful completion within a short period of time, but with a number of methods for existing shareholders to participate. In the first two phases of the Capital Raising, the Bank received subscriptions for a total of 4,166,666,667 ordinary shares at a price of €0.24 per share, for an aggregate gross consideration of €1 billion. The Capital Raising was approved at the Bank's EGM on 28 August 2014. The District Court of Nicosia issued a court order approving the Nominal Value Reduction (see Section 4.2.4 (*Special Resolutions Approved by Shareholders in Connection with the Share Capital Increase*)) on 29 August 2014, the Court Order was filed with the Department of the Registrar of Companies and Official Receiver on 1 September 2014 and the first two phases were completed on 18 September 2014. The third phase is the Retail Offer of up to €100 million of new Ordinary Shares, which is the subject of this Prospectus. See Section 4.2.1 (*Key Terms of the Share Capital Increase*).

3.10.4.3 ECB Comprehensive Assessment

On 26 October 2014, the Bank announced the results of the ECB's Comprehensive Assessment, which consisted of both an asset quality review and an EU-wide stress test. The AQR involved a review of the quality of banks' assets, including the adequacy of asset and collateral valuation and related provisions. The stress test examined the resilience of banks' balance sheets to different stress scenarios using a common methodology developed by the EBA and applied across all participating banks. The Comprehensive Assessment was based on a capital benchmark of 8% Common Equity Tier 1 (CET 1) ratio, including transitional arrangements of CRR/CRD IV, for both the AQR and the baseline stress test scenario. For purposes of the stress test the minimum ratios applied across all participating banks were set at 8% CET 1 ratio for the baseline scenario and 6.5% CET 1 ratio for the adverse scenario. As a result of the application of the AQR and the stress test, before giving effect to the Capital Raising, the AQR Adjusted CET 1 ratio (based on transitional arrangements as of 1 January 2014) of the Bank is estimated at 7.28%, the Adjusted CET 1 ratio after the baseline scenario is estimated at 7.73% and the Adjusted CET 1 ratio after the adverse scenario is estimated at 1.51%, resulting in a theoretical aggregated capital shortfall of the Comprehensive Assessment of an estimated €919 million. However, after giving effect to the €1 billion gross proceeds of the Capital Raising in September 2014, the AQR Adjusted CET 1 ratio (based on transitional arrangements as of 1 January 2014) of the Bank increases to 11.53%, the Adjusted CET 1 ratio after the baseline scenario increases to 11.62% and the Adjusted CET 1 ratio after the adverse scenario increases to 5.85%, resulting in a theoretical aggregated capital surplus of €81 million.

The total AQR adjustments as at 31 December 2013 amounted to €731 million, of which €277 million related to specific provisions and €554 million related to collective provisions. These adjustments had a negative impact on the prudential Common Equity Tier 1 (CET1) ratio of the Bank. The Bank considers that the AQR adjustments calculated as part of the Comprehensive Assessment in no way indicate that the Bank was not in compliance with IFRS. Moreover, it is noted that the Bank has not been made aware, in the context of the AQR, of any accounting errors or of any of its accounting policies not being in compliance with IFRS.

Following the Comprehensive Assessment, which was fundamentally a prudential exercise, the SSM has requested the Group to review certain of its accounting estimates relating to provisions in light of the higher degree of conservatism applied in the AQR. If required, any such changes in estimates would be reflected in the Group's financial statements for year 2014. Further, while the AQR and stress test did not show a capital shortfall for the Group after giving effect to the Capital Raising, in connection with the AQR, the SSM has requested the Bank to review certain of its accounting estimates, such as those relating to provisions, on a prospective basis. This may adversely affect the Bank's capital position and its financial results going forward.

3.10.5 Critical Accounting Estimates and Judgments

In connection with the preparation of its consolidated financial statements in accordance with IFRS, the Group is required to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expense in IFRS financial statements and accompanying notes.

Various elements of the Group's accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. In particular, the Group has identified the following accounting policies which, due to the judgments, estimates and assumptions inherent to those policies, and the sensitivity of the Group's financial condition and results of operations to those judgments, estimates and assumptions, are critical to an understanding of the Group's financial statements.

3.10.5.1 Going Concern

In connection with the preparation of its consolidated financial statements, the Board of Directors makes an assessment of the Bank's and Group's ability to continue as a going concern. With respect to the financial statements for the six months ended 30 June 2014, the Bank's management and Board of Directors, taking into consideration certain factors deemed relevant and the measures taken to support the Cypriot economy and the realised and planned actions as detailed in the Restructuring Plan, is satisfied that the Group has the resources to continue in business for the foreseeable future and therefore the going concern principle is appropriate for the following reasons:

- The Group has raised €1 billion in the Capital Raising.
- The Troika is expected to continue to provide the required financial support to Cyprus pursuant to the MoU.
- The implementation of additional actions pursuant to the Restructuring Plan which would further improve the capital adequacy and liquidity position of the Group.
- The potential for additional liquidity support from the Government following the approval by the House of Representatives for the issuance of €2.9 billion of guarantees for bonds/loans issued by the credit institutions under the relevant law. It is expected that the Group will be able to make use of these guarantees if needed.
- The expectation that the Government will maintain certain capital controls with respect to the flow of funds outside Cyprus to ensure the stability of the Cypriot banking system.

Notwithstanding this assessment and the conclusion reached by the Board of Directors in connection with the preparation of the financial statements for the six months ended 30 June 2014, the Board of Directors considered that there were material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. For additional information, see Note 6.1 to the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2014 and Note 4.1 to the consolidated financial statements for the year ended 31 December 2013. See Section 2.3.9 (*The independent auditor's report in respect of the Bank's consolidated financial statements for the year ended 31 December 2013 is qualified and contained an emphasis of matter. The independent auditor's review conclusion in respect of the Bank's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2014 is qualified and contained an emphasis of matter*).

3.10.5.2 Recognition of Interest Income

For all financial assets measured at amortised cost and interest-bearing financial assets classified as available-for-sale investments or at fair value through profit or loss, interest income is recognised using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument, or where appropriate a shorter period, to the carrying amount of the financial instruments. Interest income is recognised on the recoverable portion of impaired loans using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.10.5.3 Provisions for Impairment of Loans and Advances to Customers

The Group reviews its loans and advances to customers to assess whether a provision for impairment should be recorded in the consolidated income statement. In particular, management is required to estimate the amount and timing of future cash flows in order to determine the amount of provision required and the calculation of the impairment allowance involves the use of judgment. Such estimates are based on assumptions about a number of factors and therefore actual impairment losses may differ. A significant factor for the estimation of provisions is the timing and the net recoverable amount from the foreclosure of collateral, which mainly comprises land and buildings.

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of the collateral and for taxes and expenses on the repossession and subsequent sale of the collateral.

Indexation based on the RICS Cyprus Index has been used to reach updated market values of properties, and assumptions were made for future changes in property values. The timing of collections from collateral has been estimated to be two years for loans that have been managed by the Recoveries Division for more than three years, and four years for customers that have been managed by the Recoveries Division for less than three years. For all other loans a maximum expected recovery period of five years is assumed.

Any changes in these assumptions or difference between assumptions made and actual results could result in significant changes in the amount of required provisions for impairment of loans and advances.

For individually significant assets, impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows are taken into account (for example, the business prospects for the customer, the realisable value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process). The level of the impairment allowance is the difference between the value of the discounted expected future cash flows (discounted at the loan's original effective interest rate), and its carrying amount. Subjective judgments are made in the calculation of future cash flows. Furthermore, judgments change with time as new information becomes available or as work-out strategies evolve, resulting in frequent revisions to the impairment allowance as individual decisions are taken. Changes in these estimates would result in a change in the allowances and have a direct impact on the impairment charge.

In addition to provisions for impairment on an individual basis, the Group also makes collective impairment provisions. The Group adopts a formulaic approach for collective provisions, which includes assigning probabilities of default and loss given default for portfolios of loans. This methodology is subject to estimation uncertainty, partly because it is not practicable to identify losses on an individual loan basis because of the large number of loans in each portfolio. In addition, the use of historical information for probabilities of default and loss rates is supplemented with significant management judgment to assess whether current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than that suggested by historical experience.

In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio. In certain circumstances, historical loss experience provides less relevant information about the incurred loss in a given portfolio at the reporting date, for example, where there have been changes in economic, regulatory or behavioural conditions such that the most recent trends in the portfolio risk factors are not fully reflected. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the provision for impairment derived solely from historical loss experience.

The total amount of the Group's provision for impairment of loans and advances is inherently uncertain because it is highly sensitive to changes in economic and credit conditions across a number of geographical areas. Economic and credit conditions within geographical areas are influenced by many factors with a high degree of interdependency so that there is no one single factor to which the Group's loan impairment provisions as a whole are particularly sensitive. Different factors are applied in each country to reflect the local economic conditions, laws and regulations and the assumptions underlying this judgment are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly. It is possible that the actual results within the next financial year could be different from the assumptions made, resulting in a material adjustment to the carrying amount of loans and advances.

3.10.5.4 Fair Value of Investments

The best evidence of fair value of investments is a quoted price in an actively traded market. If the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employed by the Group use only observable market data and so the reliability of the fair value measurement is relatively high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant inputs that are not observable. Valuation techniques that rely on non-observable inputs require a higher level of management judgment to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values include comparisons with similar financial instruments for which market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about interest rate yield curves, exchange rates, volatilities and default rates. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared.

The Group only uses models with unobservable inputs for the valuation of certain unquoted equity investments. In these cases, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. Unobservable inputs are determined based on the best information available.

3.10.5.5 Impairment of Available-for-Sale Investments

Available-for-sale investments in equity securities are impaired when there has been a significant or prolonged decline in their fair value below cost. In such a case, the total loss previously recognised in equity is recognised in the consolidated income statement. The determination of what is significant or prolonged requires judgment by management. The factors which are evaluated include the expected volatility in share prices. In addition, impairment may be appropriate when there is evidence that significant adverse changes have taken place in the technological, market, economic or legal environment in which the investee operates.

Available-for-sale investments in debt securities are impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the investment and the loss event (or events) has an impact on the estimated future cash flows of the investment. The Group's policy requires that a review for potential impairment is carried out for individual debt securities when their fair value at the reporting date falls below 90% of the instrument's amortised cost. Such impairment review takes into account a number of factors such as the financial condition of the issuer, any breach of contract and the probability that the issuer will enter bankruptcy or other financial reorganisation, which involves a high degree of judgment.

3.10.5.6 Tax

The Group operates and is therefore subject to tax in various countries. Estimates are required in determining the provision for taxes at the reporting date. The Group recognises income tax liabilities for transactions and assessments whose tax treatment is uncertain. Where the final tax is different from the amounts initially recognised in the consolidated income statement, these differences will impact income tax expense, tax liabilities and deferred tax assets or liabilities of the period in which the final tax is agreed with the relevant tax authorities.

Deferred tax assets are recognised by the Group in respect of tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies. These variables have been established on the basis of significant management judgment and are subject to uncertainty. It is possible that the actual future events could be different from the assumptions made, resulting in a material adjustment to the carrying amount of deferred tax assets.

3.10.5.7 Reclassification of Financial Assets

The Group classifies financial assets into the following categories: at fair value through profit or loss, available-for-sale, held-to-maturity or loans and receivables. The appropriate classification of financial assets is determined at the time of initial recognition. In addition, under the amendments to IAS 39 and IFRS 7 "Reclassification of Financial Assets" which were approved by The International Accounting Standards Board and endorsed by the European Union in October 2008, it is permissible to reclassify certain financial assets out of the financial assets at fair value through profit or loss (trading assets) and the available-for-sale classifications into the loans and receivables classification. For assets to be reclassified, there must be a clear change in management intent with respect to the assets since initial recognition and the financial asset must meet the definition of a loan and receivable at the reclassification date. Additionally, there must be an intent and ability to hold the asset for the foreseeable future at the reclassification date. There is no ability for subsequent reclassification back to the trading or available-for-sale classifications. See Note 12 to the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2014 and Note 20 to the Group's consolidated financial statements for the year ended 31 December 2013 for further information on the assets reclassified by the Group.

Management judgment and assumptions are required to determine whether an active market exists in order for a financial asset to meet the definition of loans and receivables. Management judgment and assumptions are also required to estimate the fair value of the financial assets identified at the date of reclassification, which becomes the amortised cost base under the loans and receivables classification. The task facing management in both these matters can be particularly challenging in the highly volatile and uncertain economic and financial market conditions. The change of intent to hold for the foreseeable future is another matter requiring management judgment. Financial assets proposed for reclassification need to be approved by the Group Assets and Liabilities Committee ("**ALCO**") based on the facts and circumstances of each financial asset under consideration and after taking into account the ability and plausibility to execute the strategy to hold the asset.

In addition to the above, management judgment is also required to assert that the expected repayment of the asset exceeds the estimated fair value and the returns on the asset will be optimised by holding it for the foreseeable future.

For a further discussion of the Group's critical accounting estimates and judgments, see Note 6 to the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2014 and Note 4 to the Group's consolidated financial statements for the year ended 31 December 2013.

3.10.6 Results of Operations

3.10.6.1 Consolidated Income Statement Data

	Year ended 31 December			Six months ended 30 June	
	2011[(1)]	**2012[(1)]**	**2013[(1)]**	**2013[(1)]**	**2014[(1)]**
			(€'000)		
Continuing operations					
Turnover	2,808,300	1,859,797	1,966,621	1,174,199	969,243
Interest income	2,295,116	1,415,611	1,660,461	834,675	786,044
Interest expense	(1,127,443)	(713,835)	(661,030)	(416,011)	(240,076)
Net interest income	1,167,673	701,776	999,431	418,664	545,968
Fee and commission income	247,044	191,566	193,458	93,869	93,304
Fee and commission expense	(14,679)	(18,881)	(24,639)	(10,231)	(5,526)
Net foreign exchange gains/(losses)	45,178	24,948	(5,148)	(16,699)	(2,379)
Net gains/(losses) on financial instrument transactions and disposal of subsidiaries	3,571	(27,899)	10,589	(9,307)	160,523
Insurance income net of claims and commissions	61,190	62,972	64,956	38,864	25,048
Other income/(expense)	31,329	(15,099)	(64,282)	(28,118)	7,602
Total income	**1,541,306**	**919,383**	**1,174,365**	**487,042**	**824,540**
Staff costs	(431,774)	(293,556)	(442,797)	(192,322)	(135,398)
Other operating expenses	(311,722)	(260,553)	(277,196)	(120,226)	(130,769)
Profit before impairment of loans and advances and goodwill and intangible assets	**797,810**	**365,274**	**454,372**	**174,494**	**558,373**
Provisions for impairment of loans and advances	(426,287)	(1,339,269)	(1,067,345)	(532,496)	(329,120)
Impairment of goodwill and intangible assets	–	(359,746)	–	–	–
Impairment of Greek Government Bonds and change in fair value of related hedging derivatives	(1,729,261)	–	–	–	–
(Loss)/profit before share of profit from associates and joint ventures	**(1,357,738)**	**(1,333,741)**	**(612,973)**	**(358,002)**	**229,253**
Share of (loss)/profit from associates and joint ventures	(1,441)	222	1,885	353	4,111
(Loss)/profit before tax	**(1,359,179)**	**(1,333,519)**	**(611,088)**	**(357,649)**	**233,364**
Tax	(7,234)	43,463	5,184	2,489	(9,591)
(Loss)/profit after tax	**(1,366,413)**	**(1,290,056)**	**(605,904)**	**(355,160)**	**223,773**

	Year ended 31 December			Six months ended 30 June	
	2011[(1)]	2012[(1)]	2013[(1)]	2013[(1)]	2014[(1)]
			(€'000)		
Loss after tax from discontinued operations	–	(932,290)	(1,455,604)	(1,456,804)	(150,215)
(Loss)/profit for the year/period	**(1,366,413)**	**(2,222,346)**	**(2,061,508)**	**(1,811,964)**	**73,558**
Attributable to:					
Owners of the Bank – continuing operations	(1,359,340)	(1,280,825)	(593,898)	(349,818)	231,600
Owners of the Bank – discontinued operations	–	(932,290)	(1,455,604)	(1,456,804)	(150,176)
Total (loss)/profit attributable to the owners of the Bank	**(1,359,340)**	**(2,213,115)**	**(2,049,502)**	**(1,806,622)**	**81,424**
Non-controlling interests – continuing operations	(7,073)	(9,231)	(12,006)	(5,342)	(7,827)
Non-controlling interests – discontinued operations	–	–	–	–	(39)
(Loss)/profit for the year/period	**(1,366,413)**	**(2,222,346)**	**(2,061,508)**	**(1,811,964)**	**73,558**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see Section 3.1.1 (*Presentation of Financial Information*).

3.10.6.2 Total Income

Group total income comprises net interest income, net fee and commission income, foreign exchange gains/(losses), net gains/(losses) on financial instrument transactions and disposal of subsidiaries, insurance income net of claims and commissions, and other income/(expense).

Total income for 2011 as presented in this Prospectus has not been re-presented as explained in paragraph 3.10.2.3 and therefore they are not considered comparable to the years 2012 and 2013.

Total income decreased by €621.9 million or 40.4% from €1,541.3 million in the year ended 31 December 2011 to €919.4 million in the year ended 31 December 2012, mainly due to the re-presentation of the operations in Greece during 2012 in "loss after tax from discontinued operations" as explained in paragraph 3.10.2.3. Total income then increased by €255.0 million or 27.7% to €1,174.4 million in the year ended 31 December 2013. Total income for the six months ended 30 June 2014 was €824.5 million, an increase of €337.5 million or 69.3% over the six months ended 30 June 2013 driven by an increase in net interest income and the net gains on financial transactions, which include the gains from the disposal of available for sale equity investments in Banca Transilvania (€47.5 million), gain on the disposal of Serbian loans (€27.3 million) and gains on the early repayment of Cyprus Government Bond (€99.8 million). Net interest income is the largest component of total income, representing 76.3% of total income in the year ended 31 December 2012, 85.1% in the year ended 31 December 2013, 86.0% in the six months ended 30 June 2013 and 66.2% in the six months ended 30 June 2014.

Net Interest Income

Net interest income represents interest income less interest expense. Interest income includes interest received on loans and advances to customers and on interest bearing investments. Interest expense includes interest paid on customer deposits and other funding costs, primarily funding from central banks, including ELA funding from the CBC and funding from the ECB monetary policy operations. Interest expense also includes funding costs relating to the €1 billion of guaranteed bonds issued by the Cypriot Government and which are pledged as collateral for obtaining funding from central banks. Since 2013, net interest income has been positively impacted by ELA and ECB funding, which give the Group lower cost of funding than customer deposits.

Net interest income decreased by €465.9 million or 39.9% from €1,167.7 million in the year ended 31 December 2011 to €701.8 million in the year ended 31 December 2012, mainly due to the re-presentation of the operations in Greece during 2012 in "loss after tax from discontinued operations" as explained in paragraph 3.10.2.3. Net interest income then increased by €297.7 million or 42.4% to €999.4 million in the year ended 31 December 2013, reflecting a 17.3% increase in interest income and a 7.4% decline in interest expense. Net interest income for the six months ended 30 June 2014 was €546.0 million, compared to €418.7 million for the six months ended 30 June 2013, an increase of €127.3 million or 30.4%, as the decline in interest expense outpaced the decline in interest income.

Net interest income in 2013 includes nine months of net interest income of the assets and liabilities acquired from Laiki Bank in March 2013. The increase in interest income in 2013 was mainly driven by a €167.4 million increase in interest income from loans and advances from customers, principally resulting from the Laiki Bank acquisition and a €151.5 million increase in interest income from investments classified as loans and receivables driven by the acquisition of Cyprus government bonds acquired from Laiki Bank. Interest income on the recoverable amount of impaired loans and advances from customers was €188.5 million in 2013 compared to €53.0 million in 2012, reflecting the increase in impaired loans. The decline in interest expense in 2013 was mainly driven by a €156.1 million decrease in interest expense from customer deposits and a €27.9 million decrease related to derivative financial instruments, which was offset in part by a €150.2 million increase in interest expense on funding from central banks and amounts due to banks.

Interest income was €786.0 million for the six months ended 30 June 2014 compared to €834.7 million for the six months ended 30 June 2013, mainly reflecting the decrease in loans and advances to customers, notwithstanding that net interest income for the first six months of 2013 includes only three months of net interest income of the assets and liabilities acquired from Laiki Bank. Interest income on the recoverable amount of impaired loans and advances from customers was €124.1 million for the six months ended 30 June 2014 compared to €107.1 million for the six months ended 30 June 2013. Interest expense was €240.1 million for the six months ended 30 June 2014 compared to €416.0 million for the six months ended 30 June 2013, reflecting lower volumes of customer deposits as well as lower funding costs.

Net interest margin was 2.98%, 2.94% and 3.54% for the years ended 31 December 2011, 2012 and 2013, respectively, 3.10% in the six months ended 30 June 2013 and 4.12% in the six months ended 30 June 2014.

Net Fee and Commission Income

Net fee and commission income decreased by €59.7 million or 25.7%, from €232.4 million in the year ended 31 December 2011 to €172.7 million in the year ended 31 December 2012, mainly due to the re-presentation of the operations in Greece during 2012 in "loss after tax from discontinued operations" as explained in paragraph 3.10.2.3. Net fee and commission income decreased by €3.9 million or 2.2% to €168.8 million in 2013 as the increase in fee and commission expense (principally related to banking commissions) more than offset the increase in fee and commission income (where increases in credit-related fees and commissions and other commissions offset a decline in other banking commissions).

Net fee and commission income for the six months ended 30 June 2014 was €87.8 million, compared to €83.6 million for the six months ended 30 June 2013, an increase of €4.1 million or 4.9%, mainly due to higher net fee and commission income in Cyprus, which includes income from the Laiki portfolio for six months compared to three months in the first half of 2013.

Net Foreign Exchange Gains/(Losses)

Net foreign exchange gains/losses represent the conversion of monetary assets in foreign currency at the reporting date, realised gains and losses from transactions in foreign currency which have been settled during the year and the revaluation of foreign exchange derivatives. The Group had net foreign exchange gains of €45.2 million and €24.9 million in the years ended 31 December 2011 and 2012, respectively, compared to losses of €5.1 million in the year ended 31 December 2013, €16.7 million in the six months ended 30 June 2013, mainly due to open positions related to the bail-in of customer deposits, and €2.4 million in the six months ended 30 June 2014.

Net Gains/(Losses) on Financial Instrument Transactions and Disposal of Subsidiaries

The results for 2011 as presented in this Prospectus has not been re-presented as explained in paragraph 3.10.2.3 and therefore they are not considered comparable to the years 2012 and 2013.

Net gains on financial instrument transactions and disposal of subsidiaries in the year ended 31 December 2011 were €3.6 million and consisted principally of a €9.8 million reversal of impairment of debt securities excluding Greek government bonds, an €8.5 million profit on disposal of subsidiaries (Bank of Cyprus Australia) and a €6.8 million gain on repurchase of own debt securities in issue and subordinated loan stock, which more than offset a €14.0 million impairment of available-for-sale equity securities and a €9.2 million loss on equity securities in the trading portfolio.

Net losses on financial instrument transactions and disposal of subsidiaries in the year ended 31 December 2012 were €27.9 million and consisted principally of a €22.3 million loss on disposal of debt securities in the held-to-maturity investments portfolio, an €11.6 million gain on derivative financial instruments in the trading portfolio and a €8.0 million net loss on the disposal of debt securities in the available-for-sale investments portfolio.

Net gains on financial instrument transactions and disposal of subsidiaries in the year ended 31 December 2013 were €10.6 million and consisted principally of a €26.6 million gain on derecognition of loans, a €14.7 million gain on derivative financial instruments in the trading portfolio, a €6.7 million net gain on disposal of debt securities in the loans and receivables portfolio, a €15.9 million impairment of debt securities excluding Greek government bonds, an €11.5 million loss on the disposal of debt securities in the available-for-sale investments portfolio, a €6.9 million realised loss on disposal of loans and deposits and a €6.6 million impairment of available-for-sale equity securities.

Net losses on financial instrument transactions and disposal of subsidiaries in the six months ended 30 June 2013 was €9.3 million and consisted principally of a €4.5 million loss on disposal of certain assets and liabilities of the Romanian branch to Marfin Bank Romania.

Net gains on financial instrument transactions and disposal of subsidiaries in the six months ended 30 June 2014 was €160.5 million and consisted principally of a €99.8 million gain on repayment of debt securities, a €49.0 million gain on disposal of available-for-sale equity securities, of which €47.5 million relates to Banca Transilvania, and a €27.3 million realised gain on disposal of Serbian loans and impairment of placements with banks and loans and receivables other than debt securities totalling €32.4 million.

Insurance Income Net of Claims and Commissions

Insurance income net of claims and commissions increased by €1.8 million or 2.9%, from €61.2 million in the year ended 31 December 2011 to €63.0 million in the year ended 31 December 2012. Insurance income net of claims and commissions increased by €2.0 million or 3.2% to €65.0 million in the year ended 31 December 2013, as a €26.9 million decrease in income was more than offset by a €28.9 million decrease in claims and commissions. Insurance income net of claims and commissions was €25.0 million in the six months ended 30 June 2014 compared to €38.9 million in the six months ended 30 June 2013.

Other Income/Expense

The Group had other income of €31.3 million in the year ended 31 December 2011, including €9.7 million of income from hotel activities and €3.1 million of gain from revaluation of investment properties. This compares to other expense of €15.1 million in the year ended 31 December 2012, including losses of €24.4 million from revaluation of investment properties, notwithstanding income of €3.2 million from hotel activities. Other expense increased by €49.2 million to €64.3 million in the year ended 31 December 2013, mainly driven by a €53.8 million increase in losses from revaluation of investment properties which relate principally to a decline in the fair value of properties. Other income for the six months ended 30 June 2014 was €7.6 million, compared to other expense of €28.1 million for the six months ended 30 June 2013, principally driven by a €1.4 million gain from revaluation of investment properties in the first half of 2014 compared to a €34.3 million loss in the first half of 2013.

3.10.6.3 Expenses

Staff Costs

Staff costs decreased by €138.2 million or 32.0% from €431.8 million in the year ended 31 December 2011 to €293.6 million in the year ended 31 December 2012, mainly due to the re-presentation of the operations in Greece during 2012 in "loss after tax from discontinued operations" as explained in paragraph 3.10.2.3. Staff costs increased by €149.2 million or 50.8% to €442.8 million in the year ended 31 December 2013, driven principally by a €120.5 million increase in voluntary retirement scheme costs resulting from staff reductions and the addition of staff from Laiki Bank. Staff costs declined by €56.9 million or 29.6%, from €192.3 million in the first half of 2013, including €22.3 million of voluntary retirement scheme costs, to €135.4 million in the first half of 2014, which did not include any voluntary retirement scheme costs. The Group had 11,326 employees as of 31 December 2011, 10,772 employees as of 31 December 2012, 9,822 employees as of 30 June 2013, 7,752 employees as of 31 December 2013 and 6,747 employees as of 30 June 2014.

Other Operating Expenses

Other operating expenses include operating lease rentals, repairs and depreciation of property and equipment, communication expenses, provision for settlement of litigation or claims, advisory or other restructuring costs and impairment of assets held for sale. Other operating expenses decreased by €51.2 million or 16.4% from €311.7 million in the year ended 31 December 2011 to €260.6 million in the year ended 31 December 2012, mainly due to the re-presentation of the operations in Greece during 2012 in "loss after tax from discontinued operations" as explained in paragraph 3.10.2.3. Other operating expenses increased by €16.6 million or 6.4% to €277.2 million in the year ended 31 December 2013, driven principally by a €27.5 million increase in advisory and other restructuring costs and a €9.6 million impairment of assets held for sale recognised in respect of the Group's Ukrainian operations, which more than offset a €20.4 million decrease in other operating expenses.

Other operating expenses were €130.8 million in the first half of 2014 and included €11.9 million of provisions and settlements of litigation or claims and €20.8 million of restructuring costs. Other operating expenses for the first half of 2013 were €120.2 million and include €12.9 million of restructuring costs and €5.6 million of provisions and settlements of litigation or claims.

3.10.6.4 Impairment

Provisions for Impairment of Loans and Advances

Provisions for impairment of loans and advances increased from €426.3 million in the year ended 31 December 2011, to €1,339.3 million in the year ended 31 December 2012, mainly due to increased provisions in the Cyprus loan portfolio. Provisions for impairment of loans and advances decreased by €271.9 million or 20.3% in the year ended 31 December 2013, to €1,067.3 million. Provisions for impairment of loans and advances were €329.1 million in the first half of 2014 compared to €532.5 million in the first half of 2013 due to increased provisions in the first half of 2013 following events in the Eurozone, while 2014 showed the first signs of stabilisation.

Impairment of Goodwill and Intangible Assets

In 2012, the Group recognised impairment of goodwill in connection with the acquisitions of PJSC Bank of Cyprus and CB Uniastrum Bank LLC in a total amount of €338.2 million. In addition, an impairment charge in an aggregate amount of €21.5 million was recognised in respect of customer relationships and brands. As a result, goodwill and the carrying amounts for customer relationships and brands for these two subsidiaries were fully written off in 2012. The Group did not record any impairment of goodwill or intangible assets in 2011, 2013 or the first half of 2014.

Impairment of Greek Government Bonds

In 2012 the Group participated in the exchange offer for Greek government bonds which included, among other things, the write off of 53.5% of the value of the existing bonds and the issue of new bonds with a nominal value of 31.5% of the exchanged bonds. This, together with the change in fair value of related hedging instruments, resulted in an impairment charge of €1,729.3 million in 2011 which is presented in the income statement in "Impairment of Greek government Bonds". For 2012, the impairment of Greek government bonds amounted to €143.6 million in 2012 and is presented in discontinued operations. In December 2012, the Group participated in the voluntary repurchase of new bonds by the Greek Republic, realising a gain of €96.5 million, which is included in discontinued operations. The Group currently does not hold any Greek government bonds.

3.10.6.5 Share of Loss/Profit from Associates and Joint Ventures

Share of loss from associates was €1.4 million in the year ended 31 December 2011, compared to share of profit from associates and joint ventures of €0.2 million in 2012. Share of profit from associates and joint ventures increased by €1.7 million to €1.9 million in the year ended 31 December 2013. The increase reflects the acquisition by the Group of 49.9% of CNP, the parent company of a group of insurance companies in Cyprus and Greece, from Laiki Bank. In the first half of 2014, share of profit from associates and joint ventures was €4.1 million compared to €0.4 million in the first half of 2013, due to the CNP acquisition.

3.10.6.6 Loss/Profit Before Tax

The results for 2011 as presented in this Prospectus has not been re-presented as explained in paragraph 3.10.2.3 and therefore they are not considered comparable to the years 2012 and 2013.

As a result of the foregoing factors, loss before tax decreased by €25.7 million or 1.9% from €1,359.2 million in the year ended 31 December 2011 to €1,333.5 in the year ended 31 December 2012, and decreased by a further €722.4 million or 54.2% to €611.1 million in the year ended 31 December 2013. In the first half of 2014, profit before tax was €233.4 million compared to a loss before tax of €357.6 million in the first half of 2013.

3.10.6.7 Tax

Tax was €7.2 million in the year ended 31 December 2011, compared to a credit of €43.5 million in 2012, mainly due to the re-presentation of the operations in Greece during 2012 in "loss after tax from discontinued operations" as explained in paragraph 3.10.2.3. Tax credit decreased by €38.3 million to €5.2 million in the year ended 31 December 2013. This mostly reflects tax credit in Cyprus and overseas operations in 2012 that was not repeated in 2013. The tax charge for the first half of 2014 was €9.6 million, mainly reflecting the release of deferred tax assets in Russia, compared to a tax credit of €2.5 million in the first half of 2013.

3.10.6.8 Loss after Tax from Discontinued Operations

Loss after tax from discontinued operations was €932.3 million in 2012 compared to nil in 2011. The results for 2011 as presented in this Prospectus has not been re-presented as explained in paragraph 3.10.2.3 and therefore they are not considered comparable to the years 2012 and 2013. Loss after tax from discontinued operations increased by €523.3 million or 56.1% in the year ended 31 December 2013. The increase reflected the disposals carried out by the Group during the year, particularly its banking and leasing operations in Greece. Loss after tax from discontinued operations was €150.2 million in the first half of 2014, reflecting the reclassification and loss on disposal of the Group's operations in Ukraine to discontinued operations, and €1,456.8 million in the first half of 2013, reflecting the disposal of the Group's operations in Greece and the reclassification of the Group's operations in Ukraine to discontinued operations.

3.10.6.9 Segmental Analysis

The tables below present income statement and total revenue information by operating segment based on geographical location of each unit for the six months ended 30 June 2013 and 2014 and the year ended 31 December 2013.

In April 2014, the Group's activities in Ukraine were sold to Alfa Group, the Russian banking group, and as a result, the Ukrainian operations are presented as discontinued in the six months ended 30 June 2014 (including comparative information for 30 June 2013). On 26 March 2013, the Group's banking and leasing activities in Greece were sold to Piraeus Bank and are presented as discontinued operations in the year ended 31 December 2013 (including comparative information for 31 December 2012). The Ukrainian operations are presented as continuing operations for the year ended 31 December 2013.

The Group's activities in Greece (other than those sold to Piraeus Bank), the United Kingdom and Romania are separate operating segments for which information is provided but, due to their size, have been aggregated for disclosure purposes into the "Other countries" segment, which also includes Ukraine for the year ended 31 December 2013. The Group's activities in Cyprus include the provision of banking, financial and insurance services, as well as property and hotel business. The Group's activities in Greece following the disposal of operations to Piraeus Bank include the provision of financial and insurance services, as well as the management of investment property. In the other countries, the Group provides only banking services.

Group management monitors the operating results of each business segment separately for the purposes of performance assessment and resource allocation. Segment performance is evaluated based on profit after tax and non-controlling interests. Inter-segment transactions and balances are eliminated on consolidation and are made on an arm's length basis. Operating segment disclosures are provided as presented to the Chief Executive Officer. 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 CBC. 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 generally included in the segment where the business is originated, instead of the segment where the transaction is recorded.

Income statement	Cyprus	Russia	Other countries	Total continuing operations	Discontinued operations
			(€'000)		
Six months ended 30 June 2014[1]					
Net interest income	487,135	34,343	24,490	545,968	4,064
Net fee and commission income	75,319	9,611	2,848	87,778	270
Net foreign exchange (losses)/gains	(3,940)	1,657	(96)	(2,379)	617
Net gains on financial instrument transactions	160,431	(44)	136	160,523	–
Insurance income net of claims and commissions	23,412	–	1,636	25,048	–
Other income	4,074	526	3,002	7,602	1,052
	746,431	46,093	32,016	824,540	6,003
Staff costs	(110,089)	(18,128)	(7,181)	(135,398)	(1,233)
Other operating expenses	(75,802)	(18,763)	(15,435)	(110,000)	(2,883)
Restructuring costs	(20,769)	–	–	(20,769)	–
Profit before impairment of loans and advances to customers	**539,771**	**9,202**	**9,400**	**558,373**	**1,887**
Provisions for impairment of loans and advances to customers	(272,366)	(26,802)	(29,952)	(329,120)	(38,528)
Loss on disposal of Ukrainian business	–	–	–	–	(114,228)
Share of profit from associates and joint ventures	4,111	–	–	4,111	–
Profit/(loss) before tax	**271,516**	**(17,600)**	**(20,552)**	**233,364**	**(150,869)**
Tax	(2,327)	(5,083)	(2,181)	(9,591)	654
Profit/(loss) after tax	**269,189**	**(22,683)**	**(22,733)**	**223,773**	**(150,215)**
Non-controlling interests (profit)/loss	(183)	8,010	–	7,827	39
Profit/(loss) after tax attributable to the owners of the Bank	**269,006**	**(14,673)**	**(22,733)**	**231,600**	**(150,176)**

Income statement	Cyprus	Russia	Other countries	Total continuing operations	Discontinued operations
			(€'000)		
Six months ended 30 June 2013[(1)]					
Net interest income	339,502	51,619	27,543	418,664	57,804
Net fee and commission income	65,335	14,374	3,929	83,638	11,994
Net foreign exchange (losses)/gains	(19,869)	3,225	(55)	(16,699)	(14,843)
Net (losses)/gains on financial instrument transactions	(5,750)	–	(3,557)	(9,307)	5,553
Insurance income net of claims and commissions	34,296	–	4,568	38,864	–
Other (expenses)/income	(4,835)	521	(23,804)	(28,118)	(1,506)
	408,679	**69,739**	**8,624**	**487,042**	**59,002**
Staff costs	(133,454)	(27,512)	(9,013)	(169,979)	(25,681)
Other operating expenses	(70,656)	(25,002)	(11,631)	(107,289)	(59,401)
Restructuring costs	(35,280)	–	–	(35,280)	–
Profit before impairment of loans and advances to customers	**169,289**	**17,225**	**(12,020)**	**174,494**	**(26,080)**
Provisions for impairment of loans and advances to customers	(456,856)	(35,412)	(40,228)	(532,496)	(64,981)
Loss on disposal of Greek banking and leasing operations	–	–	–	–	(1,365,624)
Share of profit/(loss) from associates and joint ventures	896	–	(543)	353	–
Loss before tax	**(286,671)**	**(18,187)**	**(52,791)**	**(357,649)**	**(1,456,685)**
Tax	4,762	4,104	(6,377)	2,489	(119)
Loss after tax	**(281,909)**	**(14,083)**	**(59,168)**	**(355,160)**	**(1,456,804)**
Non-controlling interests - loss	1,448	3,894	–	5,342	–
Loss after tax attributable to the owners of the Bank	**(280,461)**	**(10,189)**	**(59,168)**	**(349,818)**	**(1,456,804)**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see Section 3.1.1 (*Presentation of Financial Information*).

Income statement	Cyprus	Russia	Other countries	Total continuing operations	Discontinued operations
			(€'000)		
Year ended 31 December 2013[1]					
Net interest income	842,318	96,968	60,145	999,431	46,279
Net fee and commission income	131,918	27,508	9,393	168,819	11,217
Net foreign exchange gains/(losses)	6,611	4,153	(15,912)	(5,148)	(14,667)
Net gains/(losses) on financial instrument transactions and disposal of subsidiaries	14,726	–	(4,137)	10,589	5,411
Insurance income net of claims and commissions	57,375	–	7,581	64,956	–
Other expenses	(19,249)	(243)	(44,790)	(64,282)	(2,070)
	1,033,699	128,386	12,280	1,174,365	46,170
Staff costs	(247,309)	(51,286)	(23,613)	(322,208)	(22,241)
Other operating expenses	(146,925)	(49,894)	(33,636)	(230,455)	(55,001)
Restructuring costs	(156,808)	(172)	(771)	(157,751)	–
Impairment of assets held for sale	–	–	(9,579)	(9,579)	–
Profit/(loss) before impairment of loans and advances	**482,657**	**27,034**	**(55,319)**	**454,372**	**(31,072)**
Provisions for impairment of loans and advances	(856,380)	(78,795)	(132,170)	(1,067,345)	(58,908)
Loss on disposal of Greek banking and leasing operations	–	–	–	–	(1,365,624)
Share of profit/(loss) from associates	2,076	–	(191)	1,885	–
Loss before tax	**(371,647)**	**(51,761)**	**(187,680)**	**(611,088)**	**(1,455,604)**
Tax	3,360	7,019	(5,195)	5,184	–
Loss after tax	**(368,287)**	**(44,742)**	**(192,875)**	**(605,904)**	**(1,455,604)**
Non-controlling interests – loss	924	11,047	35	12,006	–
Loss after tax attributable to the owners of the Bank	**(367,363)**	**(33,695)**	**(192,840)**	**(593,898)**	**(1,455,604)**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see Section 3.1.1 (*Presentation of Financial Information*).

Total Revenue	Cyprus	Russia	Other countries	Total continuing operations	Discontinued operations
			(€'000)		
Six months ended 30 June 2014(1)					
Banking and financial services	534,445	55,625	207,570	797,640	6,414
Insurance services	24,224	–	1,764	25,988	–
Property and hotel business	580	–	(79)	501	–
Total revenue from third parties	559,249	55,625	209,255	824,129	6,414
Inter-segment revenue/(expense)	13,215	(9,532)	(3,272)	411	(411)
Total revenue	**572,464**	**46,093**	**205,983**	**824,540**	**6,003**
Six months ended 30 June 2013(1)					
Banking and financial services	355,518	82,534	7,566	445,618	60,659
Insurance services	34,725	–	4,651	39,376	–
Property and hotel business	392	–	(1)	391	–
Total revenue from third parties	390,635	82,534	12,216	485,385	60,659
Inter-segment revenue/(expense)	18,044	(12,795)	(3,592)	1,657	(1,657)
Total revenue	**408,679**	**69,739**	**8,624**	**487,042**	**59,002**
Year ended 31 December 2013					
Banking and financial services	950,984	150,582	7,855	1,109,421	49,067
Insurance services	57,990	–	7,568	65,558	–
Property and hotel business	(3,509)	–	(2)	(3,511)	–
Total revenue from third parties	1,005,465	150,582	15,421	1,171,468	49,067
Inter-segment revenue/(expense)	28,234	(22,196)	(3,141)	2,897	(2,897)
Total revenue	**1,033,699**	**128,386**	**12,280**	**1,174,365**	**46,170**
Year ended 31 December 2012					
Banking and financial services	586,825	185,930	72,143	844,898	448,383
Insurance services	54,092	–	8,611	62,703	–
Property and hotel business	1,154	–	(7)	1,147	–
Total revenue from third parties	642,071	185,930	80,747	908,748	448,383
Inter-segment revenue/(expense)	44,684	(25,653)	(8,396)	10,635	(10,635)
Total revenue	**686,755**	**160,277**	**72,351**	**919,383**	**437,748**

	Cyprus	Greece	Russia	Other countries	Total
Year ended 31 December 2011			**(€'000)**		
Banking and financial services	785,170	367,380	191,338	129,493	1,473,381
Insurance services	53,327	8,795	–	–	62,122
Property and hotel business	5,796	7	–	–	5,803
Total revenue from third parties	844,293	376,182	191,338	129,493	1,541,306
Inter-segment revenue/(expense)	3,652	25,073	(11,581)	(17,144)	–
Total revenue	**847,945**	**401,255**	**179,757**	**112,349**	**1,541,306**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see Section 3.1.1 (*Presentation of Financial Information*).

3.10.7 Balance Sheet Items

3.10.7.1 Assets

	31 December			30 June
	2011[(1)]	2012[(1)]	2013[(1)]	2014[(1)]
		(€'000)		
Assets				
Cash and balances with central banks	1,375,047	1,272,424	1,240,043	859,438
Placements with banks	2,627,831	1,768,836	1,290,102	1,114,448
Reverse repurchase agreements	215,936	–	–	–
Investments	2,629,124	1,135,333	2,759,855	2,866,059
Investments pledged as collateral	938,070	734,747	672,809	671,984
Derivative financial assets	193,734	26,794	28,765	5,949
Loans and advances to customers	27,366,917	24,374,531	21,764,338	20,063,034
Life insurance business assets attributable to policyholders	504,579	495,756	443,579	460,366
Property and equipment	473,188	483,193	414,404	366,385
Intangible assets	472,510	123,555	130,580	135,107
Assets held for sale	27,268	–	–	391,783
Other assets	647,171	613,760	1,401,833	1,414,672
Investments in associates and joint ventures	2,820	3,107	203,131	208,939
Total assets	**37,474,195**	**31,032,036**	**30,349,439**	**28,558,164**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see Section 3.1.1 (*Presentation of Financial Information*).

Total Assets

Total assets decreased by €6,442.2 million or 17.2% from €37,474.2 million at 31 December 2011 to €31,032.0 million at 31 December 2012, by €682.6 million or 2.2%, to €30,349.4 million at 31 December 2013, and by a further €1,791.3 million or 5.9% to €28,558.2 million at 30 June 2014. The decrease in each period reflects the result of a deliberate effort by the Group to deleverage and de-risk its balance sheet.

Loans and advances to customers are the largest component of total assets, representing 73.0% at 31 December 2011, 78.5% at 31 December 2012, 71.7% at 31 December 2013 and 70.3% at 30 June 2014.

Investments

For a discussion of the investments of the Group, see Section 3.8 (*Investments*).

3.10.7.2 Loans and Advances to Customers

The Group's lending consists of extensions of credit by the Bank and its subsidiaries, including hire purchase and leasing facilities. The discussion below relates to the Group's gross loans and advances to customers before fair value adjustments on initial recognition. However, loans and advances to customers in the consolidated financial statements are presented net of provisions for impairment.

The gross amount of loans and advances to customers acquired from Laiki Bank before fair value adjustment was €10,688.9 million. The fair value of these loans and advances on initial recognition was €8,659.0 million, resulting in a fair value adjustment of €2,029.9 million. The fair value adjustment reduces over time driven by loan repayments. In accordance with the provisions of IFRS 3, this adjustment has decreased the gross balance of loans and advances to customers. However, for IFRS 7 disclosure purposes as well as for credit risk monitoring, this adjustment is not presented within the gross balances of loans and advances.

The provisions for impairment and fair value adjustments recorded by the Group do not reduce the amounts legally recoverable from borrowers.

The following table reconciles gross loans and advances to customers before fair value adjustment on initial recognition and provisions for impairment to net loans as at the dates indicated.

	31 December			30 June
	2011(1)	**2012**(1)	**2013**(1)	**2014**(1)
		(€'000)		
Net loans and advances to customers				
Gross loans and advances to customers before fair value adjustment on initial recognition	28,872,429	28,050,587	26,743,319	23,284,579
Fair value adjustment on initial recognition	–	–	(1,902,711)	–
Loans and advances to customers after fair value adjustment on initial recognition	**28,872,429**	**28,050,587**	**24,840,608**	**23,284,579**
Provisions for impairment of loans and advances to customers	(1,505,512)	(3,676,056)	(3,076,270)	(3,221,545)
Total	**27,366,917**	**24,374,531**	**21,764,338**	**20,063,034**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see Section 3.1.1 (*Presentation of Financial Information*).

Loans and advances to customers decreased by €2,992.4 million or 10.9% from €27,366.9 million at 31 December 2011 to €24,374.5 million at 31 December 2012, by €2,610.2 million or 10.7%, to €21,764.3 million at 31 December 2013, and by a further €1,701.3 million or 7.8% to €20,063.0 million at 30 June 2014. The decrease in 2013 and the first half of 2014 was driven principally by the sale of the Group's operations in Greece, notwithstanding the acquisition of loans from Laiki Bank in 2013. The decrease in all periods also reflects the decision of the Group to reduce its loan portfolio in order to improve its capital position.

Customer Analysis

The following table sets out the breakdown of the Group's gross loans and advances to customers before fair value adjustments on initial recognition by type of customer at the dates indicated below. The information for the six months ended 30 June 2014 reflects the creation of the Restructuring and Recoveries Division in 2013.

	31 December			30 June
	2011(1)	**2012**(1)	**2013**(1)	**2014**(1)
	(€'000)			
Gross loans and advances to customers				
Corporate	12,749,553	12,770,764	12,241,613	4,067,037
SMEs	7,151,769	5,938,350	6,115,702	2,597,637
Retail				
- Housing	5,362,951	5,507,210	5,374,666	3,939,881
- Credit cards	398,112	379,358	272,588	229,681
- Consumer and other	3,210,044	3,454,905	2,738,750	1,771,940
Restructuring and Recovery				
- Corporate	–	–	–	5,841,386
- SMEs	–	–	–	1,501,329
- Recoveries	–	–	–	4,059,525
International Banking Services	–	–	–	809,012
Wealth Management	–	–	–	63,462
Total	**28,872,429**	**28,050,587**	**26,743,319**	**24,880,890**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see Section 3.1.1 (*Presentation of Financial Information*).

Corporate customers are the largest category of borrower, representing 44.2% of gross loans and advances to customers (including those classified as held for sale) at 31 December 2011, 45.5% at 31 December 2012, 45.8% at 31 December 2013 and 40.2% at 30 June 2014 (including corporate customers in the Restructuring and Recoveries Division). Housing loans and advances (including those classified as held for sale) remained largely stable at 18.6% at 31 December 2011, 19.6% at 31 December 2012, 20.1% at 31 December 2013 and 15.6% at 30 June 2014. SME loans (including those classified as held for sale) fluctuated marginally, from 24.8% at 31 December 2011 to 21.2% at 31 December 2012 and 22.9% at 31 December 2013 before falling to 16.7% at 30 June 2014 (including SME customers in the RRD).

The following table sets out the breakdown of the Group's gross loans and advances to customers which are classified as held for sale before fair value adjustment on initial recognition at 30 June 2014:

	30 June 2014
	(€'000)
Corporate	270,088
Small and medium-sized enterprises	136,069
Retail	
– housing	1,263
– consumer and other	11,238
Total	**418,658**

	30 June 2014
	(€'000)
By economic activity	
Trade	1,147
Manufacturing	514
Hotels and catering	125,319
Construction	2,203
Real estate	221,609
Professional and other sectors	24,912
Other sectors	42,954
Total	**418,658**

Of the total of €418,658 thousand of loans and advances to customers classified as held for sale, €323,014 thousand relate to UK loans and €95,644 thousand relate to Romanian loans.

Sector Analysis

The following table sets out the breakdown of the Group's gross loans and advances to customers before fair value adjustments on initial recognition by economic sector at the dates indicated below.

	31 December			30 June
	2011(1)	**2012**(1)	**2013**(1)	**2014**(1)
	(€'000)			
Gross loans and advances to customers				
Trade	3,486,501	3,462,621	2,833,112	2,736,282
Manufacturing	1,904,244	1,952,021	999,057	964,597
Hotels and catering	2,320,177	2,276,944	1,887,832	1,692,719
Construction	3,617,866	3,609,851	4,248,650	4,127,122
Real estate	3,074,077	3,351,249	4,201,181	3,405,126
Private individuals	8,960,467	8,631,837	8,539,115	8,052,130
Professional and other services	3,564,213	2,776,244	2,306,763	2,372,044
Other sectors	1,944,884	1,989,820	1,727,609	1,530,870
Total	**28,872,429**	**28,050,587**	**26,743,319**	**24,880,890**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see Section 3.1.1 (*Presentation of Financial Information*).

Private individuals are the largest economic sector, representing 31.0% of total loans and advances to customers (including those classified as held for sale) as at 31 December 2011, 30.8% at 31 December 2012, 31.9% at 31 December 2013 and 31.8% at 30 June 2014. The construction sector represented 12.5%, 12.9%, 15.9% and 16.3% of gross loans and advances, respectively. Real estate was 10.6% at 31 December 2011, 11.9% at 31 December 2012, 15.7% at 31 December 2013 and 14.3% at 30 June 2014.

Geographical Analysis

The following table shows a breakdown of the Group's gross loans and advances to customers before fair value adjustments on initial recognition by geographical area as of the dates indicated. The analysis is generally based on the country in which the transaction originated rather than the country in which the transaction is recorded.

	31 December			30 June
	2011[(1)]	2012[(1)]	2013[(1)]	2014[(1)]
	(€'000)			
Gross loans and advances to customers				
Cyprus	14,931,398	14,872,936	22,964,204	22,184,858
Greece	9,983,041	9,437,677	172,007	172,736
Russia	2,004,550	2,024,524	1,429,161	1,303,758
United Kingdom	1,035,334	834,006	1,283,749	848,623
Romania	585,727	550,154	492,983	370,915
Ukraine	332,379	331,290	401,215	−
Total	**28,872,429**	**28,050,587**	**26,743,319**	**24,880,890**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see Section 3.1.1 (*Presentation of Financial Information*).

Advances extended in Cyprus remain the core of the Group's business, representing 51.7%, 53.0%, 85.9% and 87.7% of the Group's gross loans and advances to customers (including those classified as held for sale) at 31 December 2011, 31 December 2012, 31 December 2013 and 30 June 2014, respectively. The decrease in loans and advances during 2012 compared to 2011 reflects the decision of the Group to reduce its loan portfolio in order to improve its capital position. However, the geographical distribution of the Group's loan portfolio has been significantly impacted by the disposal of the Group's operations in Greece during 2013 and, to a lesser extent, Ukraine during 2014.

The Group's operations in Cyprus were significantly affected by the acquisition of Laiki Bank in 2013, which contributed €8.7 billion of gross loans after fair value adjustment on initial recognition to the Group's portfolio.

Following the disposal of its operations in Greece in 2013, the Group's gross loans and advances to customers in Greece fell from €10.0 billion (34.6% of total loans and advances to customers) at 31 December 2011 to €9.4 billion (33.6%) at 31 December 2012 and €172.0 million (0.6%) at 31 December 2013. Following the disposal, the Group's gross loans and advances to customers in Greece remained relatively stable, at €172.7 million (0.7%) as at 30 June 2014.

The Group's gross loans and advances to customers in Russia experienced a decline during most of the periods under review, partly due to exchange rate fluctuations. Loans increased marginally from €2,004.6 million at 31 December 2011 to €2,024.5 million at 31 December 2012 and then declined to €1,429.2 million at 31 December 2013 and €1,303.8 million at 30 June 2014. As a percentage of total gross loans and advances to customers, Russia grew from 6.9% at 31 December 2011 to 7.2% as at 31 December 2012 and then declined to 5.3% as at 31 December 2013 and 5.2% at 30 June 2014.

The Group's gross loans and advances to customers in the United Kingdom decreased by €201.3 million or 19.4% in 2012, and then increased by €449.7 million or 53.9% in 2013, mainly due to the acquisition of the operations of Laiki Bank's branch operations in the United Kingdom. As a percentage of total loans and advances, the UK decreased from 3.6% at 31 December 2011 to 3.0% at 31 December 2012 and then grew to 4.8% at 31 December 2013. However, UK loans and advances (including those classified as held for sale) reduced by €112.1 million or 8.7% in the first half of 2014, mainly reflecting loan repayments. On 31 October 2014, the Group disposed of the UK Loan Portfolio, largely composed of residential and commercial real estate-backed facilities, acquired from Laiki Bank. See Section 3.10.2.3 (*Factors Affecting Comparability of Financial Information*). These loans were classified as loans and advances held for sale as at 30 June 2014.

The Group's gross loans and advances to customers in Romania also experienced a decline during each of the periods under review. The €57.2 million decrease in 2013 was driven by the sale of certain assets and liabilities of the Romanian branch to Marfin Bank Romania. The €26.4 million decrease in the first half of 2014 largely reflects loan repayments.

In April 2014, the Group sold its operations in Ukraine. This sale is reflected in the Group's unaudited interim condensed consolidated financial statements for the period ending 30 June 2014.

3.10.7.3 Other Assets

The table below sets out other assets of the Group as at the dates indicated:

	31 December			30 June
	2011(1)	**2012**(1)	**2013**(1)	**2014**(1)
		(€'000)		
Other assets				
Debtors	27,396	26,400	22,956	25,814
Stock of property held for sale	8,762	11,624	14,110	13,134
Investment properties	187,795	316,378	495,658	451,823
Taxes refundable	10,133	41,459	48,544	51,534
Deferred tax asset	97,570	50,829	479,060	472,227
Retirement benefit plan assets	873	1,610	1,319	1,674
Reinsurers' share of insurance contract liabilities	64,191	65,927	68,387	75,983
Prepaid expenses	5,634	5,004	2,840	4,166
Receivable relating to acquisitions and disposals of operations	103,137	–	90,219	190,219
Other assets	141,680	94,529	178,740	128,098
Total	**647,171**	**613,760**	**1,401,833**	**1,414,672**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see Section 3.1.1 (*Presentation of Financial Information*).

Investment properties principally consist of properties pledged as collateral for loans that were acquired upon foreclosure of the loan. The increase in investment properties during 2012 compared to 2011 principally relates to properties acquired in satisfaction of debt, mainly in Greece and Cyprus.

As of 30 June 2014, the Group had recorded deferred tax assets of €472.2 million, mainly as a result of the transfer of Laiki Bank's deferred tax assets to the Bank. The deferred tax asset recognised on the acquisition of these deferred tax assets from Laiki Bank amounted to €417 million and can be set off against the future profits of the Group for a period of 15 years at a tax rate of 12.5%. In 2012, the Group wrote-off deferred tax assets in Greece of €0.3 billion upon the disposal of its Greek operations as this was no longer deemed recoverable.

3.10.7.4 Liabilities

	31 December			30 June
	2011[(1)]	2012[(1)]	2013[(1)]	2014[(1)]
	(€'000)			
Liabilities				
Amounts due to banks	965,200	341,044	196,422	219,186
Funding from central banks	2,100,556	–	10,956,277	10,184,574
Repurchase agreements	785,993	607,773	594,004	582,646
Derivative financial liabilities	488,111	183,826	83,894	82,496
Customer deposits	29,654,498	28,442,152	14,971,167	13,802,750
Insurance liabilities	611,264	604,170	551,829	574,966
Debt securities in issue	49,791	44,775	1,515	4,919
Other liabilities	347,697	339,727	251,979	287,984
Subordinated loan stock	128,380	133,294	4,676	4,718
Total liabilities	**35,131,490**	**30,696,761**	**27,611,763**	**25,744,239**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see Section 3.1.1 (*Presentation of Financial Information*).

The decrease in deposits in 2012 compared to 2011 amounted to 4.1% and is mainly due to a decrease in customer deposits in Cyprus and Greece.

Liabilities principally comprise the Group's sources of funding, in particular customer deposits and funding from central banks. Liabilities have decreased during each of the periods under review, by €4,434.7 million or 12.6% from €35,131.5 million at 31 December 2011 to €30,696.8 million at 31 December 2012, by €3,085.0 million or 10.0% to €27,611.8 million at 31 December 2013, and by a further €1,867.5 million or 6.8% to €25,744.2 million at 30 June 2014. See Section 3.11.1 (*Liquidity and Capital Resources*).

3.11 INFORMATION ON LIQUIDITY AND CAPITAL RESOURCES

3.11.1 Liquidity and Capital Resources

The Group's main source of funding has traditionally been customer deposits. The Group also issued debt securities and took deposits on the interbank market. Following the Recapitalisation, in which a significant proportion of the Group's deposits and most of the Bank's medium-term senior debt were bailed-in pursuant to the Bail-in Decrees, the Group's funding profile has changed significantly. Currently, the Group has limited access to interbank and wholesale funding markets, which together with a reduction in deposits in Cyprus, has resulted in an increased reliance on central bank funding (comprising ECB funding for monetary operations and ELA). In addition, the acquisition of the ex-Laiki Bank operations (including deposits and ELA) by the Group and the sale of the Group's Greek operations (including deposits), further changed the composition of the Group's funding.

3.11.2 Liquidity Ratios

The table below sets forth the Group's liquidity ratio (liquid assets to total deposits and other liabilities falling due in the next twelve months) as at the dates and for the periods indicated. Liquid assets are defined as cash, interbank deposits maturing within thirty days and debt and equity securities at haircuts prescribed by the regulatory authorities. Total deposits comprise all customer deposits irrespective of maturity and other liabilities include all non-customer deposit liabilities due to be paid in the next twelve months:

	As at and for the year ended 31 December			As at and for the six months ended
	2011	2012	2013	30 June 2014
		(%)		
Liquidity ratio				
At period end	21.51	8.79	12.28	12.52
Average ratio during the period	24.69	14.99	11.16	12.85
Highest ratio during the period	28.82	23.93	14.42	14.24
Lowest ratio during the period	18.91	7.08	8.69	12.11

The Bank is currently not in compliance with its regulatory liquidity requirements with respect to its operations in Cyprus. The minimum euro liquidity ratio (which is the ratio of the Bank's euro-denominated liquid assets to total euro-denominated deposits and other liabilities falling due in the next 12 months) established by the CBC for operations in Cyprus is 20%. The minimum liquidity ratio for foreign currencies (which is the ratio of the Bank's foreign currency-denominated liquid assets to total foreign currency-denominated deposits) established by the CBC for operations in Cyprus is 70%. At 30 June 2014, the euro liquidity ratio and liquidity ratio for foreign currencies were 6.4% and 7.2%, respectively. In addition, the Bank is not in compliance with the minimum euro currency mismatch ratios established by the CBC for operations in Cyprus. The mismatch ratios for assets minus liabilities in the seven-day and 30-day periods over total customer deposits is minus 10% for the seven-day period and minus 25% for the 30-day period. At 30 June 2014, the mismatch ratios were minus 32.0% for the seven-day period and minus 43.7% for the 30-day period. The liquidity ratios presented in the table above are the Group liquidity ratios calculated by management as part of its internal systems and are not comparable to the Bank's regulatory liquidity requirements as set by the CBC. See Section 2.4.5 (*The Group's business and operations are subject to substantial regulation and supervision and can be negatively affected by its non-compliance with certain existing regulatory requirements and any adverse regulatory and governmental developments*).

The liquidity ratios remained at low levels during each of the periods under review due to the continued economic crisis in Cyprus, the bail-in and the outflow of deposits.

The table below sets forth the Group's loan to deposit ratio (loans and advances to customers to total deposits) as at the dates and for the periods indicated:

	As at and for the year ended 31 December			As at and for the six months ended
	2011	2012	2013	30 June 2014
		(%)		
Net loan to deposit ratio				
At period end	92.29	85.70	145.38	147.95
Average ratio during the period	87.69	91.65	128.84	148.10
Highest ratio during the period	92.29	93.85	145.95	150.96
Lowest ratio during the period	84.14	85.70	85.70	145.38

3.11.2.1 Encumbered and Unencumbered Assets

Certain of the Group's funding is secured by assets. The carrying value of the Group's encumbered assets is set forth below:

	31 December			30 June
	2011(1)	2012(1)	2013(1)	2014(1)
	(€'000)			
Encumbered assets				
Cash and other liquid assets	691,131	707,749	367,080	246,483
Other investments	938,070	853,617	3,289,810	3,475,516
Loans and advances to customers	3,818,000	1,830,000	15,136,002	14,135,929
Loans and advances held for sale	–	–	–	239,850
Property	–	–	90,181	88,933
	5,447,201	**3,391,366**	**18,883,073**	**18,186,711**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see Section 3.1.1 (*Presentation of Financial Information*).

An asset is classified as encumbered if it has been pledged as collateral against an existing liability and as a result it is no longer available to the Group for further collateral or liquidity requirements. The total encumbered assets of the Group amounted to €18,883.0 million at 31 December 2013 and €18,186.7 million at 30 June 2014. These primarily consist of loans and advances to customers, investments in debt securities (primarily Government bonds) and cash. These are mainly pledged for the CBC funding facilities under Eurosystem monetary policy operations and ELA and for covered bonds. Investments in debt securities are also used as collateral for repurchase transactions as well as for covered bonds. Encumbered assets include cash and other liquid assets placed with banks as collateral under ISDA Master Agreements (€388.8 million at 31 December 2012, €221.3 million at 31 December 2013 and €150.4 million at 30 June 2014) which are not immediately available for the Group but are released once the transaction is terminated. Cash is mainly used to cover collateral required for (i) derivatives and repurchase transactions under credit support annexes executed in connection with an ISDA Master Agreement and repurchase agreements, and (ii) trade finance transactions and guarantees issued.

In addition, bonds issued by the Bank and guaranteed by the Government amounting to €1 billion are pledged as collateral for obtaining funding from the CBC and a €1 billion covered bond issued by the Bank is used as collateral for obtaining financing from the CBC. The assets used as collateral for the covered bond are included in the table of encumbered assets above.

On 1 July 2014, the Public Debt Management Office of the Republic of Cyprus repaid €950.0 million of an outstanding €1,987.0 million sovereign bond held by the Bank that was pledged as collateral with the ECB.

An asset is categorised as unencumbered if it has not been pledged against an existing liability. Unencumbered assets are further analysed into those that are available and can be pledged and those that are not readily available to be pledged.

At 31 December 2013 and 30 June 2014, the Group held €4,889.8 million and €4,272.8 million, respectively, of unencumbered assets that can be pledged and can be used to support potential liquidity funding needs. These assets include loans and advances which are less than 90 days past due. Customer loans of overseas subsidiaries and branches cannot be pledged with the CBC as collateral for ELA. Moreover, for some of the overseas subsidiaries and branches, these assets are only available to be pledged for other purposes for the needs of the particular subsidiary or branch and not to provide liquidity to any other part of the Group.

Balances with central banks are reported as unencumbered which can be pledged, to the extent that there is excess available over the minimum reserve requirement. The minimum reserve requirement is reported as an unencumbered asset not readily available as collateral.

At 31 December 2013 and 30 June 2014, the Group held €4,928.9 million and €4,251.2 million, respectively, of unencumbered assets that are not readily available to be pledged for funding requirements in their current form. These primarily consist of loans and advances that are prohibited by contract or law to be encumbered or are more than 90 days past due or for which there is pending litigation or other legal action against the customer, a proportion of which would be suitable for use in secured funding structures but are conservatively classified as not readily available for collateral. Properties whose legal title has not been transferred to the name of the Bank or the relevant subsidiary are not considered to be readily available as collateral.

Insurance assets held by Group insurance subsidiaries are not included in the table below as they are primarily due to the policyholders.

The table below presents the carrying value of the Group's encumbered and unencumbered assets and the extent to which these assets are pledged for funding purposes at 30 June 2014 and 31 December 2013:

Encumbered and unencumbered assets	**Encumbered**	**Unencumbered**		
	Pledged as collateral	**Available to be pledged**	**Not readily available to be pledged**	**Total**
			(€'000)	
30 June 2014				
Cash and bank placements	246,483	1,303,140	424,263	1,973,886
Investments	3,475,516	38,052	24,475	3,538,043
Loans and advances	14,135,929	2,315,290	3,611,815	20,063,034
Loans and advances held for sale	239,850	–	118,073	357,923
Property	88,933	616,364	72,535	777,832
Total assets	**18,186,711**	**4,272,846**	**4,251,161**	**26,710,718**
Bonds guaranteed by the Cyprus government	1,000,000	–	–	1,000,000
Total	**19,186,711**	**4,272,846**	**4,251,161**	**27,710,718**
31 December 2013				
Cash and bank placements	367,080	1,604,736	558,329	2,530,145
Investments	3,289,810	218,571	24,012	3,532,393
Loans and advances	15,136,002	2,352,500	4,275,836	21,764,338
Property	90,181	713,972	70,698	874,851
Total assets	**18,883,073**	**4,889,779**	**4,928,875**	**28,701,727**
Bonds guaranteed by the Cyprus government	1,000,000	–	–	1,000,000
Total	**19,883,073**	**4,889,779**	**4,928,875**	**29,701,727**

3.11.2.2 Funding

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

	31 December			30 June
	2011[(1)]	**2012[(1)]**	**2013[(1)]**	**2014[(1)]**
		(€'000)		
Funding				
Customer deposits	29,654,498	28,442,152	14,971,167	13,802,750
Funding from central banks	2,100,556	–	10,956,277	10,184,574
Repurchase agreements	785,993	607,773	594,004	582,646
Amounts due to banks	965,200	341,044	196,422	219,186
Debt securities in issue	49,791	44,775	1,515	4,919
Total	**33,556,038**	**29,435,744**	**26,719,385**	**24,794,075**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see Section 3.1.1 (*Presentation of Financial Information*).

The average rate of interest payable on the Group's funding (calculated as interest paid on funding divided by average funding during the period) was 2.65% for the year ended 31 December 2011, 2.25% for the year ended 31 December 2012, 2.37% for the year ended 31 December 2013 and 1.86% (on an annualised basis) for the first half of 2014.

Customer Deposits

Despite the bail-in of the Group's depositors pursuant to the Recapitalisation and increased reliance on central bank funding, the majority of the Group's funding still comes from customer deposits. At 31 December 2011, 31 December 2012, 31 December 2013 and 30 June 2014, customer deposits accounted for 88.4%, 96.6%, 56.0% and 55.7%, respectively, of the Group's funding. In the Cyprus market, the Bank offers demand, savings and time deposits (both notice and fixed period accounts). Similar products are offered to retail depositors in the United Kingdom, the Channel Islands and Russia.

The following table shows a breakdown of the Group's customer deposits by type and geographical area at the dates indicated.

	31 December			30 June
	2011[(1)]	**2012[(1)]**	**2013[(1)]**	**2014[(1)]**
		(€'000)		
Customer deposits				
By type of deposit				
Demand	6,631,662	6,417,980	3,492,789	3,718,326
Savings	2,259,345	1,865,042	925,549	948,634
Time or notice	20,763,491	20,159,130	10,552,829	9,135,790
Total	**29,654,498**	**28,442,152**	**14,971,167**	**13,802,750**

	31 December			30 June
	2011[(1)]	**2012**[(1)]	**2013**[(1)]	**2014**[(1)]
		(€'000)		
By geographical area				
Cyprus	19,165,805	18,511,979	12,705,254	11,687,404
Greece	7,698,752	7,152,375	−	−
Russia	1,294,591	1,253,677	918,491	845,472
United Kingdom	1,209,604	1,215,207	1,244,186	1,251,630
Romania	202,232	214,149	30,055	18,244
Ukraine	83,514	94,765	73,181	−
	29,654,498	**28,442,152**	**14,971,167**	**13,802,750**

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Customer deposits decreased by €1,212.3 million or 4.1%, from €29,654.5 million at 31 December 2011 to €28,442.2 million at 31 December 2012. Customer deposits decreased by €13,471.0 million or 47.4% to €14,971.2 million at 31 December 2013, reflecting the bail-in of depositors pursuant to the Recapitalisation, customer deposit outflows and the disposal of the Group's Greek operations, which more than offset the acquisition of deposits from Laiki Bank in Cyprus and the United Kingdom. Customer deposits declined by a further €1,168.4 million or 7.8% in the six months to €13,802.8 million at 30 June 2014, primarily as a result of seasonality, the release of the 6-month time deposits and the first tranche of the 9-month time deposits that were blocked pursuant to the decrees relating to the Recapitalisation and the relaxation of capital controls by the CBC.

Cyprus represents the principal source of deposits, accounting for 64.6% of customer deposits at 31 December 2011, 65.1% at 31 December 2012, 84.9% at 31 December 2013 and 84.7% at 30 June 2014. The Group's customer deposits in Cyprus decreased by €653.8 million or 3.4%, from €19,165.8 million at 31 December 2011 to €18,512.0 million at 31 December 2012, by a further €5,806.7 million or 31.4% to €12,705.3 million at 31 December 2013, primarily as a result of the bail-in, and by a further €1,017.9 million or 8.0% to €11,687.4 million at 30 June 2014.

Following the disposal of its operations in Greece, the Group had no customer deposits in Greece at 31 December 2013 or 30 June 2014, compared to €7,698.8 million at 31 December 2011 (26.0% of total customer deposits) and €7,152.4 million at 31 December 2012 (25.1%).

The Group's customer deposits in Romania increased by €11.9 million from €202.2 million at 31 December 2011 to €214.1 million at 31 December 2012, then decreased by €184.1 million to €30.1 million at 31 December 2013 and a further €11.8 million to €18.2 million at 30 June 2014. The decrease in customer deposits in 2013 was driven by the transfer of certain assets and liabilities (including €77.0 million of customer deposits) of the Romanian branch to Marfin Bank Romania and the closing of the Group's branches in Romania. In line with the Restructuring Plan's objective of winding down or disposing of non-core assets and operations, the Group does not expect to offer deposit products in Romania in the future.

In the United Kingdom, customer deposits have increased during each of the periods under review, from €1,209.6 million (4.1% of total customer deposits) at 31 December 2011 to €1,215.2 million (4.3%) at 31 December 2012, €1,244.2 million (8.3%) at 31 December 2013 and €1,251.6 million (9.1%) at 30 June 2014. The net increase in 2013 reflects the acquisition of deposits of €325.2 million from Laiki Bank's UK branch, which more than offset large withdrawals during March and April 2013.

Customer deposits in Russia declined by 40.9 million or 3.2% from €1,294.6 million at 31 December 2011 to €1,253.7 million at 31 December 2012, by €335.2 million or 26.7% to €918.5 million at 31 December 2013 and by a further €73.0 million or 7.9% to €845.5 million at 30 June 2014. The declines were driven partly by the depreciation of the Russian Rouble against the euro.

In April 2014, the Group sold its operations in Ukraine.

3.11.2.3 Funding from Central Banks

As a result of the financial crisis in Cyprus and the acquisition of Laiki Bank pursuant to the Laiki Transfer Decrees, the Group has become increasingly dependent on central bank funding. Funding from central banks consists of funding from the CBC under Eurosystem monetary policy operations, including standing facilities and ELA.

The table below shows a breakdown of the Group's funding from central banks as at the dates indicated:

	31 December			30 June
	2011(1)	**2012**(1)	**2013**(1)	**2014**(1)
		(€'000)		
Funding from Central Banks				
Emergency Liquidity Assistance	–	–	9,556,035	8,784,439
Monetary policy operations	2,100,556	–	1,400,242	1,400,135
Total	**2,100,556**	**–**	**10,956,277**	**10,184,574**

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At 31 December 2012, the Group had no ELA or ECB funding. At 31 December 2013 and 30 June 2014, 41.0% and 41.1%, respectively, of the Group's funding was comprised of funding from central banks, of which, €9.6 billion and €8.8 billion, respectively, was ELA funding. The Bank accessed ELA funding for the first time on 14 November 2012 for an amount of €2 billion, after the Bank had been suspended by the ECB from participation in monetary policy operations. This ELA funding was fully repaid by the end of November 2012.

As a result of further deterioration in economic conditions at the beginning of 2013 and increased customer deposit outflows, the Group was required to obtain ELA funding from the CBC in February 2013 (prior to the Eurogroup Statement on Cyprus), which on 15 March 2013 amounted to approximately €1 billion. In addition, the Group acquired €9.1 billion of ELA funding as part of the acquisition of assets and liabilities of Laiki Bank in March 2013. This ELA funding of Laiki Bank of €9.1 billion was effectively lowered by €1.2 billion, as Laiki Bank had advanced to the Bank on 26 March 2013 an amount of €1.2 billion to finance the sale of the Group's Greek operations. See Note 54 to the Group's consolidated financial statements for the year ended 31 December 2013.

Since August 2013, the Bank has been reinstated by the ECB as an eligible counterparty for monetary policy operations. Liquidity drawn from these operations must be in accordance with the ECB's rules and be backed by high credit quality eligible collateral. While the Bank intends to continue to use monetary policy operations, the extent to which it can do so is restricted by the amount of eligible collateral it holds. As at 31 December 2013 and 30 June 2014, ECB funding stood at €1.4 billion.

The funding under monetary policy operations bears interest at the ruling main refinancing operations ("**MRO**") rate of the Eurosystem. The Bank's ELA funding bears interest at the rate equal to the ruling marginal lending facility rate ("**MLF rate**") of the Eurosystem, plus a margin. The ELA facility has a short term maturity, typically 2 to 3 weeks, covering the period up to the next regular ECB governing council meeting.

The Bank expects to apply for the second of the ECB's targeted long-term refinancing operations, which would have the effect of converting up to €500 million of existing short-term ECB funding into longer-term fixed rate funding from the ECB.

On 1 July 2014, the Public Debt Management Office of the Republic of Cyprus repaid €950.0 million of an outstanding €1,987.0 million sovereign bond held by the Bank. The bond was transferred to the Bank in March 2013 as part of the acquisition of assets and liabilities of Laiki Bank. The bond was pledged as collateral with the ECB and the Bank used the proceeds of repayment to reduce its ECB funding by €550 million and ELA by €400 million. The reduction in ELA funding was effective from 30 June 2014.

Since 30 June 2014, the Bank has reduced its ELA funding by a further €1,280 million as a result of the proceeds from the Capital Raising, further deleveraging and the use of liquid assets. The Bank currently has €7,500 million of ELA funding and €890 million of ECB funding.

3.11.3 Debt Securities in Issue

The Group has several programmes under which it issues debt securities:

- *EMTN Programme*. The Bank maintains a Euro Medium Term Note ("**EMTN**") Programme with an aggregate nominal amount up to €4.0 billion. During the Recapitalisation in 2013, eligible outstanding debt securities of the Group were bailed-in and converted into Ordinary Shares and deposits. The debt securities outstanding at the balance sheet date represent the residual holding of the products following the bail-in.
- *ECP Programme*. The Bank maintains a Euro Commercial Paper ("**ECP**") Programme with an aggregate nominal amount up to €1.0 billion. Under the programme, commercial paper can be issued in various currencies with a maturity period up to 364 days. There is currently no commercial paper outstanding under this programme.
- *Covered Bond Programme*. During 2011, a €5.0 billion Covered Bond Programme was set up under the Cyprus covered bonds legislation and the Covered Bonds Directive of the Central Bank of Cyprus. Under the programme, the Bank issued in July and December 2011 covered bonds of €700.0 million and €1.0 billion, respectively. On 29 June 2012 and 25 March 2013, covered bonds of €150.0 million and €550.0 million respectively issued in July 2011, were cancelled. The covered bond issued and currently outstanding matures on 12 June 2017 with a potential extension of one year, bears interest at the three month EURIBOR plus 3.25% annually and is traded on the Luxemburg Stock Exchange. Loans and advances pledged as collateral for covered bonds are disclosed in Note 48 to the consolidated financial statements for the year ended 31 December 2013. The liability from the issue of covered bonds is not presented in debt securities in issue in the consolidated balance sheet as all the bonds issued are held by the Bank.

The table below sets out the debt securities in issue of the Group at the dates indicated:

	31 December			30 June
	2011	2012	2013	2014
		(€'000)		
Debt securities in issue				
Medium term senior debt.............................				
SEK50 million notes due 2012.........................	5,341	–	–	–
SEK100 million notes due 2014.......................	11,484	11,990	–	–
€2 million notes due 2016................................	1,897	1,897	531	531
$2 million notes due 2016................................	1,597	1,502	143	144
	20,319	**15,389**	**674**	**675**
Other debt securities in issue				
RUB certificates of deposit and promissory notes...	28,980	28,894	349	3,752
Interest free loan from the European Development Bank	492	492	492	492
	29,472	**29,396**	**841**	**4,244**
Total debt securities in issue..........................	**49,791**	**44,775**	**1,515**	**4,919**

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In the course of the Recapitalisation in 2013, eligible debt securities issued by the Bank were bailed-in and were converted into Ordinary Shares and deposits. Following the Recapitalisation, the Bank's outstanding debt securities consist of €0.7 million of medium term senior notes and a €0.5 million interest-free loan from the European Development Bank.

In addition to debt securities issued by the Bank, Uniastrum has issued Rouble-denominated certificates of deposits and promissory notes, which were issued at par, are unlisted and have maturities up to one year.

The Group expects that following the completion of the Placing in September 2014, it will resume issuing debt securities in the capital markets as part of its funding strategy going forward, subject to market conditions.

Government Guaranteed Bonds

In accordance with the terms of the decrees issued by the Resolution Authority for the acquisition of Laiki Bank, the Bank assumed the rights and obligations of Laiki Bank as issuer of two bonds guaranteed by the Government of €500.0 million each. The bonds were issued by Laiki Bank on 14 November and 27 November 2012, respectively, and had a maturity of 364 days. The maturity of the bonds was extended in November 2013 for a further period of one year and again in November 2014 for a further period of three years. The bonds bear interest at an annual fixed interest rate of 5% and are guaranteed by the Cyprus Government. The liability from the issue of these bonds is not presented within debt securities in issue in the consolidated balance sheet as the bonds are held by the Bank. The bonds are pledged as collateral for obtaining funding from central banks and are listed on the CSE.

3.11.3.1 Subordinated Loan Stock

The Group has historically issued subordinated loan stock as part of its capital structure. The table below sets out the subordinated loan stock of the group at the dates indicated:

	31 December			30 June
	2011	2012	2013	2014
		(€'000)		
Subordinated loan stock				
US$ subordinated bonds issued by CB Uniastrum Bank LLC	6,928	6,922	4,676	4,718
2008 Convertible Bonds	26,907	27,103	–	–
CECS	72,380	76,775	–	–
2007 Capital Securities	22,165	22,494	–	–
Total	**128,380**	**133,294**	**4,676**	**4,718**

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Following the Recapitalisation, the Bank's outstanding Capital Securities were converted into Ordinary Shares. In addition to these securities, Uniastrum issued U.S. dollar denominated subordinated bonds, which were not affected by the Recapitalisation.

3.11.3.2 CECS

In May 2011 the Group issued CECS with a nominal value of €820.0 million and $95.0 million, which qualified as Tier 1 capital for regulatory purposes. These were converted into Ordinary Shares as part of the Recapitalisation.

The conversion of CECS to Ordinary Shares in 2013 was effected as part of the Recapitalisation. The conversion of CECS into Ordinary Shares in 2012 was on a voluntary basis.

3.11.4 Equity

The following table shows the Group's equity at the dates indicated:

	31 December			30 June
	2011	2012	2013	2014
	(€'000)			
Equity				
Share capital	899,528	1,795,141	4,683,985	4,755,711
Shares subject to interim orders	–	–	58,922	297
Share premium	1,164,903	428,271	–	–
Convertible Enhanced Capital Securities (CECS)	862,233	428,835	–	–
Revaluation and other reserves	2,585	106,336	72,251	79,178
Accumulated losses	(670,988)	(2,500,530)	(2,151,835)	(2,086,954)
Equity attributable to the owners of the Bank	2,258,261	258,053	2,663,323	2,748,232
Non-controlling interests	84,444	77,222	74,353	65,693
Total equity	**2,342,705**	**335,275**	**2,737,676**	**2,813,925**

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On 18 September 2014, the Group issued €1 billion of new Ordinary Shares in the Capital Raising, increasing its share capital to €5,755.7 million.

3.11.5 Capital Management

The capital adequacy regulations which govern the Group's operations are established by the CBC. In July 2011, the CBC amended its Directive for the Calculation of the Capital Requirements and Large Exposures, introducing a new ratio for Core Tier 1 capital. The minimum level of the new ratio was set at 8% for the period until 30 December 2012. After that date, the minimum level of the ratio increased gradually based on the percentage of Group assets over the GDP of the Republic of Cyprus. The CBC directive also set the minimum level of Tier 1 capital as the minimum level of Core Tier 1 capital ratio plus 1.5%. In addition, it set the minimum total capital ratio as the Tier 1 ratio plus 2.0%. As a result, the minimum required ratios for Tier 1 and total capital as at 31 December 2012 were 10.2% and 12.2%, respectively. The minimum Core Tier 1, Tier 1 and total capital ratios throughout the period and until 30 December 2013 were set pursuant to the CBC directive at 8.7%, 10.2% and 12.2%, respectively. On 31 December 2013, the CBC increased the minimum Core Tier 1 capital ratio to 9% and the minimum requirements for Tier 1 and total capital ratios have been abolished.

Before the Recapitalisation in March 2013, the Group's Core Tier 1, Tier 1 and total capital ratios did not comply with the minimum capital ratios set by the CBC. Following the Recapitalisation, the Group's Core Tier 1 and Tier 1 capital ratios as at 30 June and 30 September 2013 were 10.2% and complied with the minimum Core Tier 1 capital ratio (8.7%) required by the CBC until 30 December 2013. The total capital ratio was 10.7% as at 30 June and 10.4% as at 30 September 2013 and did not comply with the minimum total capital ratio (12.2%) required by the CBC until 30 December 2013. As at 31 December 2013, the Group complied with the minimum capital requirements of the CBC. Giving effect to the capital increase of €1 billion in September 2014, the Group's CET 1 Ratio (CRD IV/CRR – transitional basis) increased to 15.6% and its CET 1 Ratio (CRD IV/CRR – fully loaded) increased to 15.1%.

From 1 January 2014, the CRR and amended CRD IV became effective. The CRR and CRD IV comprise the European regulatory package designed to transpose the new capital, liquidity and leverage standards of Basel III into the European Union's legal framework. The CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to comply with. It is immediately binding on all EU member states. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board compensation and transparency. Unlike the CRR, CRD IV needs to be transposed into national laws and accordingly national regulators can impose additional capital buffer requirements. CRR introduces significant changes in the prudential regulatory regime applicable to banks, including amended minimum capital ratios, changes to the definition of capital and the calculation of risk-weighted assets and the introduction of new measures relating to leverage, liquidity and funding. The CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which are not expected to be fully implemented until 2018.

The CBC has determined the extent of phasing-in of the transitional provisions relating to CET 1 deductions and on 29 May 2014 set the minimum CET 1 capital ratio at 8.0%. The CBC will also impose additional capital requirements for risks which are not covered by the above-mentioned capital requirements taking into account the provisions of CRD IV/CRR and the results of the AQR and the EU-wide stress test (Pillar II add-ons).

On 26 October 2014, the Bank announced the results of the ECB's Comprehensive Assessment, which consisted of both the AQR and an EU-wide stress test. The AQR involved a review of the quality of banks' assets, including the adequacy of asset and collateral valuation and related provisions. The stress test examined the resilience of banks' balance sheets to different stress scenarios using a common methodology developed by the EBA and applied across all participating banks. The Comprehensive Assessment was based on a capital benchmark of 8% Common Equity Tier 1 (CET 1) ratio, including transitional arrangements of CRR/CRD IV, for both the AQR and the baseline stress test scenario. For purposes of the stress test the minimum ratios applied across all participating banks were set at 8% CET 1 ratio for the baseline scenario and 6.5% CET 1 ratio for the adverse scenario. As a result of the application of the AQR and the stress test, before giving effect to the Capital Raising, the AQR Adjusted CET 1 ratio (based on transitional arrangements as of 1 January 2014) of the Bank is estimated at 7.28%, the Adjusted CET 1 ratio after the baseline scenario is estimated at 7.73% and the Adjusted CET 1 ratio after the adverse scenario is estimated at 1.51%, resulting in a theoretical aggregated capital shortfall of the Comprehensive Assessment of an estimated €919 million. However, after giving effect to the €1 billion gross proceeds of the Capital Raising in September 2014, the AQR Adjusted CET 1 ratio (based on transitional arrangements as of 1 January 2014) of the Bank increases to 11.53%, the Adjusted CET 1 ratio after the baseline scenario increases to 11.62% and the Adjusted CET 1 ratio after the adverse scenario increases to 5.85%, resulting in a theoretical aggregated capital surplus of €81 million.

The Group's overseas banking subsidiaries comply with the regulatory capital requirements of the local regulators of countries in which they operate. The insurance subsidiaries of the Group comply with the requirements of the Cyprus Superintendent of Insurance, including the minimum solvency ratio.

The following table presents the Group's regulatory capital position under the CRR and CRD IV, including the application of the transitional arrangements as set by the CBC on 26 May 2014 as at the dates indicated. The position as at 31 December 2013 is shown on a pro forma basis by applying the new rules including the transitional arrangements that have been in place since 1 January 2014.

	31 December 2013	30 June 2014
	(€'000)	
Provisional CRR and CRD IV Regulatory Capital		
Transitional Common Equity Tier 1 (CET 1)	2,449,878	2,546,647
Transitional Additional Tier 1 capital (AT 1)	–	–
Tier 2 capital (T 2)	45,204	3,287
Transitional total regulatory capital	**2,495,082**	**2,549,934**
Risk-weighted assets – credit risk	21,468,518	20,457,100
Risk-weighted assets – market risk	3,398	5,000
Risk-weighted assets – operational risk	2,057,687	2,023,100
Total risk-weighted assets	**23,529,603**	**22,485,200**
Capital Ratios	(%)	
Transitional Common Equity Tier 1 (CET 1) ratio	10.4	11.3
Transitional total capital ratio	10.6	11.3
Minimum ratios per the CBC Directive		
Common Equity Tier 1 ratio	N/A	8.0

The following table shows a breakdown of the Group's regulatory capital position prior to the implementation of the CRR and CRD IV at the dates indicated:

	31 December	
	2012	**2013**
	(€'000)	
Pre-CRR and CRD IV Regulatory Capital		
Core original own funds (Core Tier 1)	(407,284)	2,281,513
Original own funds (Tier 1)	119,695	2,281,513
Additional own funds (Tier 2)	248,892	75,581
Carrying value of insurance companies	(171,680)	–
Total regulatory capital	**196,907**	**2,357,094**
Risk-weighted assets – credit risk	19,318,362	20,380,360
Risk-weighted assets – market risk	3,014	3,398
Risk-weighted assets – operational risk	2,258,476	2,057,687
Total risk-weighted assets	**21,579,852**	**22,441,445**
	(%)	
Core Tier 1 capital ratio	(1.9)	10.2
Tier 1 ratio	0.6	10.2
Tier 2 ratio	1.2	0.3
Total capital ratio	0.9	10.5
Minimum ratios per the CBC Directive		
Core Tier 1 capital ratio	8.7	9.0
Tier 1 ratio	10.2	N/A
Total capital ratio	12.2	N/A

3.12 RISK MANAGEMENT

3.12.1 Risk Management Governance

Enhancing risk management is a key priority for the Group and the Group has established a centralised and independent RMD under the Group Chief Risk Officer ("**GCRO**") with a direct reporting line to the Group Chief Executive Officer ("**GCEO**") and the Board Risk Committee. The GCRO attends, amongst other committees, the ALCO, the Group Executive Committee, the Acquisition and Disposal Committee and the Board Risk Committee. The Board Risk Committee examines, amongst other things, the Bank's risk policy and systems and annually assesses the adequacy and effectiveness of the risk management policy and makes recommendations to the Board of Directors regarding these matters. The RMD is also involved in direct risk monitoring of international and domestic subsidiaries and has been mandated to design policies reflecting the risk appetite of the Group, monitor risks in a proactive manner across the different business segments, taking into account all relevant CBC guidelines and regulatory requirements.

As a result of implementing new and stricter credit risk management policies and processes in line with the Group's conservative risk appetite and strategy under the Restructuring Plan, the RMD function has been reassessed and reorganised to improve and enhance credit risk monitoring and reporting. As part of the reorganisation process, new departments have been created to address particular risks, and new subdivisions have been created within existing departments. The total number of employees in the Group's RMD has also increased from 89 as of 31 March 2013, which includes 38 employees absorbed from Laiki Bank's risk management department, to 121 employees as of 30 June 2014.

The functional activities of the RMD are now organised through the following departments, each of which has distinct responsibilities and covers specific risk areas:

- *Credit Risk Management*. This department is divided into three sub-departments:

  (i) the Credit Risk Policy ("**CRP**") department develops the Group's credit risk policy, lending policies and approval limits;

  (ii) the Credit Risk Reporting & Control ("**CRR&C**") department is responsible for monitoring the Group's credit portfolio, implementing the credit provisioning policy and reports on the relevant credit risk metrics; and

  (iii) the Credit Risk Assessment ("**CRA**") department safeguards the effective management of credit risk at all stages of the credit cycle. The CRA department is a new sub-department that was established in accordance with CBC directions.

- *Credit Appraisal*. This department is engaged in reviewing and approving credit applications, within an approved set of limits. Under the previous RMD structure, the Credit Appraisal department reported directly to the GCEO; however, under the current structure, the Credit Appraisal department reports to the GCRO.

- *Market Risk*. This department monitors risk from changes in market rates, liquidity risk and credit risk *in relation* to the Group's investments in liquid assets. For more detail on the market risk unit, see Section 3.12.3.3 (*Asset and Liability Management*).

- *Operational Risk*. This department is responsible for identifying key operational risks which are both assessed and managed through the implementation of the Group operational risk management policy. This policy includes the holding of risk control self-assessment workshops with employees of the Group, the maintenance of an operational loss collection process and evaluations of outsourcing activities, new and amended procedures and new products and services of the Group from an operational risk perspective. The operational risk department also cooperates with other departments of the Group (such as information technology, legal, information security, physical security, health and safety, and compliance) and business lines in general in order to monitor and identify operational risks.

- *Information Security*. This department has established an information management programme in order to identify, assess and mitigate information security risks and ensure compliance with the applicable data protection laws and regulations issued by the CBC. This is executed in practice through the use of policies, processes, systems and personnel operating under the following domains: governance, information protection, personnel, access control, infrastructure protection, physical protection, applications protection and threat and incident management. The Information Security department was previously within the Operational Risk department but has become a stand-alone department as part of the RMD reorganisation.

- *International Risk Management and Other Subsidiaries*. This department's primary responsibilities are to ensure that the business conducted by the Group's overseas operations and foreign subsidiaries is consistent with the Group's risk appetite and that these overseas operations and foreign subsidiaries implement risk management policies, procedures and methodologies which are consistent with the Group's risk management guidelines. The International Risk Management and Other Subsidiaries department is a new department that was created as part of the RMD reorganisation.

- *Capital Risk Management*. This department is responsible for the calculation and reporting, both regulatory and management, of the Group's risk-weighted assets in line with the

- requirements of CRD IV/CRR. The Capital Risk Management department is also involved in any regulatory or other management assessments involving the Group's capital adequacy requirements. The Capital Risk Management department is a new department that was created as part of the RMD reorganisation.

- *Credit Risk Systems & Analytics* ("**CRSA**"). This department is responsible for the development, evaluation and calibration of all risk-related models. In particular, the CRSA develops and runs the Group's credit scoring models and credit rating systems.

3.12.2 Overall Risk Strategy and Appetite

The Group's overall risk strategy and appetite will remain conservative throughout the period of the Restructuring Plan. In particular:

- *Credit Risk*. The Group has implemented conservative credit risk policies and a proactive approach on the monitoring of credit risk. Through the establishment of the RRD, the Group has strengthened the management and recovery of its delinquent loans as well as larger corporate exposures (regardless of delinquency status);

- *Liquidity and Funding Risk*. The Bank aims to decrease its reliance on ELA funding;

- *Market Risk*. The Bank does not run proprietary trading books and aims to maintain neutral or near neutral positions with respect to foreign currency risk and interest rate risk; and

- *Operational Risk*. The Group has implemented a "zero-tolerance" policy towards internal fraud and non-compliance with regulatory requirements and a low tolerance towards other operational risks/losses in accordance with the Group's risk appetite.

3.12.3 Credit Risk

Credit risk is the risk that arises from the possible failure of one or more customers to discharge their obligations towards the Group. As part of its restructuring of the financial sector of Cyprus, the CBC has recently issued, at the end of 2013 and in 2014, a number of new directives which significantly impact the Bank's credit risk policy and the management of its credit risk. As a result of implementing new and stricter credit risk management policies and processes in line with the Group's conservative risk appetite and strategy under the Restructuring Plan, the Bank is in compliance, or is in the process of complying, with the requirements of these new directives. For more detail on these new directives, see Section 3.22.3.11 (*CBC Credit Risk Directives*).

3.12.3.1 Credit Risk Management

The key elements of the Group's new credit risk policy and processes are:

(1) a clear and separate organisational responsibility for the management of credit risk for the Group as follows:

  - credit origination is the responsibility of the relevant business division (for example, consumer and SME banking, corporate banking, IBS and wealth, brokerage and asset management);

  - credit appraisal is the responsibility of the Credit Appraisal department which is independent of the relevant business divisions and is now under the supervision of the GCRO. In addition, the credit approval limits of the Group's retail branches, business centres, RRD, corporate banking centres and international banking centres have been revoked;

  - credit risk policies, lending policies and approval limits are the responsibility of the CRP; and

  - the monitoring of the quality of the Group's credit portfolio and the implementation of the Group's provisioning policy are the responsibility of the CRR&C.

(2) the implementation of conservative credit risk policies with increased focus on the ability of the borrower to repay and the viability of the project being financed, in addition to the value of the underlying collateral. In addition, these credit risk policies include strict credit criteria (such as restricted sectors of the economy and ratios such as EBITDA to annual debt service, interest rate cover, gearing and total leverage) for all lending segments as determined by the CRP. The application of these credit risk policies are combined with assessments of the customers' creditworthiness using credit scores and credit ratings obtained from systems maintained by the CRSA department. For more detail on the credit criteria and assessments for each lending segment, see Section 3.12.3.1 (*Credit Risk Management—Credit Criteria by Lending Segment*); and

(3) an increase in the frequency of the review of credit limits on a continuous basis and the concentration limits on an annual basis; and

(4) the clear stratification of credit approval limits to allow for credit risk assessment by credit risk personnel of the appropriate experience and seniority. For more detail on these credit approval limits, see Section 3.12.3.1 (*Credit Risk Management—Credit Approval Limits*).

The CRP is principally responsible for the establishment of the Group's credit risk and lending policies and recommends limits for approval. These policies and limits are reviewed and updated by the CRP on a regular basis to reflect any changes in the Group's strategy for its lending businesses, economic conditions and the applicable laws and CBC directives. The CRP also provides support to the business divisions *in relation* to any issues concerning the credit risk and lending policies of the Group.

The CRR&C is based in the Bank's headquarters and is mainly responsible for the continuous monitoring of the quality of the Group's credit portfolio and the implementation of the Group's provisioning policy. In general, the CRR&C's monitoring of the Group's credit portfolio is based on a regular review of basic key performance indicators such as NPLs, 90+DPD ratios, excesses and arrears, and credit exposures to related accounts are aggregated and monitored on a consolidated basis. However, the department also monitors any concentrations in the Group's credit exposure to different sectors of the economy and pays particular attention to any loans with an increased risk profile. Loans with an increased risk profile include restructured loans, loans showing early warning signs of default (such as interest or principal arrears or write-offs, credit accounts with debit balances and interest and/or large security gaps) and loans which require a scheduled review or a review triggered by, amongst other things, out-of-date valuations of collateral, out-of-date audited financial accounts and/or expired fire insurance policies. In addition, the CRR&C, in cooperation with the business divisions, monitors compliance with the applicable loan quality targets and the transfer of delinquent loans from these divisions to the RRD. The CRR&C establishes the Group's loan provisioning policy and calculates the level of loan provisions to be provided based on its review of the Group's credit portfolio. The CRR&C and CRA monitor the implementation of covenants placed on decisions issued by Loans Committees.

The CRA is also based in the Bank's headquarters and tests the managements of credit risk at all stages of the credit cycle. In particular, the CRA reviews all customer credit applications over €10 million (currently) and provides an assessment of the risks associated with the proposed funding to the Executive Loans Committee and the Group Highest Executive Loans Committee. For customer credit applications below €10 million (currently), the CRA provides an assessment of the risks associated with the proposed funding to the Loans Committee on an ad hoc basis. The CRA also performs random checks of all credit approval authorities for compliance with the Group's lending policies, credit approval limits and the conditions for approval of the loan concerned. Sample testing of applications is also carried out in order to take corrective actions and identify any inefficiencies or training requirements. Additionally, the CRA is tasked with performing various quality assurance exercises.

The Credit Appraisal department is independent of the relevant business divisions, including the RRD, and reviews and approves all credit applications. This department is mainly staffed by experienced credit officers responsible for reviewing and, subject to the credit approval limits described below, approving credit applications for new facilities, debt restructurings, other credit requests submitted by various business units in

Cyprus as well as, in the case of credit applications above the limits set by the ALCO for the countries concerned, by the Group's banking subsidiaries in the United Kingdom and Russia.

Credit Approval Limits

Credit approval limits are determined by reference to the total liabilities of the Group. The approving authority limits are separated as below:

Level	Committee	Limit
1	Departments 1 (KYEK)	Up to €1 million
2	Departmental 2 (Credit Appraisers) & SME Arrears Management Unit	Up to €3 million
3	Credit Committee 1	€3 million - €25 million
4	Credit Committee 2	€25 million - €50 million
5	Credit Committee 3	€50 million - €100 million
6	Risk Committee	€100 million - €200 million
7	Board of Directors	Over €200 million

A specified number of credit appraisers n the Credit Appraisal department are responsible for approving non-RRD originated credit exposures of up to €3 million. For RRD originated credit exposures of up to €3 million, credit applications are approved by a specialist team of officers within the SME Arrears Management Unit and the Departmental 1 (KYEX) that focus on restructured and problematic loans and which report directly to the manager of the Credit Appraisal department.

Credit Committee 1 is comprised of senior credit appraisers and officers from other departments of the Bank (none of which may be from business units) as well as a representative from CRA. At least three of the members of the Credit Committee 1 must attend each meeting in order for it to be quorate (the presence of the Chairman or Vice Chairman is mandatory).

Credit Committee 2 is comprised of permanent members which include the manager of the Credit Appraisal department and the deputy Credit Appraisal Manager. At least three of the members must attend each meeting in order for it to be quorate (the presence of the Chairman or Vice Chairman is mandatory).

Credit Committee 3 is comprised of Senior Management of the Bank.

All credit committee meetings approving credit exposures over €50 million are attended by the GCRO who has the right of veto which can only be overruled by the Board Risk Committee. CRA also participated in Credit Committee 1 and 2 for cases above $10 million (it can choose to examine cases greater than €3 million if it deems necessary) and also has the right of veto.

Credit Criteria by Lending Segment

The Bank's primary lending criterion is the borrower's repayment ability. The Bank places paramount importance on the assessment of a prospective borrower's ability to meet repayment schedules.

A system of credit scoring is also used 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, amongst others, behavioural scoring which takes into account such factors as the conduct of existing accounts and whether the customer has been in arrears.

With respect to SME and corporate lending, the CRP has introduced the following additional credit criteria in line with its conservative credit risk policy:

- *Collateral Coverage*. Increases in collateral coverage triggered by higher credit facility utilisations and increases in credit limits available under credit facilities;
- *Restricted Sectors*. The CRP has defined economic sectors to be avoided (such as trade in tobacco, weapons and used cars), which are determined based on the historical NPL performance of that sector and on performance expectations from the Group's economics department, and existing loans to borrowers in these sectors are managed with a view to decreasing the Bank's exposure to them; and
- *Foreign Exchange Disbursements*. Disbursements in foreign currencies are generally not permitted but applications can be examined on an exceptional basis at the highest committee level.

In addition, SMEs and corporate customers are assessed by the Bank's credit rating system. The Bank's credit rating system calculates the following ratings for these customers:

(i) Their **financial index** (based on Moody's Risk Analyst) (an assessment of 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, exposure at default and expected loss in compliance with the Basel III internal-ratings based approach. The facility structuring module component that calculates the transaction rating is currently under review and is expected to be utilised in the near future.

In addition, the Bank is in the process of developing a new modelling and assessment tool to identify potential problematic clients. This assessment tool will be incorporated into the Bank's existing rating scoring system and will be designed to send alerts to the client's home branch so that the branch managers may contact the client to minimize any potential risk of default.

In addition, the Bank's credit assessment takes into account the availability of satisfactory security, mainly in the form of tangible collateral and personal/corporate guarantees depending on the riskiness. The main types of collateral obtained by the Group include real estate mortgages, cash collateral/blocked deposits, bank guarantees, government guarantees, pledges of equity securities and debt instruments of listed companies, fixed and floating charges over corporate assets, pledges granted by shareholders over shares in a corporate borrower, assignment of life insurance policies, assignment of rights on certain contracts and personal and corporate guarantees.

Over and above repayment ability which is the primary lending criterion, in cases where collateral is sought, the Bank generally lends on the security of a first charge and 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). Often customers borrow in their personal capacity or as SMEs 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. Security is held as a last resort for the recovery of the debt.

Generally, the Bank requires a review of security if the borrower makes a request for a new loan or advance, application for restructuring or during the annual review.

Contingent Liabilities and Commitments

The Group enters into various irrevocable commitments and contingent liabilities, particularly in relation to the provision of trade finance services to its customers. These contingent liabilities and commitments are principally comprised of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations may not be recognised on the Group's balance sheet, these commitments expose the Group to risks similar to those of loans and advances and are therefore monitored by the same policies and control processes (see Section 3.12.3.1 (*Credit Risk Management*)). Amounts outstanding in relation to trade financing for each customer are aggregated with any other outstanding amounts in relation to such customer in determining credit limits.

Loans to Shareholders, Directors and Key Personnel

There are no special terms on loans to shareholders. As regards limits on credit facilities granted to Directors of the Bank and their connected persons, the Bank complies with the relevant provisions of the Banking Law of 1997 (the "**Banking Law**") and the relevant exposures are set out in the Group's Consolidated Financial Statements (see Section 3.15.1 (*Related Party Transactions*)).

3.12.3.2 Provisioning

A full review of the Group's portfolio is carried out quarterly under the supervision of the CRR&C 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 for specific provisions currently include all non-performing loans and all performing restructured loans with direct facilities in excess of €7.5 million.

In determining the level of provision for impairment required, the Group considers the amount of security gap as well as 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).

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.

In relation to collective provisions, loans are grouped based on similar credit risk characteristics taking into account the type of the loan, past-due days and other relevant factors.

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.

3.12.3.3 Asset and Liability Management

The strategy for the management of the Group's asset and liability position is established by the ALCO which meets on a monthly basis. In general, the Group aims to hedge any exposure arising from interest rate and currency movements within certain limits set in the Group's market risk policy. In managing these interest rate and currency exposures, the Group's Treasury Division uses both on balance sheet instruments and off balance sheet derivative instruments. The overall asset/liability position is closely monitored by the Market Risk department of the RMD ("**MR**").

The MR is an independent department within RMD responsible for ensuring compliance at the level of individual units (through local market risk officers), as well as at Group level, with both internal policies and the limits set by the regulatory authorities in the countries where the Group operates. The MR and the ALCO monitor asset and liability management for the Bank and other Group companies including the operations in the United Kingdom, the Channel Islands and Russia. There are also local ALCOs in the overseas banking subsidiaries (the United Kingdom and Russia) that monitor the implementation of asset and liability management for their local operations.

3.12.4 Liquidity and Funding Risk

Liquidity risk is the risk that the Group is unable to fully or promptly meet current and future payment obligations as and when they fall due. This risk includes the possibility that the Group may have to raise funding at higher cost or sell assets at a discount. It reflects the potential mismatch between incoming and outgoing payments, taking into account unexpected delays in repayment or unexpectedly high payment outflows. Liquidity risk involves both the risk of unexpected increases in the cost of funding of the portfolio of assets and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

Following the negotiation between the Government and the Troika in relation to the provision of financial assistance to Cyprus, various capital controls were put into place that restricted the free movement of funds within and outside of Cyprus. For a description of these capital controls, see Section 3.22.3.9 (*Capital Control Measures*). With the relaxation of these capital controls and the continuing economic crisis in Cyprus, the Group has increased its monitoring of cash flows and highly liquid assets both in terms of depth and frequency. For example, until March 2013, the Board of Directors was informed of compliance with internal and regulatory liquidity ratios for each banking unit and for the Group on at least a quarterly basis. Since May 2013, the Board of Directors has been informed of the liquidity position of the Group at minimum on a monthly basis.

Local treasury centres at each banking unit are responsible for managing liquidity in their respective unit. Group Treasury is responsible for liquidity management at Group level and for overseeing the operations of each banking unit, to ensure compliance with internal and regulatory liquidity policies and provide direction as to the actions to be taken regarding liquidity availability. Every unit targets to finance its own needs in the medium term. Group Treasury assesses on a continuous basis, and informs the ALCO at regular time intervals, about the adequacy of the liquid assets and takes the necessary actions to enhance the Group's liquidity position.

Liquidity is also monitored daily by the MR. MR reports to the ALCO the regulatory liquidity position of the various units and of the Group, at least monthly. The ALCO of each unit is responsible for monitoring the liquidity position of its unit and ensuring compliance with the approved policies. After the Recapitalisation of the Bank in March 2013, the ALCO monitors mostly the stock of liquid assets and the cash outflows of the Bank in Cyprus, since these are considered to be of utmost importance. The Board of Directors, through its Board Risk Committee, reviews at every meeting, the liquidity of the Group. Information on inflows/outflows is also provided.

As part of the Group's procedures for monitoring and managing liquidity risk, there is a Group funding crisis contingency plan for handling liquidity difficulties. The plan details the steps to be taken, in the event that liquidity problems arise, which escalate to a funding crisis meeting of the ALCO. The plan sets out a series of possible actions that can be taken. This plan, as well as the Group's liquidity policy, are reviewed by the ALCO. The latter submits (via the Board Risk Committee) the updated policy with its recommendations to the Board of Directors for approval. The approved policy is notified to the CBC.

3.12.4.1 Funding and Liquidity Sources

Following the bail-in of the Bank in 2013, the Group's main sources of funding and liquidity are its customer deposits and central bank funding, either through the Eurosystem monetary policy operations or through ELA. For a discussion of the change in the Group's funding profile from 2012 to 30 June 2014, see Section 3.11 (*Information on Liquidity and Capital Resources*).

The Group has limited access to interbank and wholesale markets, which combined with a general reduction in deposits in Cyprus, has resulted in increased reliance on central bank funding.

The funding provided by the Bank to its subsidiaries for liquidity purposes is repayable as per the terms of the respective agreements. For lending provided for capital purposes, the prior approval of the regulator is usually required on any repayment before the maturity date and, for BOC UK, approval is also required for repayment. BOC UK and BOC CI cannot place funds within the Group in excess of maximum limits set by the local regulators. Subsidiaries can proceed with dividend distribution in the form of cash to the Bank provided that they are not in breach of their regulatory capital and liquidity requirements. Certain subsidiaries have a recommendation from their regulator to avoid any dividend distribution at this point in time and, in the case of BOC UK, express consent must be obtained from the United Kingdom's Prudential Regulation Authority before any dividend distribution.

3.12.4.2 Liquidity Reserves

Liquidity reserves include available cash and cash equivalents, unencumbered highly liquid securities and other unencumbered securities that can be sold in the market or used for secured funding purposes.

The Group's liquidity reserves are managed by Group Treasury. Liquid asset investments take place within limits and parameters specified in the liquid assets investment policy approved by the Board of Directors.

As of 30 June 2014, the Group had liquidity reserves of €1.8 billion (€2.0 billion as at 31 December 2013), of which €1.1 billion (€1.3 billion as at 31 December 2013) are eligible for the purposes of calculating the Bank's Liquidity Coverage Ratio ("**LCR**") under CRD IV requirements.

The Council of Ministers and the Committee on Financial and Budgetary Affairs of the House of Representatives of Cyprus have approved the issuance of €2.9 billion of guarantees for bonds or loans issued by credit institutions under the Granting of Government Guarantees for Loans and/or issuance of Bonds by Credit Institutions Law of 2012. It is expected that the Group will be able to make use of the above guarantees if the need arises.

3.12.5 Market Risk

In line with the Group's overall conservative risk strategy and appetite for the period of the Restructuring Plan, the Bank does not run proprietary trading books.

The MR is responsible for monitoring the risk resulting from adverse changes in market prices, namely from changes in interest rates, exchange rates and security prices, with the objective of minimising the impact of such changes on earnings and capital.

3.12.5.1 Interest Rate Risk

Interest rate risk is the exposure of a Bank's financial condition to adverse movements in interest rates. Changes in interest rates affect the Bank's earnings by changing its net interest income and also affect the underlying value of its assets, liabilities and off-balance sheet instruments. Interest rate risk primarily arises from timing differences on the re-pricing of assets and liabilities.

Interest rate risk is measured using interest rate sensitivity gap analysis per currency, in order to calculate the impact, from assumed interest rate changes, on the Bank's net interest income and economic value.

Interest rate risk is managed through maximum loss limits on the impact on net interest income which are set for each banking unit of the Group. These limits are set as a percentage of Group capital and as a percentage of net interest income. Small limits for open interest rate positions for periods of more than three years are also in place, as well as a limit (based on the Group's Tier 1 capital) for the maximum acceptable change in the Group's economic value (for a 200 basis points change in interest rates).

3.12.5.2 Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. In order to manage currency risk, the Board of Directors has approved open position limits for the total foreign exchange position as well as for certain individual currencies. The foreign exchange position limits are lower than those prescribed by the CBC. These limits are monitored daily by market risk officers in all the banking units of the Group and reported to the MR.

3.12.5.3 Equity Securities Price Risk

Equity securities price risk is the risk of loss from adverse changes in price. The Group's existing portfolio is regularly marked to market and monitored, with the objective of gradually reducing it.

3.12.5.4 Debt Securities Price Risk

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 changes and as interest rates change. The Group holds a significant part of its liquid assets in debt securities issued mostly by governments (comprised mainly of debt securities issued by the Republic of Cyprus). The average Moody's rating of the debt securities portfolio of the Group as at the date of this Prospectus was Ba2 (30 June 2014: B3; 31 December 2013: B3; 31 December 2012: Baa1). If debt securities issued by the Republic of Cyprus were excluded, the average rating of the Group's portfolio of debt securities would be Aa2 as of 30 June 2014.

3.12.6 Operational Risk

Operational risk is defined as the risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems or external events, including legal risk.

The Group's management of operational risk is geared towards maintaining a strong internal control governance framework and managing operational risk exposures through a consistent set of management processes that focus on risk identification, assessment, control and monitoring.

The main objectives of operational risk management within the Group are: (i) the development of operational risk awareness and culture, (ii) the provision of adequate information to the Group's management at all levels in relation to the operational risk profile on Group, entity and activity level, so as to facilitate decision making for risk control activities, and (iii) the control of operational risk to ensure that operational losses do not cause material damage to the Group's franchise and have minimal impact on the Group's profitability and corporate objectives. During 2013, a Group-wide operational risk management software was implemented to streamline and further automate operational risk management activities.

Operational risk loss events are classified and recorded in the Group's internal loss database to enable risk identification, root-cause analysis and corrective action. In 2013, 434 loss events with gross loss over €1,000 were recorded (compared to 495 in 2012). The Group has adequate insurance policies to cover unexpected operational losses.

The Group strives to continuously enhance its risk control culture and increase awareness of its employees on operational risk issues through ongoing staff training.

Operational risks can arise from all business lines and from all activities carried out by the Group and are thus diverse in nature. To enable effective management of all material operational risks, the operational risk management framework adopted by the Group is based on the three lines of defence model, through which risk ownership is dispersed throughout the organisation. The first line of defence comprises management and staff who have immediate responsibility of day-to-day operational risk management. Each business unit owner is responsible for identifying and managing all the risks that arise from the unit's activities as an integral part of their first line responsibilities. The second line of defence comprises the risk management function whose role is to provide operational risk oversight and independent and objective challenge to the first line of defence and is supported by other specialist control and support functions, including Group compliance, Group legal, information technology, information security and physical health and safety functions. The third line of defence comprises the Internal Audit function and the Audit Committee of the Board of Directors, which provide independent assurance over the integrity and effectiveness of the risk management framework throughout the Group.

The Eurogroup decisions and Recapitalisation of the Bank in 2013 gave rise to significant challenges in terms of operational risk management. During the first half of 2014, the Group's most significant operational risk was related to the absorption of the operations of Laiki Bank in Cyprus and the final integration of the Group's information technology systems and data with those of Laiki Bank. In June 2014, the Group substantially completed its integration of ex-Laiki Bank operations through the migration of information technology systems across all divisions. The day-to-day operational issues are being addressed by the business lines in consultation and close cooperation with the operation risk department and other control functions. The operational risk department monitors and assesses the potential risks and implements measures to control and mitigate them. To date, no risks have materialised in loss incidents for the Group from this process.

In addition, a number of regulatory changes were put in effect which demanded new software and procedures that give rise to operational risks related to data integrity, data aggregation, as well as non-compliance with the new regulatory provisions. To date, there have been no significant loss incidents for the Group from this process.

3.12.7 Other Risks

3.12.7.1 Business Continuity Risk

Business Continuity Plans and Disaster Recovery Plans are being continuously enhanced for all markets in which the Group operates to ensure continuity and timely recovery after events that may cause major disruptions to the business operations.

3.12.7.2 Reputational Risk

Reputational risk refers to the risk arising from negative perception on the part of the Bank's stakeholders which may adversely affect the Group's ability to maintain existing, or establish new, business relationships and continued access to sources of funding. The Bank applies a comprehensive reputational risk management policy to all its activities which aims to safeguard its safety and soundness, competitiveness and business value, through strengthening the trust and confidence of its major stakeholders.

3.12.7.3 Information Security Risk

The growth of the Group's business and the Bank's credibility with its customers is highly dependent on the Group's ability to protect and safely process the confidential information it receives from its customers and in relation to its businesses.

The information security department is an independent function reporting directly to the GCRO. Information is protected in accordance with applicable international standards and regulations and certain information security policies approved by the Board of Directors. A Security Awareness Programme is planned to increase the awareness of all staff to all information security matters. The Group's databases are protected against electronic risks and a number of strict policies and baselines exist for the network, back-up emails and the internet. Information technology applications are also protected in line with international best practices.

3.12.7.4 Insurance Risk

Insurance risk is the risk that an insured event under an insurance contract occurs and the risks arising from uncertainty regarding the amount and the timing of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. In particular, the actual claims and benefit payments may exceed the amount of liabilities recognised in the financial statements. Insurance events are random and the actual number and amount of claims and benefits differs from year to year from those estimated using statistical and actuarial methods.

The Group's insurance subsidiaries address their risk exposure through the diversification across a large portfolio of insurance contracts, careful selection of policyholders in accordance with underwriting strategy guidelines and assessment of credit risk and the use of reinsurance arrangements. Although reinsurance arrangements mitigate insurance risk, the Group's insurance subsidiaries are not completely relieved of their direct obligations to their policyholders and a credit exposure exists to the extent that any reinsurer is unable to meet its contractual obligations. For this reason, the Group's insurance subsidiaries regularly monitor the credit worthiness of reinsurance companies with which they cooperate.

3.13 SHARE CAPITAL

3.13.1 Authorised Share Capital

As at the date of this Prospectus, the authorised share capital of the Bank stands at €4,767,759,272 divided into 47,677,592,720 ordinary shares of nominal value €0.10 each.

3.13.2 Issued Share Capital

The total issued share capital of the Bank as of the date of this Prospectus is €892.2 million divided into 8,922,377,345 ordinary shares of a nominal value of €0.10 each.

In the year ended 31 December 2013, the Group's share capital was significantly impacted by the Recapitalisation, in which Ordinary Shares were issued to bailed in holders of uninsured conventional cash deposits, capital guaranteed structured deposit products, investment products and *schuldschein* loans. For a more detailed description of the Recapitalisation, please see Section 3.3 (*Restructuring of the Bank and Laiki Bank*).

The following table shows the evolution of the Group's share capital in the last three years at the dates indicated:

	31 December			30 June
	2011	2012	2013	2014
	(€'000)			
Beginning of year/period	**894,948**	**899,528**	**1,795,141**	**4,683,985**
Issue of Ordinary Shares	–	159,683	–	–
Bonus issue of Ordinary Shares	–	303,743	–	–
Conversion of CECS into Ordinary Shares	–	432,187	459,399	–
Conversion of convertible bonds and convertible capital securities into Ordinary Shares	387	–	–	–
Bail-in of deposits and structured products	–	–	3,814,495	150
Ordinary Shares subject to interim orders withdrawn/cancelled	–	–	–	58,625
Bail-in of 2007 Capital Securities, the 2008 Convertible Bonds, the 2009 Convertible Capital Securities into shares	–	–	122,541	–
Reduction in nominal value of Ordinary Shares and utilisation of share premium reserve	–	–	(2,353,349)	–
Dividend reinvestment	4,193	–	–	–
Laiki Bank acquisition	–	–	845,758	12,951
End of year/period	**899,528**	**1,795,141**	**4,683,985**	**4,755,711**

In addition, on 18 September 2014, the Bank completed the Capital Raising, in which it raised total gross proceeds of €1 billion in exchange for the issuance of 3,733,623,899 Placing Shares and 433,042,768 Open Offer Shares. For a more detailed description of the Capital Raising, see Section 4.2.1 (*Key Terms of the Share Capital Increase*).

Six Months ended 30 June 2014

During the six months ended 30 June 2014 the issued share capital increased by 58,625 thousand shares as a result of the cancellation of interim orders prohibiting the Bank from converting deposits to shares as a result of the Recapitalisation. Consequently, 12,951 thousand shares were issued to Laiki Bank in accordance with the provisions of the Laiki Transfer Decrees.

Year ended 31 December 2013

From 25 March to 30 July 2013, the Group was under resolution and was recapitalised pursuant to a number of decrees issued by the Resolution Authority, as a result of which the claims of uninsured depositors, holders of debt securities and other creditors were converted into equity. The Recapitalisation is described in greater detail in Section 3.3.2 (*Recapitalisation of the Bank*). In addition, in March 2013, the Group acquired certain assets (including a €1.2 billion receivable owing to Laiki Bank from the Bank in connection with the sale of the Group's Greek operations) and liabilities of Laiki Bank pursuant to a series of decrees issued by the Resolution Authority. The compensation transferred by the Bank to Laiki Bank was set pursuant to a decree issued on 30 July 2013 at 18.056371% of the total share capital of the Bank (prior to the Capital Raising). For more information on the Laiki Transfer Decrees, see Section 3.3.1 (*Resolution of Laiki Bank*).

Year ended 31 December 2012

In November 2011, the Group increased its share capital through a €397.0 million pre-emptive rights offering (the "**Rights Offering**") and a voluntary exchange of CECS of up to €600 million of Ordinary Shares (the "**Exchange Offer**").

The rights (the "**Rights**") issued pursuant to the Rights Offering were allotted to shareholders and holders of certain eligible securities of the Bank, on an as converted basis, at a ratio of one Right for each existing (or converted) Ordinary Share. Every three Rights exercised were converted into one Ordinary Share at a subscription price of €1.00 per Ordinary Share. In addition, for each Ordinary Share acquired through the exercise of Rights, the Bank granted the holder one additional fully paid Ordinary Share (a "**Bonus Share**").

Pursuant to the Exchange Offer, holders of CECS were given the option to exchange each CECS for one fully paid Ordinary Share. In addition, for every three Ordinary Shares issued pursuant to the Exchange Offer, the Bank granted the holder one additional fully paid Bonus Share.

The exercise period for the Rights and Exchange Offer both expired on 19 March 2012 and the Bank issued 159.7 million Ordinary Shares from the exercise of Rights, 432.2 million Ordinary Shares from the conversion of CECS and 303.7 million bonus shares.

Year ended 31 December 2011

In 2011, 387 thousand shares were issued as a result of the conversion of the 2008 Convertible Bonds and the 2009 Convertible Capital Securities and the Bank's share capital and share premium increased by €387 thousand and €892 thousand, respectively.

The Bank had a dividend reinvestment plan under which all shareholders had the option to reinvest all or part of their dividend in Ordinary Shares of the Bank at a 10% discount on the market value of the Ordinary Shares. The reinvestment price for the dividend paid on 16 June 2011 was set at €2.00 per Ordinary Share. As a result of the dividend reinvestment during 2011, 4,192,331 shares were issued and the Bank's share capital and share premium increased by €4,193 thousand and €4,192 thousand respectively.

3.13.3 Shares Subject to Interim Orders

Following the issue of the Bail-in Decrees, certain depositors and third parties have secured (on an ex-parte basis) interim orders from the Cypriot courts and Greek courts restricting the Bank from taking any steps for the implementation of the Bail-in Decrees in respect of deposits. Accordingly, on the date of this Prospectus, deposits totalling approximately €297 thousand are still subject to these interim orders and appear in the books of the Bank as if the Bail-in Decrees were not applicable to them.

3.13.4 Treasury Shares of the Bank

Ordinary Shares of the Bank held by entities controlled by the Bank and by associates are deducted from equity on the purchase, sale, issue or cancellation of such Ordinary Shares. No gain or loss is recognised in the consolidated income statement. The number of Ordinary Shares held by entities controlled by the Bank and by associates amounted to 20,767 thousand at 30 June 2014, 20,767 thousand at 31 December 2013, 73,331 thousand at 31 December 2012 and 2,266 thousand at 31 December 2011. Treasury Ordinary Shares at 30 June 2014 and 31 December 2013 include 298 thousand shares resulting from the conversion of CECS, of nominal value of €29,825 thousand, which are held by the Bank. The total cost of acquisition of treasury Ordinary Shares was €88,051 thousand at 30 June 2014, €88,051 thousand at 31 December 2013, €38,595 thousand at 31 December 2012 and €6,679 thousand at 31 December 2011.

Under the Companies Law and the Credit Institutions Law, the Bank is allowed to acquire treasury shares in the following circumstances, provided the CBC gives its prior approval to such acquisition:

(i) the shares were acquired as part of a reduction in share capital pursuant to the relevant provisions of the Companies Law or the shares are redeemable preference shares;

(ii) the shares were acquired after a complete transfer of all the assets of the company;

(iii) the shares were acquired free of charge and have been fully paid-up or have been acquired as purchasing commission;

(iv) the shares were acquired pursuant to a legal obligation, resulting from a court judgment in favour of minority shareholders in event of a merger, change of object or type of the company, transfer abroad of registered office or the imposition of restrictions on the transfer of shares;

(v) the shares were acquired from a shareholder and were not paid up;

(vi) the shares were acquired in order to indemnify minority shareholders in associated companies; or

(vii) the shares are fully paid up and were acquired in an auction following compulsory execution which had the purpose of satisfying a claim of the company against the owner of the relevant shares.

In the event any such shares are acquired by reason of sub-paragraphs (ii) to (vi) above, the company must transfer such shares within three years from the time of their acquisition, except where the nominal value of such shares does not exceed 10% of the total subscribed capital.

In addition, the life insurance subsidiary of the Group held Ordinary Shares amounting to a total of 16,031 thousand as at 30 June 2014, 16,031 thousand as at 31 December 2013, 16,031 thousand as at 31 December 2012 and 6,607 thousand as at 31 December 2011 as part of its financial assets invested for the benefit of insurance policyholders. The cost of acquisition of these shares was €21,463 thousand as at 30 June 2014, €21.463 thousand as at 31 December 2013, €21,463 thousand as at 31 December 2012 and €24,797 thousand as at 31 December 2011.

3.14 SHAREHOLDERS STRUCTURE

The table below shows the composition of the Bank's share capital as of the date of this Prospectus. The Bail-in Shares, Diluted Shares, Laiki Shares, Placing Shares and Open Offer Shares comprise all of the Ordinary Shares of the Bank as of the date of this Prospectus.

Share capital of the Bank as of the date of this Prospectus

Category	**No. of Ordinary Shares**	**Percentage of total share capital (%)**
Bail-in Shares[(1)]	3,873,269,066	43.4
Diluted Shares	23,732,848	0.3
Laiki Shares	858,708,764	9.6
Placing Shares	3,733,623,899	41.8
Open Offer Shares	433,042,768	4.9
Total	**8,922,377,345**	**100.0**

(1) Bail-in Shares includes shares in respect of all court orders lifted to date, but do not include approximately €297 thousand of shares subject to interim orders. See Section 3.10.2.3 (*Factors Affecting Comparability of Financial Information—The Recapitalisation*).

3.14.1 Major Shareholders

The table below shows the shareholding of shareholders who hold, directly or indirectly, more than 5% of the Bank's share capital.

Name	Percentage of issued share capital (%)
Cyprus Popular Bank Plc	9.624
Renova Group	5.455
TD Asset Management Inc	5.232
European Bank of Reconstruction and Development	5.021

All issued Ordinary Shares rank *pari passu* amongst them, thus any shareholder who owns more than 5% of the issued share capital has the same voting rights as all other shareholders and no additional rights exist in favour of any holder of Ordinary Shares.

3.14.2 Interest in Ordinary Shares of Directors

Set out below are the direct and indirect interests of the Directors in the issued share capital of the Bank as at the date of the Prospectus:

	Number of shares			
Name	Direct shareholding	Indirect shareholding	Total	Percentage of issued share capital (%)
Dr. Josef Ackermann	–	–	–	–
Wilbur L. Ross, Jr.(1)	–	138,890,809	138,890,809	1.56
Vladimir Strzhalkovskiy(2)	–	224,982,745	224,982,745	2.52
John Patrick Hourican	–	–	–	–
Dr. Christodoulos Patsalides	3,390	–	–	0.0000
Arne Berggren	–	–	–	–
Maksim Goldman		143,821	143,821	0.0016
Marios Kalochoritis	–	–	–	–
Michael Spanos	28,595		28,595	0.0003
Ioannis Zographakis	–	32	32	0.0000

(1) Shares are owned by two collective investment funds WLR Recovery Fund V, LP and WLR V Parallel ESC, LP managed by W.L.Ross & Co LLC of which Mr Wilbur L. Ross, Jr is the Chairman.

(2) The indirect holding is derived from the holdings of controlled entities (more than 20% of voting rights) namely Bolerstone Trading Limited and Nessan Associates Ltd

3.15 RELATED PARTY TRANSACTIONS-DIRECTORS AND KEY MANAGEMENT EMOLUMENTS

3.15.1 Related Party Transactions

On 29 March 2013, the Board of Directors collectively resigned, together with the chief executive officer and the deputy chief executive officer, and were replaced by an interim Board of Directors prior to the appointment of a new Board of Directors on 10 September 2013. As a result, loans and advances to other key management personnel and connected persons for the year ended 31 December 2012 and for the six months ended 30 June

2013 are not comparable to the year ended 31 December 2013 or the six months ended 30 June 2014. The current Board of Directors was appointed on 20 November 2014 at the Bank's annual general meeting. For more information, see Section 3.18 (*Management and Corporate Governance*).

The following table presents the loans and other advances to previous members of the Board of Directors (in office as at the dates indicated), key management personnel of the Bank and connected persons by the Group as at 30 June 2014 and 2013 (unaudited) and 31 December 2013, 2012 and 2011 (audited). There are no loans and advances to the current Board of Directors and accordingly there has been no material change in related party transactions as from 30 June 2014 (being the last practicable date prior to the publication of this Prospectus) to the date of this Prospectus.

	31 December			30 June	At and for the year ended 31 December			At and for the six months ended 30 June
	2011	**2012**	**2013**	**2013**	**2011**	**2012**	**2013**	**2014**
		(number of directors)				**(€'000)**		
Loans and advances to members of the Board of Directors and connected persons								
- more than 1% of the Group's net assets per director	1	1	-	-	224,042	9,893	-	-
- less than 1% of the Group's net assets per director	17	16	15	14	58,680	23,356	302	316
	18	17	15	14	282,722	33,249	302	316
Loans and advances to other key management personnel and connected persons					1,690	832	3,448	4,093
Total loans and advances					284,412	34,081	3,750	4,409
Loans and advances:								
- members of the Board of Directors and other key management personnel					7,970	5,028	3,224	3,702
- connected persons					276,442	29,053	526	707
					284,412	34,081	3,750	4,409
Interest income for the year/period					14,186	9,511	929	71
Deposits:								
- members of the Board of Directors and other key management personnel					64,866	19,260	1,881	2,862
- connected persons					47,683	21,948	36,536	30,524
					112,549	41,208	38,417	33,386
Interest expense on deposits for the year/period					3,847	3,452	1,115	245
Debt securities in issue, subordinated loan stock and CECS:								
- members of the Board of Directors and other key management personnel					23,246	56	-	-
- connected persons					3,045	2	-	-
					26,291	58	-	-
Interest expense on debt securities in issue, subordinated loan stock and CECS					1,469	-	-	-

The above table does not include period or year-end balances for members of the Board of Directors and their connected persons who resigned during the period or year.

In addition to loans and advances, there were contingent liabilities and commitments 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 €117,542 thousand, €16,124 thousand and €231 thousand as at 31

December 2011, 2012 and 2013, respectively, and €1,809 thousand and €121 thousand as at 30 June 2014. As of 31 December 2013 and 30 June 2014 there were no Directors and their connected persons, whose total loans and advances exceeded 1% of the net assets of the Group per Director (2012: €13,813 thousand; 2011: €95,170 thousand). There were also contingent liabilities and commitments to other key management personnel and their connected persons amounting to €308 thousand, €77 thousand and €743 thousand as at 31 December 2011, 2012 and 2013, respectively, and nil and €702 thousand as at 30 June 2014. The total unsecured amount of the loans and advances and contingent liabilities and commitments to members of the Board of Directors, key management personnel and other connected persons (using forced-sale values for tangible collaterals and assigning no value to other types of collateral) at 31 December 2011, 2012 and 2013 and 30 June 2014 amounted to €34,830 thousand, €4,191 thousand, €1,439 thousand and €1,616 thousand, respectively.

Transactions with Connected Persons of the Directors who Resigned during 2014. Mr. Xanthos Vrachas, who was a non-executive Director until 20 November 2014, is the CFO of Universal Insurance Agency Ltd to which the Group paid €119 thousand and €67 thousand relating to insurance transactions for the year ended 31 December 2013 and the six months ended 30 June 2014, respectively.

Transactions with Connected Persons of the Directors who Resigned during 2013. During 2013, the Group also had the following transactions with connected persons: reinsurance premiums amounting to €56 thousand (2012: €205 thousand; 2011: €235 thousand) paid to companies of the Commercial General Insurance Group in which Mr. Andreas Artemis, who was a non-executive Director until 29 March 2013, holds an indirect interest; purchases of equipment and services amounting to €1 thousand (2012: €274 thousand; 2011: €271 thousand) from Pylones SA Hellas and Unicars Ltd in which Mrs. Anna Diogenous, who was a non-executive Director until 29 March 2013, holds an indirect interest; purchases of equipment amounting to €89 thousand (2012: €513 thousand; 2011: €458 thousand) from Mellon Cyprus Ltd which is significantly influenced by a person connected to Mrs. Anna Diogenous; insurance commissions amounting to €29 thousand (2012: €144 thousand; 2011: €128 thousand) to D. Severis and Sons Ltd which is owned by Mr. Costas Z. Severis, who was a non-executive Director until 29 March 2013, and rents amounting to €71 thousand (2012: €310 thousand; 2011: nil) paid by Tseriotis Group in which Mrs. Anna Diogenous holds an indirect interest. The total amount of professional fees paid to the law office Andreas Neocleous and Co LLC, in which Mr. Elias Neocleous, who was a non-executive Director until 29 March 2013, is a partner, amounted to €14 thousand (2012: €324 thousand).

In addition, the Group had the following transactions with connected persons in their capacity as members of the interim Board of Directors: legal fees amounting to €10 thousand paid to A. Poetis & Sons in which Mr. Andreas Poetis, who was a non-executive Director until 10 September 2013, is a partner and actuarial fees amounting to €48 thousand paid to AON Hewitt Cyprus Ltd in which Mr. Philippos Mannaris, who was a non-executive Director until 10 September 2013, is a partner.

During 2012, immovable property amounting to €185 thousand was acquired from a subsidiary of the Bank by a company that is being influenced by connected persons of Mr. Vassilis G. Rologis.

Connected persons include spouses, minor children and companies in which directors/other key management personnel hold, directly or indirectly, at least 20% of the voting shares in a general meeting, or act as executive director 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 loans and advances have been extended to other key management personnel and their connected persons on the same terms as those applicable to the rest of the Group's employees.

Except as disclosed with respect to the executive and non-independent non-executive Directors above, there are no actual or potential conflicts of interest between the duties to the Bank of the members of the Board of

Directors and their private interests and other duties which are of material significance to the Bank and any of such members.

3.15.2 Fees and Emoluments of Members of the Board of Directors and Other Key Management Personnel

Detailed information on director (executive and non-executive) and key management personnel remuneration for the years ended 31 December 2012 and 2013 and for the six months ended 30 June 2013 and 2014 follows:

	Year ended 31 December		**Six months ended 30 June**	
	2012	**2013**	**2013**	**2014**
		(€'000)		
Director emoluments				
Executive directors				
Salaries and other short-term benefits	1,191	452	271	422
Termination benefits...................................	-	84	84	-
Employer's contributions	77	27	17	23
Retirement benefit plan costs.......................	134	31	12	55
	1,402	594	384	500
Non-Executive directors				
Fees	578	352	86	228
Emoluments of a non-executive director who is also an employee of the Bank...................	151	100	82	-
Total directors' emoluments.....................	**2,131**	**1,046**	**552**	**728**
Other key management personnel emoluments				
Salaries and other short-term benefits	584	943	196	1,086
Termination benefits...................................	-	667	216	-
Employer's contributions	44	84	18	80
Retirement benefit plan costs.......................	65	117	19	105
Total other key management personnel emoluments..	693	1,811	449	1,271
Total..	**2,824**	**2,857**	**1,001**	**1,999**

The salaries and other short-term benefits of the executive Directors are analysed as follows:

	Year ended 31 December	
	2012	2013
	(€'000)	
Andreas Eliades (resigned on 10 July 2012)	315	-
Yiannis Pehlivanidis (resigned on 29 March 2013)	488	104
Yiannis Kypri (resigned on 29 March 2013)	388	127
Dinos Christofides (Special Administrator - 25 March 2013 to 21 June 2013)	-	20
Christos Sorotos (Interim Chief Executive Officer - 29 May 2013 to 10 September 2013)	-	60
John Patrick Hourican (Chief Executive Officer - appointed on 1 November 2013)	-	141
	1,191	452

For the years 2012 and 2013, no bonus was recommended or paid to the executive Directors.

The termination benefits of the executive Directors relate to payment to an executive Director who left the Group on 29 March 2013. The termination benefits include notice period paid in accordance with his employment contract.

The retirement benefit plan costs for 2013 amounting to €31 thousand relate to: Mr. John Patrick Hourican (€18 thousand) and Mr. Yiannis Kypri (€13 thousand). The retirement benefit plan costs for 2012 amounting to €134 thousand related to: Mr. Andreas Eliades (€51 thousand), Mr. Yiannis Pehlivanidis (€30 thousand) and Mr. Yiannis Kypri (€53 thousand).

The fees of the non-executive Directors are as follows:

	Year ended 31 December	
	2012	2013
	(€'000)	
Andreas Artemis (resigned on 29 March 2013)	75	20
Evdokimos Xenophontos (resigned on 29 March 2013)	39	15
Theodoros Aristodemou (resigned on 30 August 2012)	82	-
Vassilis G. Rologis (resigned on 29 March 2013)	32	8
Costas Z. Severis (resigned on 29 March 2013)	40	10
Christakis G. Christofides (resigned on 31 March 2012)	20	5
Anna Diogenous (resigned on 29 March 2013)	31	5
George M. Georgiades (resigned on 10 January 2013)	42	2
Andreas J. Jacovides (resigned on 1 January 2012)	20	-
Christos Mouskis (resigned on 27 December 2012)	39	-
Manthos Mavrommatis (resigned on 30 August 2012)	29	-
Costas Hadjipapas (resigned on 10 October 2013)	26	12
Nikolas P. Tsakos (resigned on 10 January 2013)	23	1
Stavros J. Constantinides (resigned on 31 January 2013)	32	2
Irene Karamanou (resigned on 29 March 2013)	25	6
Elias Neocleous (resigned on 29 March 2013)	15	4
Symeon Matsis (resigned on 29 March 2013)	8	4
Sophocles Michaelides (resigned on 10 September 2013)	-	25
Erol Riza (resigned on 10 September 2013)	-	19

	Year ended 31 December	
	2012	2013
	(€'000)	
Constantinos Damtsas (resigned on 10 September 2013)	-	9
Takis Taousianis (resigned on 10 September 2013)	-	11
Lenia Georgiadou (resigned on 10 September 2013)	-	11
Philippos Mannaris (resigned on 10 September 2013)	-	9
Lambros Papadopoulos (resigned on 10 September 2013)	-	8
Andreas Persianis (resigned on 10 September 2013)	-	6
Andreas Poetis (resigned on 10 September 2013)	-	8
Panikos Pouros (resigned on 10 September 2013)	-	15
Savvakis Savvides (resigned on 10 September 2013)	-	8
Georgios Theocharides (resigned on 10 September 2013)	-	9
Michalis Zannetides (resigned on 10 September 2013)	-	7
Takis Arapoglou (resigned on 2 July 2013)	-	6
Christis Hassapis (retired on 20 November 2014)	-	21
Vladimir Strzhalkovskiy	-	16
Anjelica Anshakova (removed on 20 November 2014)	-	6
Dmitry Chichikashvili (removed on 20 November 2014)	-	5
Marinos Gialeli (removed on 20 November 2014)	-	6
Marios Kalochoritis	-	6
Konstantinos Katsaros (resigned on 18 October 2014)	-	7
Eriskhan Kurazov (removed on 20 November 2014)	-	4
Adonis Papaconstantinou (removed on 20 November 2014)	-	6
Anton Smetanin (removed on 20 November 2014)	-	4
Xanthos Vrachas (retired on 20 November 2014)	-	6
Marios Yiannas (resigned on 4 April 2014)	-	6
Andreas Yiasemides (retired on 20 November 2014)	-	7
Ioannis Zographakis	-	7
	578	352

The fees of the non-executive Directors include fees as members of the Board of Directors of the Bank and its subsidiaries, as well as of committees of the Board of Directors.

Mr. Costas Hadjipapas, who is an employee of the Bank and was also a non-executive Director up until 10 October 2013, had emoluments for 2013 up to the date of resignation, amounting to €81 thousand (2012: €123 thousand). Employer's contributions amounted to €8 thousand (2012: €11 thousand) and retirement benefit plan costs amounted to €11 thousand (2012: €17 thousand).

The other key management personnel emoluments include the emoluments of the senior Group executive management up to 29 March 2013 and the remuneration of the members of the executive committee of the Group for the period that each employee served as member of the executive committee.

The termination benefits relate to payments to four key management personnel who left during 2013. The termination benefits include notice period paid in accordance with their employment contracts and voluntary retirement compensation.

For the years 2012 and 2013, no bonus was recommended or paid to other key management personnel.

3.16 DIVIDEND POLICY

Under Cypriot law and the Bank's articles of association, the Bank may only pay dividends out of profits. The Board of Directors may, before recommending any final dividend, set aside out of the profits of the Bank a reserve which shall, at the discretion of the Board of Directors, be applicable for any purpose to which the profits of the Bank may be properly applied. There is no legal requirement under Cypriot corporate law to maintain a statutory reserve. The CBC, however, retains the power under the Credit Institutions Law to demand that dividends be limited or withheld. The Board of Directors may also, without placing a specified reserve, carry forward any profits of the Bank as retained earnings or not recommend the payment of a dividend.

Once approved at the general meeting, a final dividend must be paid to holders of Ordinary Shares within a reasonable time following its declaration or as otherwise decided by the holders of Ordinary Shares. Final dividends are declared and paid in the year subsequent to the reporting period. In addition, the Board of Directors may, from time to time, pay interim dividends to holders of Ordinary Shares if, in the determination of the Board of Directors, such dividend is justified by the profits of the Bank.

The CBC has imposed a prohibition on the distribution of dividends by the Bank for the period of the Restructuring Plan (until 31 December 2017) and, therefore, the Bank does not expect to distribute dividends during this period. The Bank's ability to pay dividends following the Restructuring Plan period will depend on its financial condition at that time. Accordingly, the Board of Directors did not propose the payment of a dividend for 2013. No dividend was proposed or paid during the year ended 31 December 2012 or 2011.

3.17 SELECTED STATISTICAL AND OTHER INFORMATION

Information included in this section, except where otherwise stated, relates to the Group. The statistical data presented below has been derived from data included in the Group's audited annual financial statements for the year ended 31 December 2013 (and the comparative information for 2012 contained therein) and its unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2014 (that includes comparative information for the six months ended 30 June 2013 in respect of income statement and other comprehensive income items and at 31 December 2013 in respect of balance sheet items) and from statutory reports and from statistical data reported in the forms prescribed by the CBC. Such data are compiled in the normal operation of the Group's financial reporting and management information systems.

3.17.1 Credit Risk

3.17.1.1 Maximum Exposure to Credit Risk and Collateral and Other Credit Enhancements

The table below presents the maximum exposure to credit risk before taking into account the tangible and measurable collateral and other credit enhancements held:

Maximum exposure to credit risk	31 December 2012	31 December 2013	30 June 2014
		(€'000)	
Balances with central banks	1,008,653	1,084,830	709,030
Placements with banks	1,768,836	1,290,102	1,114,448
Trading investments – debt securities	96	103	42
Debt securities at fair value through profit or loss	13,955	15,549	17,243
Debt securities classified as available-for-sale and loans and receivables	1,783,730	3,207,366	3,487,114
Derivative financial instruments	26,794	28,765	5,949
Loans and advances to customers	24,374,531	21,764,338	20,063,034

Maximum exposure to credit risk	31 December 2012	31 December 2013	30 June 2014
Assets held for sale	–	–	357,923
Debtors	26,400	22,956	25,814
Reinsurers' share of insurance contract liabilities	65,927	68,387	75,983
Other assets	94,529	268,959	318,317
On–balance sheet total	**29,163,451**	**27,751,355**	**26,174,897**
Contingent liabilities			
Acceptances and endorsements	12,970	20,467	11,875
Guarantees	1,546,572	1,207,501	1,064,361
Commitments			
Documentary credits	15,879	10,919	18,568
Undrawn formal standby facilities, credit lines and other commitments to lend	2,723,838	2,903,714	2,584,933
Off-balance sheet total	**4,299,259**	**4,142,601**	**3,679,737**
Total credit risk exposure	**33,462,710**	**31,893,956**	**29,854,634**

The table below presents the Group's maximum exposure to credit risk by geographic area at the dates indicated:

Maximum exposure to credit risk	31 December 2012	31 December 2013	30 June 2014
		(€'000)	
On-balance sheet			
Cyprus	16,620,681	23,345,633	22,705,539
Greece	8,324,201	253,996	249,137
Russia	2,008,588	1,259,494	1,074,884
United Kingdom	1,326,359	1,936,330	1,777,740
Romania	560,007	619,311	367,597
Ukraine	323,615	336,591	–
Total	**29,163,451**	**27,751,355**	**26,174,897**
Off-balance sheet			
Cyprus	2,484,945	3,629,580	3,278,731
Greece	1,567,365	335,073	245,717
Russia	199,749	154,901	132,943
United Kingdom	23,428	18,995	21,272
Romania	23,349	3,466	1,074
Ukraine	423	586	–
Total	**4,299,259**	**4,142,601**	**3,679,737**

Maximum exposure to credit risk	31 December 2012	31 December 2013	30 June 2014
Total on and off-balance sheet			
Cyprus	19,105,626	26,975,213	25,984,270
Greece	9,891,566	589,069	494,854
Russia	2,208,337	1,414,395	1,207,827
United Kingdom	1,349,787	1,955,325	1,799,012
Romania	583,356	622,777	368,671
Ukraine	324,038	337,177	–
Total	**33,462,710**	**31,893,956**	**29,854,634**

3.17.1.2 Credit Risk Concentration

The table below presents the maximum exposure to credit risk, tangible and measurable collateral and credit enhancements held and the net exposure to credit risk. Personal guarantees are not included in the information below as it is impracticable to estimate their fair value.

	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held by the Group							Net exposure to credit risk
		Cash	Securities	Letters of Credit/ Guarantees	Property	Other	Surplus collateral	Net collateral	
					(€'000)				
31 December 2013									
Balances with central banks	1,084,830	–	–	–	–	–	–	–	1,084,830
Placements with banks	1,290,102	915	–	–	–	–	–	915	1,289,187
Trading investments – debt securities	103	–	–	–	–	–	–	–	103
Debt securities at fair value through profit or loss	15,549	–	–	–	–	–	–	–	15,549
Debt securities classified as available-for-sale and loans and receivables	3,207,366	–	–	–	–	–	–	–	3,207,366
Derivative financial instruments	28,765	10,291	–	–	–	–	–	10,291	18,474
Loans and advances to customers	21,764,338	816,977	699,086	1,129,167	26,555,058	778,019	(10,141,702)	19,836,605	1,927,733
Debtors	22,956	–	–	–	–	–	–	–	22,956
Reinsurers' share of insurance contract liabilities	68,387	–	–	–	–	–	–	–	68,387
Other assets	268,959	–	–	–	–	–	–	–	268,959
On-balance sheet total	**27,751,355**	**828,183**	**699,086**	**1,129,167**	**26,555,058**	**778,019**	**(10,141,702)**	**19,847,811**	**7,903,544**
Contingent liabilities									
Acceptances and endorsements	20,467	1,094	80	3,760	11,225	1,011	(5,805)	11,365	9,102
Guarantees	1,207,501	22,324	1,929	9,321	384,327	16,982	(167,442)	267,441	940,060
Commitments									
Documentary credits	10,919	27	–	–	–	–	–	27	10,892
Undrawn formal standby facilities, credit lines and other commitments to lend	2,903,714	–	–	14,440	–	–	–	14,440	2,889,274
Off-balance sheet total	**4,142,601**	**23,445**	**2,009**	**27,521**	**395,552**	**17,993**	**(173,247)**	**293,273**	**3,849,328**
Total credit risk exposure	**31,893,956**	**851,628**	**701,095**	**1,156,688**	**26,950,610**	**796,012**	**(10,314,949)**	**20,141,084**	**11,752,872**
31 December 2012									
Balances with central banks	1,008,653	–	–	–	–	–	–	–	1,008,653
Placements with banks	1,768,836	–	–	–	–	–	–	–	1,768,836
Trading investments – debt securities	96	–	–	–	–	–	–	–	96
Debt securities at fair value through profit or loss	13,955	–	–	–	–	–	–	–	13,955
Debt securities classified as available-for-sale and loans and receivables	1,783,730	–	–	–	–	–	–	–	1,783,730
Derivative financial	26,794	1,310	–	–	–	–	–	1,310	25,484

	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held by the Group: Cash	Securities	Letters of Credit/ Guarantees	Property	Other	Surplus collateral	Net collateral	Net exposure to credit risk
instruments									
Loans and advances to customers	24,374,531	1,820,535	363,821	294,388	24,544,975	3,270,589	(7,741,127)	22,553,181	1,821,350
Debtors	26,400	–	–	–	–	–	–	–	26,400
Reinsurers' share of insurance contract liabilities	65,927	–	–	–	–	–	–	–	65,927
Other assets	94,529	–	–	–	–	–	–	–	94,529
On-balance sheet total	**29,163,451**	**1,821,845**	**363,821**	**294,388**	**24,544,975**	**3,270,589**	**(7,741,127)**	**22,554,491**	**6,608,960**
Contingent liabilities									
Acceptances and endorsements	12,970	27	–	–	5,029	–	(3,037)	2,019	10,951
Guarantees	1,546,572	688,503	3,199	17,546	128,019	12,318	(68,517)	781,068	765,504
Commitments									
Documentary credits	15,879	–	–	–	–	–	–	–	15,879
Undrawn formal standby facilities, credit lines and other commitments to lend	2,723,838	1,026	–	–	31,899	–	(18,475)	14,450	2,709,388
Off-balance sheet total	**4,299,259**	**689,556**	**3,199**	**17,546**	**164,947**	**12,318**	**(90,029)**	**797,537**	**3,501,722**
Total credit risk exposure	**33,462,710**	**2,511,401**	**367,020**	**311,934**	**24,709,922**	**3,282,907**	**(7,831,156)**	**23,352,028**	**10,110,682**

The Group's exposure to customer groups who have credit facilities amounting to more than 10% of the Group's capital base was €2.8 billion at 31 December 2013. Total exposure to the Group's largest customer groups was 10.4% of the Group's gross loans and advances to customers before fair value adjustments on initial recognition at 31 December 2013.

There are restrictions on loan concentrations which are imposed under the Banking Law and by the directive issued under the Banking Law by the CBC. According to these restrictions, banks should not lend more than 25% 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% 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. 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.

Geographical and industry concentrations of Group loans and advances to customers at 30 June 2014 are presented below:

	Cyprus	Greece	Russia	United Kingdom	Romania	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
30 June 2014[(1)]				(€'000)				
By economic activity								
Trade	2,444,121	–	242,594	37,107	12,460	**2,736,282**	**(197,105)**	**2,539,177**
Manufacturing	846,820	–	95,600	14,720	7,457	**964,597**	**(58,075)**	**906,522**
Hotels and catering	1,590,735	–	–	94,499	7,485	**1,692,719**	**(102,758)**	**1,589,961**
Construction	3,995,930	–	59,149	45,121	26,922	**4,127,122**	**(378,764)**	**3,748,358**
Real estate	2,449,756	43,481	143,687	556,246	211,956	**3,405,126**	**(171,172)**	**3,233,954**
Private individuals	7,644,430	245	361,172	42,737	3,546	**8,052,130**	**(337,381)**	**7,714,749**
Professional and other services	1,866,862	–	376,619	57,196	71,367	**2,372,044**	**(142,556)**	**2,229,488**
Other sectors	1,346,204	129,010	24,937	997	29,722	**1,530,870**	**(208,500)**	**1,322,370**
	22,184,858	**172,736**	**1,303,758**	**848,623**	**370,915**	**24,880,890**	**(1,596,311)**	**23,284,579**
By customer sector								
Corporate	2,493,105	172,491	697,240	371,121	333,080	**4,067,037**	**(203,596)**	**3,863,441**
Small and medium-sized enterprises (SMEs)	1,874,105	–	245,347	443,766	34,419	**2,597,637**	**(87,810)**	**2,509,827**
Retail								
- housing	3,874,359	–	38,265	25,597	1,660	**3,939,881**	**(58,150)**	**3,881,731**

	Cyprus	Greece	Russia	United Kingdom	Romania	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
- credit cards	126,214	−	103,467	−	−	**229,681**	**(15,211)**	**214,470**
- consumer and other......	1,542,361	245	219,439	8,139	1,756	**1,771,940**	**(73,293)**	**1,698,647**
Restructuring and Recovery								
- corporate......................	5,841,386	−	−	−	−	**5,841,386**	**(358,969)**	**5,482,417**
- SMEs	1,501,329	−	−	−	−	**1,501,329**	**(140,679)**	**1,360,650**
- recoveries.....................	4,059,525	−	−	−	−	**4,059,525**	**(612,856)**	**3,446,669**
International banking services...........................	809,012	−	−	−	−	**809,012**	**(36,413)**	**772,599**
Wealth management.......	63,462	−	−	−	−	**63,462**	**(9,334)**	**54,128**
	22,184,858	**172,736**	**1,303,758**	**848,623**	**370,915**	**24,880,890**	**(1,596,311)**	**23,284,579**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see Section 3.1.1 (*Presentation of Financial Information*).

The geographic and industry concentrations of loans and advances to customers which are classified as held for sale at 30 June 2014 are presented in the table below:

30 June 2014	**United Kingdom**	**Romania**	**Total**	**Fair value adjustment on initial recognition**	**Gross loans after fair value adjustment on initial recognition**
			(€'000)		
By economic activity					
Trade	1,147	−	1,147	(745)	402
Manufacturing.....................................	514	−	514	−	514
Hotels and catering...............................	29,675	95,644	125,319	(836)	124,483
Construction...	2,203	−	2,203	−	2,203
Real estate...	221,609	−	221,609	(11,635)	209,974
Professional and other sectors..............	24,912	−	24,912	(5,009)	19,903
Other sectors	42,954	−	42,954	(32)	42,922
	323,014	**95,644**	**418,658**	**(18,257)**	**400,401**
By customer sector					
Corporate	174,444	95,644	270,088	(5,694)	264,394
Small and medium-sized enterprises	136,069	−	136,069	(11,948)	124,121
Retail					
- housing	1,263	−	1,263	−	1,263
- consumer and other	11,238	−	11,238	(615)	10,623
	323,014	**95,644**	**418,658**	**(18,257)**	**400,401**

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Geographical and industry concentrations of Group loans and advances to customers at 31 December 2013 are presented below:

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
31 December 2013					**(€'000)**				
By economic activity									
Trade..................................	2,471,968	−	261,518	48,816	16,239	34,571	2,833,112	(187,369)	2,645,743
Manufacturing....................	829,327	−	99,790	33,608	22,701	13,631	999,057	(63,157)	935,900
Hotels and catering.............	1,610,289	−	−	165,499	105,434	6,610	1,887,832	(112,051)	1,775,781
Construction.......................	4,101,528	−	64,096	44,746	26,252	12,028	4,248,650	(383,290)	3,865,360
Real estate..........................	2,846,007	−	172,732	802,346	217,191	162,905	4,201,181	(350,743)	3,850,438
Private individuals..............	8,030,587	542	399,116	43,476	3,809	61,585	8,539,115	(392,344)	8,146,771
Professional and other services	1,675,402	−	404,403	56,638	70,692	99,628	2,306,763	(179,998)	2,126,765
Other sectors	1,399,096	171,465	27,506	88,620	30,665	10,257	1,727,609	(233,759)	1,493,850
	22,964,204	**172,007**	**1,429,161**	**1,283,749**	**492,983**	**401,215**	**26,743,319**	**(1,902,711)**	**24,840,608**
By customer sector									
Corporate	9,882,891	171,465	773,340	634,572	448,642	330,703	12,241,613	(1,033,886)	11,207,727
Small and medium-sized enterprises (SMEs).................	5,201,416	−	256,705	592,048	40,695	24,838	6,115,702	(517,716)	5,597,986
Retail									
- housing	5,281,389	−	41,792	34,809	1,767	14,909	5,374,666	(121,036)	5,253,630
- credit cards.......................	170,552	−	102,025	−	−	11	272,588	(21,281)	251,307
- consumer and other..........	2,427,956	542	255,299	22,320	1,879	30,754	2,738,750	(208,792)	2,529,958
	22,964,204	**172,007**	**1,429,161**	**1,283,749**	**492,983**	**401,215**	**26,743,319**	**(1,902,711)**	**24,840,608**

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Geographical and industry concentrations of Group loans and advances to customers at 31 December 2012 are presented below:

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
31 December 2012(1)				**(€'000)**			
By economic activity							
Trade	1,621,879	1,337,611	398,902	55,489	27,278	21,462	3,462,621
Manufacturing	518,754	1,197,493	179,067	15,525	28,226	12,956	1,952,021
Hotels and catering....................	914,486	1,130,222	−	115,327	108,375	8,534	2,276,944
Construction...............................	2,420,212	1,013,129	78,885	56,583	25,504	15,538	3,609,851
Real estate.....................................	1,715,884	651,750	183,669	484,948	223,221	91,777	3,351,249
Private individuals.....................	5,323,545	2,611,578	521,945	53,594	42,515	78,660	8,631,837
Professional and other services .	1,425,792	503,640	614,806	51,883	81,185	98,938	2,776,244
Other sectors..............................	932,384	992,254	47,250	657	13,850	3,425	1,989,820
	14,872,936	**9,437,677**	**2,024,524**	**834,006**	**550,154**	**331,290**	**28,050,587**
By customer sector							
Corporate	7,082,512	3,470,307	1,199,608	321,927	453,600	242,810	12,770,764
Small and medium-sized enterprises (SMEs)	2,276,659	2,739,550	366,649	472,642	53,292	29,558	5,938,350
Retail							
- housing	3,740,856	1,634,263	58,976	33,584	18,739	20,792	5,507,210
- credit cards	120,658	155,727	102,966	−	−	7	379,358
- consumer and other.................	1,652,251	1,437,830	296,325	5,853	24,523	38,123	3,454,905
	14,872,936	**9,437,677**	**2,024,524**	**834,006**	**550,154**	**331,290**	**28,050,587**

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3.17.1.3 Credit Quality of Loans and Advances to Customers

The following table presents the credit quality of the Group's loans and advances to customers at the dates indicated:

Loans and advances to customers	Gross loans before fair value adjustment on initial recognition	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
		(€'000)	
30 June 2014			
Neither past due nor impaired....................	10,791,155	(193,109)	10,598,046
Past due but not impaired...........................	5,215,567	(150,086)	5,065,481
Impaired..	8,874,168	(1,253,116)	7,621,052
Total..	**24,880,890**	**(1,596,311)**	**23,284,579**
31 December 2013			
Neither past due nor impaired....................	11,855,363	(226,207)	11,629,156
Past due but not impaired...........................	6,732,583	(417,169)	6,315,414
Impaired..	8,155,373	(1,259,335)	6,896,038
Total	**26,743,319**	**(1,902,711)**	**24,840,608**

The following table presents the credit quality of the Group's loans and advances to customers classified as held for sale at 30 June 2014:

Loans and advances to customers held for sale	Gross loans before fair value adjustment on initial recognition	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
		(€'000)	
30 June 2014			
Neither past due nor impaired....................	172,700	(2)	172,698
Past due but not impaired...........................	69,173	(56)	69,117
Impaired..	176,785	(18,199)	158,586
Total..	**418,658**	**(18,257)**	**400,401**

Past due loans are those with delayed payments or in excess of authorised credit limits. Impaired loans are those which are not considered fully collectable and for which a provision for impairment has been recognised on an individual basis or for which incurred losses exist at their initial recognition.

In the table above, the fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the Laiki Bank acquisition in 2013. In accordance with the provisions of IFRS 3, this adjustment has decreased the gross balance of loans and advances to customers. However, for IFRS 7 disclosure purposes as well as for credit risk monitoring, this adjustment is not presented within the gross balances of loans and advances.

At 31 December 2012, gross loans neither past due nor impaired were €17,402.1 million, gross loans past due but not impaired were €5,752.4 million and impaired loans were €4,896.1 million, for a total of €28,050.6 million.

Loans and advances for customers that are neither past due nor impaired

The credit quality of loans and advances to customers that were neither past due nor impaired, is monitored by the Group using internal systems. The table below presents the credit risk quality of loans and advances to customers that were neither past due nor impaired:

Loans and advances to customers – neither past due nor impaired	**Grade 1**	**Grade 2**	**Grade 3**	**Total**
		(€'000)		
31 December 2013				
Cyprus	5,778,486	1,699,580	2,371,052	9,849,118
Greece	542	–	–	542
Russia	717,522	201,890	–	919,412
United Kingdom	717,551	44,832	47,214	809,597
Romania	71,500	98,070	25,402	194,972
Ukraine	46,226	266	35,230	81,722
Total	**7,331,827**	**2,044,638**	**2,478,898**	**11,855,363**
31 December 2012				
Cyprus	7,249,180	993,674	1,109,151	9,352,005
Greece	3,534,245	89,121	1,680,195	5,303,561
Russia	1,124,666	389,162	–	1,513,828
United Kingdom	602,863	60,638	25,716	689,217
Romania	418,337	3,523	–	421,860
Ukraine	88,494	5,136	28,018	121,648
Total	**13,017,785**	**1,541,254**	**2,843,080**	**17,402,119**

Loans and advances to customers that were neither past due nor in excess of their limit during the last twelve months, are classified as Grade 1.

Loans and advances to customers that were past due or in excess of their limit for up to 30 consecutive days during the first half of the year, or for up to 15 consecutive days during the second half of the year, are classified as Grade 2.

Loans and advances to customers that were past due or in excess of their limit for more than 30 consecutive days during the first half of the year or for more than 15 consecutive days during the second half of the year, are classified as Grade 3.

Loans and Advances for Customers that are Past Due but Not Impaired

The table below sets out loans and advances to customers that were past due but not impaired, at the dates indicated:

Loans and advances to customers – past due but not impaired	**31 December**		**30 June**
	2012	**2013**	**2014**
		(€'000)	
Past due:			
Up to 30 days	1,102,785	822,037	885,937
31 to 90 days	1,854,459	1,063,243	813,351
91 to 180 days	873,830	1,316,042	655,658
181 to 365 days	798,306	2,099,424	1,143,673
Over 1 year	1,122,991	1,431,837	1,716,948
Total	**5,752,371**	**6,732,583**	**5,215,567**
Fair value of collateral securing loans and advances to customers that are past due but not impaired	4,601,146	5,133,851	4,198,020

Impaired Loans and Advances to Customers on an Individual Basis

The table below sets out impaired loans and advances to customers and the fair value of the collateral in respect of those loans, by country, at the dates indicated:

Loans and advances to customers - impaired	**Gross loans and advances**	**Fair value of collateral**[(1)]
	(€'000)	
30 June 2014		
Cyprus	8,212,549	6,049,619
Greece	76,710	–
Russia	311,683	176,218
United Kingdom	39,330	37,237
Romania	233,896	147,806
Ukraine	–	–
Total	**8,874,168**	**6,410,880**
31 December 2013		
Cyprus	7,110,927	4,111,343
Greece	171,465	–
Russia	284,869	191,672
United Kingdom	163,979	128,734
Romania	256,612	126,046
Ukraine	167,521	132,015
Total	**8,155,373**	**4,689,810**

Loans and advances to customers - impaired	**Gross loans and advances**	**Fair value of collateral**[(1)]
31 December 2012		
Cyprus	2,877,827	1,822,899
Greece	1,519,603	753,377
Russia	279,518	178,137
United Kingdom	57,351	30,229
Romania	76,480	51,570
Ukraine	85,318	61,996
Total	**4,896,097**	**2,898,208**

(1) The fair value of the collateral presented has been computed based on the extent that the collateral mitigates credit risk.

3.17.1.4 Provision for Impairment of Loans and Advances to Customers

The movement of provisions for impairment of loans and advances to customers is as follows:

Provision for impairment[(1)]	**Cyprus**	**Greece**	**Russia**	**Other countries**	**Total**
			(€'000)		
Six months ended 30 June 2014					
1 January	2,574,670	189	286,366	215,045	**3,076,270**
Disposal of Ukraine operations	–	–	–	(108,342)	**(108,342)**
Exchange adjustments	10,256	6,329	(2,543)	(10,405)	**3,637**
Applied in writing off impaired loans and advances	(12,760)	(12)	(45)	(46)	**(12,863)**
Interest accrued on impaired loans and advances	(61,314)	(123)	(179)	(1,603)	**(63,219)**
Collection of loans and advances previously written off	87	–	–	805	**892**
Charge for the period – continuing operations	302,874	3,595	26,802	(4,151)	**329,120**
Charge for the period – discontinued operations	–	–	–	38,528	**38,528**
30 June	**2,813,813**	**9,978**	**310,401**	**129,831**	**3,264,023**
Individual impairment	**2,052,030**	**9,978**	**153,166**	**121,110**	**2,336,284**
Collective impairment	**761,783**	**–**	**157,235**	**8,721**	**927,739**

(1) The consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited.

The balance of provisions of impaired loans and advances at 30 June 2014 includes €42,478 thousand of loans and advances held for sale.

Provision for impairment[1]	**Cyprus**	**Greece**	**Russia**	**Other countries**	**Total**
Year ended 31 December 2013					
1 January	1,779,343	1,528,224	238,472	130,017	**3,676,056**
Disposal of Greek operations	–	(1,572,512)	–	–	**(1,572,512)**
Exchange adjustments	1,266	–	(25,452)	(2,561)	**(26,747)**
Applied in writing off impaired loans and advances	(1,816)	(7,781)	(4,848)	(23,231)	**(37,676)**
Interest accrued on impaired loans and advances	(80,565)	(6,633)	(602)	(4,834)	**(92,634)**
Collection of loans and advances previously written off	429	–	–	3,101	**3,530**
Charge for the year – continuing operations	876,013	(17)	78,796	112,553	**1,067,345**
Charge for the year – discontinued operations	–	58,908	–	–	**58,908**
31 December	**2,574,670**	**189**	**286,366**	**215,045**	**3,076,270**
Individual impairment	**1,916,985**	**189**	**142,700**	**185,395**	**2,245,269**
Collective impairment	**657,685**	**–**	**143,666**	**29,650**	**831,001**
Year ended 31 December 2012					
1 January	649,025	632,012	148,430	76,045	**1,505,512**
Exchange adjustments	(988)	–	4,837	2,669	**6,518**
Applied in writing off impaired loans and advances	(9,276)	(41,087)	(1,996)	(9,569)	**(61,928)**
Interest accrued on impaired loans and advances	(47,866)	(29,588)	(1,687)	(3,402)	**(82,543)**
Collection of loans and advances previously written off	2,338	–	–	3	**2,341**
Charge for the year – continuing operations	1,186,110	–	88,888	64,271	**1,339,269**
Charge for the year – discontinued operations	–	966,887	–	–	**966,887**
31 December	**1,779,343**	**1,528,224**	**238,472**	**130,017**	**3,676,056**
Individual impairment	**1,425,220**	**1,045,187**	**130,113**	**115,371**	**2,715,891**
Collective impairment	**354,123**	**483,037**	**108,359**	**14,646**	**960,165**

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The impairment loss is measured as the difference between the carrying amount of a loan and the present value of the estimated future cash flows, including the cash flows which may arise from guarantees and tangible collateral, irrespective of the outcome of foreclosure.

The provisions for impairment and fair value adjustments recorded by the Group do not reduce the amounts legally recoverable from borrowers.

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of the collateral and for taxes and expenses on the repossession and subsequent sale of the collateral.

Indexation has been used to reach updated market values of properties while assumptions were made on the basis of a macroeconomic scenario for future changes in property values. The timing of collections from collateral has been estimated to be two years for loans that have been managed by the RRD for more than three years, and four years for customers that have been managed by the RRD for less than three years. For all other loans a maximum expected recovery period of five years is assumed.

Any changes in these assumptions or difference between assumptions made and actual results could result in significant changes in the amount of required provisions for impairment of loans and advances.

Indicatively, if the actual recoverable amount of impaired loans from collateral in the Cyprus portfolio is lower than the amount estimated as at 30 June 2014 by 5% and 10%, then provisions for impairment of loans and advances would increase by €214,678 thousand and €442,582 thousand respectively. Alternatively, if the collateral value in the Cyprus portfolio increased by 5% and 10%, then the provisions for impairment of loans and advances would decrease by €201,186 thousand and €392,298 thousand respectively.

3.17.1.5 Rescheduled Loans and Advances to Customers

The table below shows the evolution of the Group's rescheduled loans and advances to customers for the years ended 31 December 2012 and 2013 and the six months ended 30 June 2014:

Rescheduled loans and advances to customers	**Cyprus**	**Greece**	**Russia**	**United Kingdom**	**Romania**	**Ukraine**	**Total**
				(€'000)			
Six months ended 30 June 2014[1]							
1 January	5,135,646	–	187,031	107,624	124,312	62,051	**5,616,664**
Disposal of Ukraine operations	–	–	–	–	–	(78,708)	**(78,708)**
New loans and advances rescheduled during the period	853,273	70,422	27,801	67,443	122,385	4,481	**1,145,805**
Assets no longer rescheduled (including repayments)	(595,747)	–	(32,241)	(27,295)	(22,495)	(3,975)	**(681,753)**
Interest accrued on rescheduled loans and advances	139,660	413	1,911	3,335	1,407	2,460	**149,186**
Exchange adjustments	2,420	–	(5,056)	5,007	3,601	13,691	**19,663**
30 June	**5,535,252**	**70,835**	**179,446**	**156,114**	**229,210**	**–**	**6,170,857**

Rescheduled loans and advances to customers at 30 June 2014 above include UK loans and advances classified as held for sale of €3.9 million, which mainly relate to neither past due nor impaired loans.

Year ended 31 December 2013[1]							
1 January	3,394,783	1,657,988	113,217	58,264	63,039	64,336	**5,351,627**
Disposal of Greek operations	–	(1,302,984)	–	–	–	–	**(1,302,984)**
New loans and advances rescheduled during the year	2,657,226	–	106,959	61,825	76,323	26,519	**2,928,852**
Assets no longer rescheduled (including repayments)	(1,126,560)	(355,004)	(24,411)	(16,775)	(17,381)	(29,092)	**(1,569,223)**
Applied in writing off rescheduled loans and advances.	(11)	–	–	–	–	–	**(11)**
Interest accrued on rescheduled loans and advances	214,094	–	9,401	4,668	3,452	3,201	**234,816**
Exchange adjustments	(3,886)	–	(18,135)	(358)	(1,121)	(2,913)	**(26,413)**
31 December	**5,135,646**	**–**	**187,031**	**107,624**	**124,312**	**62,051**	**5,616,664**
Year ended 31 December 2012[1]							
1 January	1,843,527	1,099,737	54,266	94,855	66,609	58,875	**3,217,869**
New loans and advances rescheduled during the year	1,895,156	1,497,983	107,045	1,335	26,174	21,341	**3,549,034**
Assets no longer rescheduled (including repayments)	(540,332)	(945,395)	(53,312)	(37,989)	(32,611)	(15,523)	**(1,625,162)**
Applied in writing off rescheduled	–	–	–	(5,022)	–	–	**(5,022)**

Rescheduled loans and advances to customers	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
loans and advances.............................							
Interest accrued on rescheduled loans and advances.............................	197,500	3,912	3,025	2,428	3,360	1,476	**211,701**
Exchange adjustments........................	(1,068)	1,751	2,193	2,657	(493)	(1,833)	**3,207**
31 December.......................................	**3,394,783**	**1,657,988**	**113,217**	**58,264**	**63,039**	**64,336**	**5,351,627**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see Section 3.1.1 (*Presentation of Financial Information*).

In addition to the above, the loans acquired from Laiki Bank include rescheduled loans of a gross amount of €1,938,114 thousand at 31 December 2013 and €753,604 thousand at 30 June 2014, which were rescheduled prior to the acquisition date (29 March 2013).

Rescheduled loans and advances to customers shown above include UK rescheduled loans and advances classified as held for sale of a gross amount of €3.9 million as at 30 June 2014.

3.17.1.6 Rescheduled Loans and Advances to Customers – Credit Quality

The table below analyses the Group's rescheduled loans and advances to customers by credit quality at 31 December 2012 and 2013 and 30 June 2014:

Rescheduled loans and advances to customers	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
				(€'000)			
30 June 2014							
Neither past due nor impaired	2,828,822	−	106,448	122,444	172,083	−	**3,229,797**
Past due but not impaired	1,593,626	−	19,134	29,566	904	−	**1,643,230**
Impaired..	1,112,804	70,835	53,864	4,104	56,223	−	**1,297,830**
	5,535,252	**70,835**	**179,446**	**156,114**	**229,210**	−	**6,170,857**

Rescheduled loans and advances to customers at 30 June 2014 above includes UK loans and advances classified as held for sale of €3.9 million, which mainly relate to neither past due nor impaired loans.

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
31 December 2013							
Neither past due nor impaired	2,659,066	−	154,721	89,549	16,586	6,128	**2,926,050**
Past due but not impaired	1,428,549	−	18,529	10,425	22,598	22,221	**1,502,322**
Impaired..	1,048,031	−	13,781	7,650	85,128	33,702	**1,188,292**
	5,135,646	−	**187,031**	**107,624**	**124,312**	**62,051**	**5,616,664**
31 December 2012							
Neither past due nor impaired	2,200,463	871,475	97,446	40,642	25,694	19,390	**3,255,110**
Past due but not impaired	773,395	672,857	3,939	5,086	34,796	16,268	**1,506,341**
Impaired..	420,925	113,656	11,832	12,536	2,549	28,678	**590,176**
	3,394,783	**1,657,988**	**113,217**	**58,264**	**63,039**	**64,336**	**5,351,627**

The table below analyses the fair value of collateral securing the Group's rescheduled loans and advances to customers at 31 December 2012 and 2013 and 30 June 2014.

Fair value of collateral	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
30 June 2014							
Neither past due nor impaired	2,485,649	−	102,808	115,595	170,828	−	**2,874,880**
Past due but not impaired	1,440,819	−	18,567	28,388	904	−	**1,488,678**
Impaired.......................................	892,963	−	39,093	2,687	47,760	−	**982,503**
	4,819,431	−	**160,468**	**146,670**	**219,492**	−	**5,346,061**

The fair value of collateral at 30 June 2014 includes collateral for rescheduled UK loans and advances classified as held for sale of €3.9 million, which mainly relate to neither past due nor impaired loans.

Fair value of collateral	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
31 December 2013							
Neither past due nor impaired	2,290,950	–	151,815	89,444	14,052	6,127	**2,552,388**
Past due but not impaired	1,218,052	–	18,206	12,236	16,544	20,699	**1,285,737**
Impaired	789,767	–	9,509	5,639	57,430	20,369	**882,714**
	4,298,769	–	**179,530**	**107,319**	**88,026**	**47,195**	**4,720,839**
31 December 2012							
Neither past due nor impaired	1,837,569	619,427	40,263	40,504	9,183	19,389	**2,566,335**
Past due but not impaired	642,094	552,064	3,580	5,086	8,047	14,675	**1,225,546**
Impaired	303,889	78,111	8,162	9,365	2,282	18,774	**420,583**
	2,783,552	**1,249,602**	**52,005**	**54,955**	**19,512**	**52,838**	**4,212,464**

The fair value of collateral presented above has been computed based on the extent that the collateral mitigates credit risk.

3.17.1.7 Rescheduled Loans and Advances to Customers – Credit Risk Concentration

Rescheduled loans and advances to customers are presented below by economic activity and customer sector at the dates indicated:

Rescheduled loans and advances to customers	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
				(€'000)			
30 June 2014							
By economic activity							
Trade	504,118	–	32,730	838	7,348	–	**545,034**
Manufacturing	211,976	–	8,349	10,799	959	–	**232,083**
Hotels and catering	478,774	–	–	22,391	101,901	–	**603,066**
Construction	1,034,991	–	8,642	18,530	9,562	–	**1,071,725**
Real estate	731,736	–	–	84,610	86,518	–	**902,864**
Private individuals	1,883,555	–	–	3,371	61	–	**1,886,987**
Professional and other services	367,032	–	129,725	14,268	21,781	–	**532,806**
Other sectors............................	323,070	70,835	–	1,307	1,080	–	**396,292**
	5,535,252	**70,835**	**179,446**	**156,114**	**229,210**	–	**6,170,857**
By customer sector							
Corporate	734,441	70,835	155,703	87,310	212,580	–	**1,260,869**
Small and medium-sized enterprises (SMEs)	553,538	–	20,654	68,294	16,569	–	**659,055**
Retail		–					
- housing	1,314,709	–	74	62	–	–	**1,314,845**
- credit cards	195	–	590	–	–	–	**785**
- consumer and other...............	369,690	–	2,425	448	61	–	**372,624**
Restructuring and recovery							
- corporate	2,062,387	–	–	–	–	–	**2,062,387**
- SMEs	365,487	–	–	–	–	–	**365,487**
- recoveries	101,953	–	–	–	–	–	**101,953**
International banking services	25,953	–	–	–	–	–	**25,953**
Wealth management	6,899	–	–	–	–	–	**6,899**
	5,535,252	**70,835**	**179,446**	**156,114**	**229,210**	–	**6,170,857**

The UK rescheduled loans and advances classified as held for sale of €3.9 million included above mainly relate to corporate loans and advances in the hotels and catering industry.

31 December 2013							
By economic activity							
Trade	454,872	–	46,834	593	8,062	4,721	515,082
Manufacturing	186,322	–	4,417	1,204	1,348	994	194,285
Hotels and catering	371,577	–	–	11,410	6,314	6,232	395,533
Construction	993,812	–	9,773	16,124	17,512	10,738	1,047,959
Real estate	700,093	–	–	70,691	68,019	25,398	864,201
Private individuals	1,815,870	–	–	1,693	119	8,665	1,826,347
Professional and other services	379,664	–	126,007	5,909	21,644	4,740	537,964

Rescheduled loans and advances to customers	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
				(€'000)			
Other sectors	233,436	–	–	–	1,294	563	235,293
	5,135,646	**–**	**187,031**	**107,624**	**124,312**	**62,051**	**5,616,664**
By customer sector							
Corporate	2,428,050	–	165,286	58,069	101,904	53,553	2,806,862
Small and medium-sized enterprises (SMEs)	937,341	–	18,592	49,310	22,289	5,501	1,033,033
Retail							
- housing	1,396,739	–	2,340	64	110	263	1,399,516
- credit cards	382	–	153	–	–	–	535
- consumer and other	373,134	–	660	181	9	2,734	376,718
	5,135,646	**–**	**187,031**	**107,624**	**124,312**	**62,051**	**5,616,664**
31 December 2012							
By economic activity							
Trade	263,551	113,294	17,901	369	210	10,462	405,787
Manufacturing	63,668	89,909	7,219	75	1,488	379	162,738
Hotels and catering	239,384	296,273	–	11,229	971	4,951	552,808
Construction	937,094	205,160	10,282	12,144	3,966	10,560	1,179,206
Real estate	615,446	154,365	–	27,975	18,821	24,394	841,001
Private individuals	839,420	530,828	–	1,117	1,823	8,492	1,381,680
Professional and other services	249,147	128,241	77,815	5,355	26,867	3,868	491,293
Other sectors	187,073	139,918	–	–	8,893	1,230	337,114
	3,394,783	**1,657,988**	**113,217**	**58,264**	**63,039**	**64,336**	**5,351,627**
By customer sector							
Corporate	1,995,147	603,348	97,686	35,832	50,413	55,865	2,838,291
Small and medium-sized enterprises (SMEs)	589,460	499,786	12,986	22,357	10,803	5,802	1,141,194
Retail							
- housing	635,409	396,576	2,322	71	881	172	1,035,431
- credit cards	327	–	–	–	–	–	327
- consumer and other	174,440	158,278	223	4	942	2,497	336,384
	3,394,783	**1,657,988**	**113,217**	**58,264**	**63,039**	**64,336**	**5,351,627**

3.17.1.8 Rescheduled Loans and Advances to Customers – Provisions for Impairment

The table below analyses the provisions for impairment for the Group's rescheduled loans and advances to customers at 31 December 2012 and 2013 and 30 June 2014:

Rescheduled loans and advances to customers – provisions for impairments	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
				(€'000)			
30 June 2014							
Individual impairment	434,218	9,045	13,711	4,910	8,636	–	**470,520**
Collective impairment	191,689	–	8,240	32	1,709	–	**201,670**
	625,907	**9,045**	**21,951**	**4,942**	**10,345**	–	**672,190**

There are no provisions for impairment for rescheduled loans and advances which are classified as held for sale at 30 June 2014.

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
31 December 2013							
Individual impairment	410,690	–	2,628	2,893	17,938	14,577	**448,726**
Collective impairment	176,223	–	11,465	–	3,044	–	**190,732**
	586,913	–	**14,093**	**2,893**	**20,982**	**14,577**	**639,458**
31 December 2012							
Individual impairment	280,682	57,344	3,324	3,170	541	11,097	**356,158**
Collective impairment	98,965	–	3,457	50	277	–	**102,749**
	379,647	**57,344**	**6,781**	**3,220**	**818**	**11,097**	**458,907**

3.17.1.9 Non-Performing Loans

In February 2014, the CBC issued to credit institutions the Loan Provisioning Directive, which provides guidance to banks for loan impairment policy and procedures for provisions. The purpose of the Loan Provisioning Directive is to ensure that credit institutions have in place adequate provisioning policies and procedures for the identification of credit losses and prudent application of IFRSs in the preparation of their financial statements.

The Loan Provisioning Directive requires certain disclosures in relation to the loan portfolio quality, provisioning policy and levels of provision. The Loan Provisioning Directive is effective as from 21 February 2014, although the disclosure requirements were required to be published for the year ended 31 December 2013 together with the 2013 financial statements. The disclosures required by the Loan Provisioning Directive, in addition to those presented in notes 3 and 46 of the Group's 2013 financial statements are presented in the following tables:

		Performing loans and advances			
Non-performing loans	**Total loans and advances**	**Not restructured loans and advances**	**Restructured loans and advances**	**Total**	**Non-performing credit facilities**
			(€'000)		
30 June 2014					
Corporate legal entities					
Construction	3,713,386	388,945	185,259	574,204	3,139,182
Real estate activities	2,838,307	714,955	284,932	999,887	1,838,420
Wholesale and retail trade	1,961,703	713,270	154,396	867,666	1,094,037
Accommodation and food service activities	1,583,047	368,912	156,417	525,329	1,057,718
Electricity, gas, steam and air conditioning supply	34,692	31,352	1,106	32,458	2,234

Non-performing loans	Total loans and advances	Performing loans and advances: Not restructured loans and advances	Performing loans and advances: Restructured loans and advances	Performing loans and advances: Total	Non-performing credit facilities
			(€'000)		
All other sectors	3,699,161	1,101,260	319,905	1,421,165	2,277,996
	13,830,296	**3,318,694**	**1,102,015**	**4,420,709**	**9,409,587**
Retail legal entities					
Wholesale and retail trade	641,431	305,090	41,069	346,159	295,272
Real estate activities	577,463	281,853	45,142	326,995	250,468
Construction	379,957	84,446	36,660	121,106	258,851
Manufacturing	218,065	88,178	17,197	105,375	112,690
Service activities	185,066	99,714	7,379	107,093	77,973
All other sectors	540,137	233,537	37,284	270,821	269,316
	2,542,119	**1,092,818**	**184,731**	**1,277,549**	**1,264,570**
Private individuals					
Credit facilities for the purchase of immovable property	5,741,671	2,724,806	848,208	3,573,014	2,168,657
(a) Owner occupied	3,284,239	1,620,581	505,654	2,126,235	1,158,004
(b) For other purposes	2,457,432	1,104,225	342,554	1,446,779	1,010,653
Consumer loans	1,937,020	627,905	152,084	779,989	1,157,031
Credit cards	258,850	179,612	596	180,208	78,642
Current accounts	326,385	174,556	392	174,948	151,437
Credit facilities to sole traders	663,207	269,406	42,284	311,690	351,517
	8,927,133	**3,976,285**	**1,043,564**	**5,019,849**	**3,907,284**
Total credit facilities	**25,299,548**	**8,387,797**	**2,330,310**	**10,718,107**	**14,581,441**
Provisions for impairment and fair value adjustment on initial recognition[1]	**4,878,591**	**314,143**	**54,726**	**368,869**	**4,509,722**
31 December 2013					
Corporate legal entities					
Construction	3,907,905	549,940	367,869	917,809	2,990,096
Real estate activities	3,593,805	929,725	493,858	1,423,583	2,170,222
Wholesale and retail trade: repair of motor vehicles and motorcycles	2,137,664	845,171	192,590	1,037,761	1,099,903
Accommodation and food service activities	1,690,995	512,491	159,310	671,801	1,019,194
Electricity, gas, steam and air conditioning supply	42,834	33,786	6,068	39,854	2,980
All other sectors	3,893,007	1,332,511	338,267	1,670,778	2,222,229
	15,266,210	**4,203,624**	**1,557,962**	**5,761,586**	**9,504,624**

Non-performing loans	Total loans and advances	Performing loans and advances: Not restructured loans and advances	Performing loans and advances: Restructured loans and advances	Performing loans and advances: Total	Non-performing credit facilities
			(€'000)		
Retail legal entities					
Wholesale and retail trade: repair of motor vehicles and motorcycles	578,497	301,280	40,016	341,296	237,201
Real estate activities	440,719	266,185	34,319	300,504	140,215
Construction	289,686	81,568	32,430	113,998	175,688
Manufacturing	219,216	100,393	14,655	115,048	104,168
Service activities	128,116	82,825	5,030	87,855	40,261
All other sectors	557,700	268,490	34,102	302,592	255,108
	2,213,934	**1,100,741**	**160,552**	**1,261,293**	**952,641**
Private individuals					
Credit facilities for the purchase of immovable property	5,838,484	2,891,360	1,039,616	3,930,976	1,907,508
(a) Owner occupied	3,327,578	1,695,059	623,521	2,318,580	1,008,998
(b) For other purposes	2,510,906	1,196,301	416,095	1,612,396	898,510
Consumer loans	2,193,821	793,097	205,706	998,803	1,195,018
Credit cards	276,201	198,150	376	198,526	77,675
Current accounts	361,555	207,226	1,039	208,265	153,290
Credit facilities to sole traders	593,114	291,489	50,312	341,801	251,313
	9,263,175	**4,381,322**	**1,297,049**	**5,678,371**	**3,584,804**
Total credit facilities	**26,743,319**	**9,685,687**	**3,015,563**	**12,701,250**	**14,042,069**
Provisions for impairment and fair value adjustment on initial recognition[1]	**4,978,981**	**432,747**	**100,372**	**533,119**	**4,445,862**

(1) The provisions for impairment and fair value adjustment on initial recognition for performing loans relate to collective provision and fair value adjustment on initial recognition of loans following the Laiki Bank acquisition. Amounts shown at 30 June 2014 also include loans and advances classified as held for sale.

NPLs amounted to €14,042 million at 31 December 2013 and accounted for 53% of gross loans.

At 31 December 2013, the NPL ratio consists of two components: restructured loans that are less than 90 days past due (6% of gross loans) and loans that are more than 90 days past due or restructured loans that are more than 90 days past due (47% of gross loans).

Non-performing loans

	31 December 2013: (€ millions)	31 December 2013: % of gross loans
Loans restructured and less than 90 days past due	1,682	6%
Loans more than 90 days past due or loans restructured and more than 90 days past due	12,360	47%
Total	**14,042**	**53%**

The table below presents non-performing credit facilities at 31 December 2013 by year of origination:

Non-performing credit facilities by year of origination	**Total loans and advances**	**Non-performing loans and advances**	**Specific provisions**	**Fair value adjustment on initial recognition**
31 December 2013		**(€'000)**		
Credit facilities to legal entities				
Within 1 year	1,155,440	612,179	83,274	41,986
1 - 2 years	1,670,316	795,958	129,462	119,992
2 – 3 years	2,191,366	1,106,828	143,670	246,339
3 – 5 years	3,531,489	2,190,416	306,939	328,977
5 – 7 years	5,188,628	3,640,717	758,177	464,625
7 – 10 years	1,807,861	1,087,380	225,012	153,178
More than 10 years	1,882,951	1,029,667	173,570	147,987
Total	**17,428,051**	**10,463,145**	**1,820,104**	**1,503,084**
Credit facilities to private individuals – property loans				
Within 1 year	120,473	37,302	239	2,359
1 - 2 years	208,314	45,277	3,066	5,824
2 – 3 years	561,960	130,750	2,759	11,518
3 – 5 years	1,944,993	509,830	16,455	45,464
5 – 7 years	2,039,785	857,316	97,212	75,181
7 – 10 years	865,867	286,652	33,255	22,778
More than 10 years	88,635	37,859	3,601	4,404
Total	**5,830,027**	**1,904,986**	**156,587**	**167,528**
Credit facilities to private individuals – other loans				
Within 1 year	306,101	99,140	6,061	7,194
1 - 2 years	370,237	153,688	5,725	17,482
2 – 3 years	492,927	215,760	23,310	37,920
3 – 5 years	834,741	432,237	73,082	60,819
5 – 7 years	631,712	360,772	62,393	50,544
7 – 10 years	379,157	175,884	41,076	20,921
More than 10 years	470,366	236,457	56,931	37,219
Total	**3,485,241**	**1,673,938**	**268,578**	**232,099**

Non-performing credit facilities by year of origination	Total loans and advances	Non-performing loans and advances	Specific provisions	Fair value adjustment on initial recognition
Total credit facilities				
Within 1 year	1,582,014	748,621	89,574	51,539
1 - 2 years	2,248,867	994,923	138,253	143,298
2 – 3 years	3,246,253	1,453,338	169,739	295,777
3 – 5 years	6,311,223	3,132,483	396,476	435,260
5 – 7 years	7,860,125	4,858,805	917,782	590,350
7 – 10 years	3,052,885	1,549,916	299,343	196,877
More than 10 years	2,441,952	1,303,983	234,102	189,610
Total	**26,743,319**	**14,042,069**	**2,245,269**	**1,902,711**

3.17.1.10 Sovereign Exposure

The Group has sovereign and non-sovereign exposure in countries which have entered or have applied to the ESM, or whose Moody's credit rating is below Aa1 and the total Group exposure exceeds €100 million. These countries are Cyprus, Greece, Italy, Russia, Romania and Ukraine. The Group's sovereign exposure includes government bonds and other assets owned by governmental, semi-governmental, local authorities and other organisations in which the state holds more than 50%.

The table below sets out the Group's exposure to the government of Cyprus at the dates indicated:

	On demand and up to one month	Between one month and three months	Between three months and one year	Between one and five years	Over five years	Total
			(€'000)			
30 June 2014						
Available-for-sale	–	–	171	–	33	**204**
Loans and receivables	1,896,468	199,085	76,180	285,236	299,885	**2,756,854**
Fair value through profit or loss	–	–	147	17,088	–	**17,235**
	1,896,468	**199,085**	**76,498**	**302,324**	**299,918**	**2,774,293**
31 December 2013						
Available-for-sale	–	–	–	1,423	–	**1,423**
Loans and receivables	–	199,003	1,749,757	327,267	296,913	**2,572,940**
Fair value through profit or loss	–	–	–	15,413	–	**15,413**
	–	**199,003**	**1,749,757**	**344,103**	**296,913**	**2,589,776**
31 December 2012						
Available-for-sale	1,009	–	–	125	–	**1,134**
Loans and receivables	–	99,377	12,607	510,974	127,023	**749,981**
Fair value through profit or loss	–	–	–	13,042	–	**13,042**
	1,009	**99,377**	**12,607**	**524,141**	**127,023**	**764,157**

In addition, at 31 December 2012 the Group held €47.6 million of Irish government securities with a remaining maturity of over five years, classified as available-for-sale. Except for the foregoing, the Group did not hold any sovereign debt securities from countries which have applied to the ESM (including Greece).

The Group's exposure to sovereign debt securities and other assets is analysed below:

	Cyprus	Greece	Italy	Russia	Romania	Ukraine
			(€'000)			
30 June 2014[1]						
Deposits with central banks	168,831	–	–	35,593	3,426	–
Placements with banks	68,076	19,056	33,629	70,290	206,219	–
Investments in sovereign debt securities						
- available for sale	204	–	53,308	1,997	–	–
- loans and receivables	2,756,854	–	–	–	–	–
- fair value through profit or loss	17,235	–	–	–	–	–
Investments in debt securities of banks and other corporations						
- available for sale	3,438	–	–	–	–	–
- loans and receivables	503	–	–	–	–	–
- fair value through profit or loss	42	–	–	–	–	–
Loans and advances to customers (before provisions)	20,677,144	97,853	–	1,303,758	361,472	–
Assets held for sale	–	–	–	–	95,644	–
Total on balance sheet	**23,692,327**	**116,909**	**86,937**	**1,411,638**	**666,761**	**–**
Contingent liabilities	823,634	245,717	–	2,556	21	–
Commitments	2,455,097	–	–	130,387	1,053	–
Total off balance sheet	**3,278,731**	**245,717**	**–**	**132,943**	**1,074**	**–**
Total exposure to credit risk	**26,971,058**	**362,626**	**86,937**	**1,544,581**	**667,835**	**–**
31 December 2013[1]						
Deposits with central banks	456,069	–	–	51,593	5,695	9,969
Placements with banks	51,374	19,799	428	103,976	222,417	9,458
Investments in sovereign debt securities						
- available for sale	1,423	–	52,211	2,051	–	–
- loans and receivables	2,572,940	–	–	–	–	–
- fair value through profit or loss	15,413	–	–	–	–	–
Investments in debt securities of banks and other corporations						
- available for sale	6,148	290	–	–	–	1
- loans and receivables	497	–	–	–	–	–
- fair value through profit or loss	103	–	–	–	–	–
Loans and advances to customers (before provisions)	21,173,769	97,124	–	1,429,161	483,541	**395,051**
Total on balance sheet	**24,277,736**	**117,213**	**52,639**	**1,586,781**	**711,653**	**414,479**
Contingent liabilities	880,984	335,073	–	7,206	100	50
Commitments	2,748,596	–	–	147,695	3,366	536
Total off balance sheet	**3,629,580**	**335,073**	**–**	**154,901**	**3,466**	**586**
Total exposure to credit risk	**27,907,316**	**452,286**	**52,639**	**1,741,682**	**715,119**	**415,065**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see Section 3.1.1 (*Presentation of Financial Information*).

Loans and advances to customers in Cyprus are presented net of the fair value adjustment on loans and advances acquired from Laiki Bank.

The revaluation reserve of available-for-sale investments includes losses amounting to €5.8 million as at 30 June 2014 and €5.9 million as at 31 December 2013 relating to sovereign debt securities, and gains amounting to €0.5 million as at 30 June 2014 and losses of €0.1 million as at 31 December 2013 relating to debt securities of banks and other corporations.

3.17.1.11 Balances with Central Banks and Placements with Banks

The table below presents the Group's balances with central banks and placements with banks analysed by Moody's rating:

Balances with central banks and placements with banks	31 December		30 June
	2012[(1)]	**2013[(1)]**	**2014[(1)]**
		(€'000)	
Aaa – Aa3	1,102,312	790,806	682,523
A1 – A3	786,184	509,754	422,382
Baa1 – Baa3	190,429	68,735	115,245
Ba1 – Ba3	10,495	9,505	6,966
B1 – B3	373,186	10,269	2,501
Caa – C	84,882	483,035	212,928
Unrated	179,054	468,896	340,276
Other receivables from banks	50,947	33,933	40,657
Total	**2,777,489**	**2,374,933**	**1,823,478**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see Section 3.1.1 (*Presentation of Financial Information*).

At 31 December 2013, the categories B and Caa-C above include an amount of €394,255 thousand which mainly related to obligatory deposits for liquidity purposes with the CBC. Placements with banks include €278,164 thousand which were acquired from Laiki Bank and which were considered to be impaired upon acquisition.

3.17.1.12 Investments in Debt Securities

The table below presents the Group's investments in debt securities analysed by Moody's rating:

Investments in debt securities	31 December		30 June
	2012[(1)]	**2013[(1)]**	**2014[(1)]**
		(€'000)	
Aaa – Aa3	893,381	617,262	631,999
A1 – A3	26,639	5,443	6,193
Baa1 – Baa3	58,385	54,508	87,921
Ba1 – Ba3	51,064	49,008	–
B1 – B3	764,395	–	8
Caa – C	1,133	2,595,036	2,776,722
Unrated	2,784	1,490	1,554
Total	**1,797,781**	**3,322,747**	**3,504,397**
Issued by			
Cyprus government	764,157	2,589,776	2,774,292
Other governments	704,290	668,558	680,339
Banks and other corporations	328,887	63,901	49,254
Local authorities	447	512	512
Total	**1,797,781**	**3,322,747**	**3,504,397**
Classified as			
Trading investments	96	103	42
Investments at fair value through profit or loss	13,955	15,549	17,243
Available-for-sale investments	1,032,302	733,658	729,755
Investments classified as loans and receivables	751,428	2,573,437	2,757,357
Total	**1,797,781**	**3,322,747**	**3,504,397**

(1) The interim condensed consolidated financial statements for the six month period ended 30 June 2014 have been reviewed by Ernst & Young Cyprus Ltd, the independent auditors of the Group, but have not been audited. For a discussion of the sources and preparation of the financial information contained in this table, see Section 3.1.1 (*Presentation of Financial Information*).

3.17.2 Market Risk

Market risk is the risk of loss from adverse changes in market prices – namely from changes in interest rates, exchange rates and security prices. The Group Market Risk Management Unit is responsible for monitoring compliance with the various market risk policies and procedures.

3.17.2.1 Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. It arises as a result of timing differences on the repricing of assets and liabilities.

Interest rate risk 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. This difference is then multiplied with the assumed change in interest rates for the period from the repricing date until twelve months from the date of the analysis, in order to calculate the annual impact on net interest income of any changes in interest rates for every currency.

Interest rate risk is managed through maximum loss limits from interest rate mismatches which are set for each banking unit of the Group. There are different limits for the euro and for foreign currencies. The maximum loss limits apply for each of the next three years. These limits are set as a percentage of Group capital and as a percentage of net interest income and are allocated to the various banking units of the Group based on their contribution to net interest income. Small limits for open interest rate positions for periods of more than three years are also in place.

Sensitivity analysis

The table below sets out the impact on the Group's net interest income, over a one-year period, from reasonably foreseeable changes in the interest rates of the main currencies:

Interest rate sensitivity analysis	**Euro**	**US Dollars**	**British Pounds**	**Other currencies**	**Total**
			(€'000)		
Year ended 31 December 2013					
+0.5% for all currencies.................................	8,531	2,862	594	71	**11,133**
-0.25% for Euro, US Dollars and Japanese Yen, 0% for Swiss Franc and -0.5% for all other currencies...	(4,265)	(1,431)	(594)	(516)	**(6,275)**
Year ended 31 December 2012					
+1.0% for all currencies.................................	(11,197)	23,276	4,876	(833)	**27,699**
-0.25% for Euro, US Dollars and Japanese Yen, -0.1% for Swiss Franc and -0.5% for all other currencies...	7,640	(2,905)	(1,281)	280	**7,576**

The total change in net interest income differs from the sum of the changes for each individual currency as it has been calculated using the actual correlation coefficients between the interest rates of the various currencies.

In addition to the fluctuations in net interest income presented in the table above, the Group results are also affected by changes in interest rates which result in fluctuations in the fair value of investments at fair value through profit or loss (including investments held for trading) and in the fair value of derivative financial instruments.

The equity of the Group is also affected by changes in market interest rates. The impact on the Group's equity arises from changes in the fair value of fixed-rate debt securities classified as available-for-sale (unless impaired) as well as from changes in the fair value of derivative financial instruments including investments which are hedging instruments in effective cash flow hedge relationships.

The sensitivity analysis is based on the assumption of a parallel shift of the yield curve. The table below sets out the impact on the Group's loss before tax and equity (excluding the effect on equity from the impact on loss) as a result of reasonably possible changes in the interest rates of the major currencies.

Interest rate sensitivity analysis	**Impact on loss before tax**	**Impact on equity**
	(€'000)	
Year ended 31 December 2013		
+0.5% for all currencies	3,549	(1,392)
-0.25% for Euro, US Dollars and Japanese Yen, 0% for Swiss Franc and -0.5% for all other currencies	(1,776)	705
Year ended 31 December 2012		
+1.0% for all currencies	15,024	(3,455)
-0.25% for Euro, US Dollars and Japanese Yen, -0.1% for Swiss Franc and -0.5% for all other currencies	(3,802)	878

3.17.2.2 Currency Risk

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

In order to manage currency risk, the Group Assets and Liabilities Committee has approved open position limits for the total foreign exchange position limits. The foreign exchange position limits are lower than those prescribed by the CBC. These limits are monitored daily by market risk officers in all the banking units of the Group, who report the overnight foreign currency position of each unit to Group Market Risk Management daily.

The Group does not maintain a currency trading book.

The table below sets out the Group's currency 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 historical price fluctuations. The impact on loss after tax and on equity includes the change in net interest income that arises from the change of currency rate and also the impact on results from the open currency position.

Currency risk sensitivity analysis	**Change in exchange rate**	**Impact on loss after tax and equity**
	(%)	**(€'000)**
Year ended 31 December 2013		
U.S. Dollar	+8	647
Russian Rouble	+8	299
Romanian Lei	+8	(2,584)
Ukrainian Hryvina	+8	2,593
Swiss Franc	+8	3,342
British Pounds	+8	2,233
Japanese Yen	+15	768

Currency risk sensitivity analysis	Change in exchange rate	Impact on loss after tax and equity
	(%)	(€'000)
Other currencies	+8	1,390
U.S. Dollar	-8	(551)
Russian Rouble	-20	(573)
Romanian Lei	-8	2,202
Ukrainian Hryvina	-30	(6,882)
Swiss Franc	-8	(2,847)
British Pounds	-8	(1,902)
Japanese Yen	-15	(568)
Other currencies	-8	(1,184)
Year ended 31 December 2012		
U.S. Dollar	+8	1,787
Russian Rouble	+8	(3,603)
Romanian Lei	+8	(2,126)
Ukrainian Hryvina	+5	2,671
Swiss Franc	+8	2,616
British Pounds	+8	713
Australian Dollar and Japanese Yen	+10	375
Other currencies	+8	2,493
U.S. Dollar	-8	(1,522)
Russian Rouble	-8	3,068
Romanian Lei	-8	1,811
Ukrainian Hryvina	-20	(8,459)
Swiss Franc	-8	(2,228)
British Pounds	-8	(607)
Australian Dollar and Japanese Yen	-10	(307)
Other currencies	-8	(2,121)

3.17.2.3 Price Risk

Equity Securities Price Risk

The risk of loss from changes in the price of equity securities arises when there is an unfavourable change in the prices of equity securities held by the Group as investments.

In order to control the risk of loss from changes in the price of equities, there are maximum limits for the amounts that can be invested in equity securities in the trading book and other restrictions, including maximum amount invested in a specific issuer or specific industry.

Changes in the prices of equity securities that are classified as investments at fair value through profit or loss, affect the results of the Group, whereas changes in the value of equity securities classified as available-for-sale affect the equity of the Group (if not impaired).

The table below shows the impact on the loss before tax and on equity (excluding the effect on equity from the impact on loss) of the Group from a change in the price of the equity securities held, as a result of reasonably possible changes in the relevant stock exchange indices.

Equity securities price risk	Change in index	Impact on loss before tax	Impact on equity
	(%)	(€'000)	
Year ended 31 December 2013			
Cyprus Stock Exchange	+30	716	3,789
Athens Stock Exchange	+25	−	115
Moscow Stock Exchange	+20	−	194
Bucharest Stock Exchange	+20	−	16,226
Cyprus Stock Exchange	-30	(2,629)	(1,875)
Athens Stock Exchange	-25	(77)	(38)
Moscow Stock Exchange	-20	(72)	(122)
Bucharest Stock Exchange	-20	(16,226)	−
Year ended 31 December 2012			
Cyprus Stock Exchange	+50	2,671	3,931
Athens Stock Exchange	+30	−	301
Moscow Stock Exchange	+20	−	140
Bucharest Stock Exchange	+20	−	10,885
Other Stock Exchanges	+15	421	−
Cyprus Stock Exchange	-50	(6,171)	(430)
Athens Stock Exchange	-30	−	(301)
Moscow Stock Exchange	-20	−	(140)
Bucharest Stock Exchange	-20	(10,885)	−
Other Stock Exchanges	-15	(421)	−

Debt Securities Price Risk

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 changes. The Group invests a significant part of its liquid assets in debt securities issued mostly by governments and banks. The average Moody's rating of the debt securities portfolio of the Group at the date of this Prospectus was B2 (30 June 2014: B3; 31 December 2013: Ba3; 31 December 2012: Baa1).

Changes in the prices of debt securities classified as investments at fair value through profit or loss, affect the profit or loss of the Group, whereas changes in the value of debt securities classified as available-for-sale affect the equity of the Group (if not impaired).

The table below indicates how the loss before tax and shareholders equity of the Group will be affected from reasonably possible changes in the price of the debt securities held, based on observations of changes in credit risk over the past years.

Debt securities price risk	**Impact on loss before tax**	**Impact on equity**
Change in market prices	**(€'000)**	
Year ended 31 December 2013		
+7.0%	1,050	50,610
-7.0%	(1,050)	(50,610)
Year ended 31 December 2012		
+7.0%	885	71,501
-7.0%	(885)	(71,501)

3.18 MANAGEMENT AND CORPORATE GOVERNANCE

3.18.1 Overview

In April 2014, the CSE issued an updated Corporate Governance Code. As a company listed on the main market of the CSE, the Bank has adopted the Corporate Governance Code and applies its principles. Although the Bank currently complies with the provisions of the Corporate Governance Code, there were certain exceptions during 2013 relating to (i) the independence of directors and the composition of the committees of the Board of Directors prior to the appointment of the interim Board of Directors and (ii) the participation of the Chief Executive Officer in the Risk Committee of the interim Board of Directors (which was agreed with the CBC). These exceptions have been rectified. In addition, in August 2014, the CBC issued the Governance Directive, which, among other things, limits the number of directorships to a maximum of 13 (two of which must be executive directors). The Board of Directors was then comprised of 13 non-executive Directors, 11 of whom were independent, and one executive Director. As required by the Governance Directive, the Bank informed the CBC of its non-compliance with the foregoing provision and provided the CBC with a timetable for compliance within the statutory time period of one year. Following the appointment of the current Board of Directors at the AGM on 20 November 2014, the Bank is in compliance with the Governance Directive.

3.18.2 Board of Directors

On 26 April 2013 the CBC, in its capacity as Resolution Authority, appointed an interim Board of Directors, in accordance with the requirements of the MoU. As agreed in the MoU, the interim Board of Directors' appointment was to be effective until the next general meeting of the Bank's shareholders. On 30 July 2013 the CBC, in its capacity as Resolution Authority, notified the Bank that it was no longer under resolution. Consequently, the shareholders' rights were reinstated as of that date and on 10 September 2013 the shareholders of the Bank elected a new Board of Directors. On 22 September 2014, in a letter to the Bank, the CBC requested that all members of the Board of Directors resign (with the possibility of re-election) effective as of the date of the forthcoming AGM on 20 November 2014, in order to allow a new Board of Directors to be chosen by shareholders, including new shareholders following the Capital Raising. On 20 November 2014, the current Board of Directors was elected at the AGM.

The Board of Directors is currently comprised of eight non-executive Directors, seven of whom are independent, and two executive Directors. The primary role of the Board of Directors is to provide entrepreneurial leadership of the Group within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board of Directors sets the Group's strategic objectives, ensures that the necessary financial and human resources are in place for the Group to meet its objectives and reviews management performance. The Board of Directors also sets the Group's values and standards and ensures that its obligations towards its shareholders and other stakeholders are understood and met.

The Board of Directors meets on a regular basis and has a formal schedule of matters for consideration. During 2013, 68 meetings of the Board of Directors were held due to the unprecedented and particularly challenging events and circumstances affecting the Group. The main areas of focus for the Board of Directors were the preparation of the Bank's strategy and Restructuring Plan, liquidity and arrears management, the Recapitalisation and the implementation of the various decrees issued by the Resolution Authority, improvement of the risk management framework, the smooth integration of Laiki Bank and the general improvement of operational efficiency through branch rationalisation and the implementation of voluntary retirement schemes. 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.

In accordance with the articles of association of the Bank, at each annual general meeting, one third of the Directors retire, but are able to stand for re-election, and the directors to retire in every year are those that have been longest in office since their last election. In practice, this means that every director stands for re-election at least once every three years.

3.18.3 Board Committees

The terms of reference of each of the committees of the Board of Directors are based on the relevant provisions of the Corporate Governance Code and relevant Directives issued by the CBC. Pursuant to the terms of reference, specific responsibilities have been delegated to committees of the Board of Directors, as follows:

- *Audit Committee*– The audit committee as of the date of this Prospectus comprises three non-executive Directors, the majority being independent. The audit committee considers and makes recommendations to the Board of Directors on matters relating to the review and assessment of, among others, the Group's financial statements and the adequacy and effectiveness of the system of internal controls based on the reports prepared by the Group internal audit function. The audit committee also considers and makes recommendations to the Board of Directors on compliance issues based on the reports prepared by the Group compliance function. The audit committee oversees the Group's external auditors and its relationship with the Group, including the monitoring of the balance between audit and auxiliary non-audit services. The audit committee held 26 meetings during 2013.
- *Remuneration and Human Resources Committee*– The remuneration and human resources committee as of the date of this Prospectus comprises three non-executive Directors, the majority being independent. The remuneration and human resources committee considers and makes recommendations to the Board of Directors on matters relating to the remuneration of executive and non-executive Directors and senior executive management, as well as the overall Group remuneration policy. The remuneration and human resources committee prepares the annual Board of Directors remuneration report which is ratified by the Board of Directors and submitted to the shareholders at the annual general meeting. The remuneration and human resources committee held ten meetings during 2013.
- *Nominations and Corporate Governance Committee* – The nominations and corporate governance committee as of the date of this Prospectus comprises three non-executive Directors, all of whom are independent. The nominations and corporate governance committee makes recommendations to the Board of Directors for the appointment of new directors in order to fill vacant positions on the Board of Directors, taking into consideration relevant factors and criteria. The nominations and corporate governance committee also assesses the structure, size, composition and performance of the Board of Directors on an annual basis and submits any recommendations to the Board of Directors. The nominations and corporate governance committee is responsible for the formulation of the succession plans of the Board of Directors. In addition, the nominations and corporate governance committee has general responsibility for the application of corporate governance principles by the Group. The nominations and corporate governance committee held 12 meetings during 2013.
- *Risk Committee* – The risk committee as of the date of this Prospectus five non-executive Directors, all of whom are independent. The risk committee examines, *inter alia*, the Group's risk policy and systems and assesses annually the adequacy and effectiveness of the risk management policy and makes recommendations to the Board of Directors regarding these matters. The risk committee held 13 meetings during 2013.

3.18.4 Directors and Senior Managers

The Board of Directors of the Bank, which is also the Group's main board of Directors, currently has eight non-executive Directors, seven of whom are independent, and two executive Directors. The business address of each of the directors in their capacity as Directors of the Bank is 51 Stassinos Street, Ay. Paraskevi, Strovolos, 2002 Nicosia, Cyprus and their respective positions and date appointed to the Board of Directors are as follows:

Name	Position	Committee Membership	Date of Appointment
Josef Ackermann	Chairman and Independent Director	Nominations and Corporate Governance Committee	20 November 2014
Wilbur L. Ross	Vice-Chairman and Independent Director	Nominations and Corporate Governance Committee; Risk Committee	20 November 2014
Vladimir Strzhalkovskiy	Vice-Chairman and Independent Director	Nominations and Corporate Governance Committee; Risk Committee	10 September 2013
John Patrick Hourican	Chief Executive Officer and Executive Director		26 November 2013
Christodoulos Patsalides	Finance Director and Executive Director		20 November 2014
Arne Berggren	Non-Executive and Independent Director	Audit Committee; Risk Committee	20 November 2014
Maksim Goldman	Non-Executive and Non-Independent Director	Remuneration and HR Committee; Audit Committee	20 November 2014
Marios Kalochoritis	Non-Executive and Independent Director	Remuneration and HR Committee; Risk Committee	10 September 2013
Michael Spanos	Non-Executive and Independent Director	Remuneration and HR Committee	20 November 2014
Ioannis Zographakis	Non-Executive and Independent Director	Audit Committee; Risk Committee	10 September 2013

In accordance with the Articles, at every AGM of the Bank, one-third of the Directors for the time being, or if their number is not three or a multiple of three, then the nearest number to one-third, retire from office (with the possibility of re-election).

Dr. Josef Ackermann. *Chairman and Independent Director*. Dr. Ackermann is the former chairman of the management board and the group executive committee at Deutsche Bank. Mr. Ackermann joined Deutsche Bank's board of managing directors in 1996, where he was responsible for the investment banking division. Under his leadership, this business unit developed into one of Deutsche Bank's principal revenue sources and entered the top group of global investment banks. Prior to Deutsche Bank, Mr. Ackermann was president of Schweizerische Kreditanstalt (SKA), today's Credit Suisse. Mr. Ackermann has held numerous board positions including sitting on the board of directors at Zurich Insurance Group, Royal Dutch Shell plc and Siemens AG, among others. Today, he still holds numerous mandates, amongst them as a member of the board of directors at Investor AB, EQT Holdings AB, Renova Management AG and Belenos Clean Power Holding Ltd. Mr. Ackerman also serves as honorary chairman of the St. Gallen Foundation for International Studies, honorary senate member of the Foundation Lindau Nobel Prizewinners Meetings at Lake Constance, vice chair and a member of the board of trustees of The Conference Board and advisory director at New York's Metropolitan Opera, among other posts. Mr. Ackerman also served as vice-chairman of the foundation board of the World Economic Forum. Mr. Ackermann studied economics and social sciences at the University of St. Gallen, where he earned his doctorate, and holds an honorary doctorate from the Democritus University of Thrace in Greece. Mr. Ackermann is also an honorary fellow of the London Business School, was visiting professor in finance at the London School of Economics, and was appointed honorary professor at the Johann Wolfgang Goethe University in Frankfurt.

Wilbur L. Ross, Jr. *Vice-Chairman and Independent Director*. Mr. Ross is the Founder, Chairman and Chief Strategy Officer of WL Ross & Co. LLC, a private equity firm. Mr. Ross was also formerly the Chief Executive Officer of WL Ross prior to stepping down from this role on April 30, 2014 to become its Chief Strategy Officer. Mr. Ross is currently a member of the board of directors of International Textile Group, Inc., a global, diversified textile provider; Assured Guaranty Ltd., a holding company that provides credit protection products to the United States and international public finance, infrastructure and structured finance markets; The Governor and Company of the Bank of Ireland, a commercial bank operation in Ireland, BankUnited, Inc., a savings and loan holding company; Navigator Holdings Ltd., a provider of international seaborne transportation services; NBNK Investments PLC, a financial services special purpose acquisition company; Ocwen Financial Corporation, a residential and commercial loan servicing company; Sun Bancorp, a bank holding company; Talmer Bancorp, a bank holding company; and International Automotive Components Group, Inc., an auto parts supplier company. Mr. Ross formerly served as a member of the board of directors of Plascar Participacoes SA, a manufacturer of automotive interiors, until 2014 and Air Lease Corporation, an aircraft leasing company from 2010 to December 2013; International Coal Group from April 2005 to June 2011, Montpelier Re Holdings Ltd., a reinsurance company, from 2006 to March 2010; The Greenbrier Companies, a supplier of transportation equipment and services to the railroad industry from June 2009 until January 2013. Mr. Ross was Executive Managing Director of Rothschild Inc. for 24 years before acquiring that firm's private equity partnerships in 2000. Mr. Ross is a graduate of Yale University and of Harvard Business School. Through the course of Mr. Ross' career, he has served as a principal financial adviser to, investor in, and director of various companies across the globe operating in diverse industries, and he has assisted in restructuring more than $200 billion of corporate liabilities. Mr. Ross is well qualified to serve as a director due to his over 35 years of experience in private equity, numerous public and private company directorship roles, and globally-recognized financial expertise having been elected to both the Private Equity Hall of Fame and the Turnaround Management Association Hall of Fame.

Vladimir Strzhalkovskiy. *Vice-Chairman and Independent Director*. Mr. Strzhalkovskiy was born in 1954. He has a Ph.D. degree in economics (applied mathematics) from the Institute of Transitional Economics, Moscow, Russia. He has served as the deputy minister of the Ministry of Economic Development of the Russian Federation from July 2000 to November 2004, chairman of the executive board of the World Tourism Organisation from 2003 to 2004 and head of the Federal Agency Tourism Organisation from November 2004 to August 2008. He has also served as chief executive officer of JSC Norilsk Nickel from 2008 to 2012, as a member of the board of directors of Inter RAO UES, a diversified energy company, from June 2011 to June 2013 and as chief executive officer and chairman of the management board from August 2008 to December 2012 and as vice president from December 2012 to June 2013 of the Mining and Metallurgical Company.

John Patrick Hourican. *Chief Executive Officer and Executive Director*. Mr. Hourican was born in 1970. He served as the former head of investment banking at RBS from October 2008 until February 2013. Between 2007 and 2008, he served on behalf of a consortium of banks (RBS, Fortis and Santander) as chief financial officer of ABN AMRO Group and as a member of its managing board. He joined RBS in 1997 as a leveraged finance banker. He held a variety of senior positions within RBS's wholesale banking division, notably on the division's board as finance director and chief operating officer. He also ran RBS's leverage finance business in Europe and Asia. Mr. Hourican started his career at Price Waterhouse and he is a Fellow of the Institute of Chartered Accountants in Ireland. He is a graduate of the National University of Ireland and Dublin City University.

Dr. Christodoulos Patsalides. *Finance Director and Executive Director*. Dr. Patsalides currently serves as Finance Director of the Bank. From 1989 to 1996, Mr. Patsalides previously worked for the CBC in the Management of Government External Debt and Foreign Exchange Reserves department. In 1996, Mr. Patsalides joined the Bank where he has held a number of positions in corporate banking, treasury and private banking, among others. In Dr. Patsalides' current capacity as Finance Director, he is responsible for Finance, Treasury, Investor Relations, Economics Research and Procurement. Mr. Patsalides holds a PhD in Economics from the London School of Economics.

Arne Berggren. *Non-Executive and Independent Director*. Mr Berggren has been involved in corporate and bank restructurings working for both the private sector as well as for international organizations since the early 90s staring with Nordea during the Swedish financial crisis. This was followed by bank crises management and bank restructuring assignments in numerous countries in Latin America, Eastern Europe and Asia, and more recently during the current financial crisis in the Baltics, Spain and Slovenia. He has been head of

Financial Restructuring and Recovery at Carnegie Investment Bank AB and Swedbank AB and as CEO of Swedcarrier AB he led the restructuring of parts of Swedish Rail. Mr Berggren has held numerous board positions in the financial and corporate sector and currently serves on the board of directors at LBT Varlik Yönetim AS and DUTB Ldt. He is a graduate of the University of Uppsala, Sweden

Maksim Goldman. *Non-Executive and Non-Independent Director*. Mr. Goldman currently serves as Director of Strategic Projects at Renova where he is responsible for coordinating the business development of various significant assets under management of the Group. Previously, Mr. Goldman served as Deputy Chief Investment Officer of Renova Group, responsible for implementing the investment policy and support of key mergers and acquisitions transactions. During 2005 to 2007 he worked as Vice President and International Legal Counsel of Sual-Holding, which was the management company for OAO "SUAL", the second largest aluminium company in Russia, and also participated in the creation of UC Rusal through combination of the assets of Sual-Holding, Rusal and Glencore. From 1999 to 2005 Mr. Goldman worked as an associate at Chadbourne & Parke LLP in New York and in Moscow. Mr. Goldman holds a J.D. from the School of Law, University of California (Los Angeles). He also holds a Bachelor of Arts degree in History at the University of California (Los Angeles).

Marios Kalochoritis. *Non-Executive and Independent Director*. Mr. Kalochoritis holds an MBA from Harvard Business School and a B.Sc. in Finance from Louisiana State University. He was born in 1973. He is a Co-Founder and the Managing Partner of Loggerhead, a multi discipline consulting firm. He is based in Dubai and Nicosia. During the period from 2008 through 2013, he lived in Cyprus where, as the managing director, he set up and ran the operations and risk management function of a global macroeconomic hedge fund. Prior to that he was senior vice president for Credit Suisse Bank in Zurich and was in charge of business development for Central and Eastern Europe and Turkey. Between 2003 and 2006 he was the chief financial officer for Amana Group in Dubai, a major regional construction group. Prior to that he was the co-founder of a boutique investment bank in New York. He started his career at Enron in Houston where as a financial analyst and later an associate in the finance department, he analysed and made investments in oil and gas, energy and other infrastructure opportunities around the world. He also interned with J.P. Morgan bank in New York and McKinsey & Co in Athens. He joined the Board on 10 September 2013 and has served the Bank as Chairman of Kermia Group and as a member of the Board of PJSC Bank of Cyprus Ukraine and several Board Committees. He currently represents the Group as a Non-Executive Director on the Board of Bank of Cyprus UK.

Michael Spanos. *Non-Executive and Independent Director*. Mr. Spanos, a former director of the CBC, is a Managing Director of M.S. Business Power Ltd, which provides consultancy services on strategic and business development (since 2008); non executive Chairman of Lanitis Bros Ltd (since 2008); founding Chairman of Green Dot (Cyprus) Public Co Ltd (since 2004); and a member of the board of directors of Coca-Cola Içecek (since 2012). Mr. Spanos worked at Lanitis Bros Ltd from 1981 to 2008 as Marketing Manager, General Manager and Managing Director. Between 2005 and 2009, Mr. Spanos served as vice-chairman of the board of directors of the Cyprus International Institute (Republic of Cyprus and Harvard School of Public Health). Mr. Spanos has also served on other boards, such as Heineken-Lanitis Cyprus Ltd (2005 to 2007), Lumiere TV Public Ltd (2000 to 2012), A. Petsas & Sons Public Ltd (2000 to 2007) and CypriaLife Insurance Ltd (1995 to 2000). Mr. Spanos was appointed to the CBC board of directors in May 2013, of which he is a former director. Mr. Spanos holds a Master's degree in economics from North Carolina State University.

Ioannis Zographakis. *Non-Executive and Independent Director*. Mr. Zographakis was born in 1963. He holds a bachelor's degree in civil engineering from Imperial College in London and an MBA from Carnegie Mellon University. He has worked with Citibank for over 20 years, in the United States, United Kingdom and Greece. He started his career in 1990 with Citibank in Greece as a management associate for Europe, Middle-East and Africa (EMEA). He then worked as the deputy treasurer and treasurer for the consumer bank in Greece, before moving to the United States in 1996 as the director of finance for CitiMortgage. In 1997 he became the financial controller for Citigroup's consumer finance business in the United States and then he was the chief financial officer for the consumer assets division. From 1998 until 2004 he worked in the Student Loan Corporation, a Citigroup subsidiary and a New York Stock Exchange-traded company. He started as the chief financial officer, became chief operations officer and in 2001 he was named the chief executive officer. In 2005 he became Citibank's consumer lending head for Europe, Middle-East and Africa and the United Kingdom retail bank head. In 2006, he took a position as Citibank's retail bank head in Greece where he stayed until 2011. He has been a director of the Student Loan Corporation, a director and the secretary of the audit committee for Tiresias (Greek Credit Bureau), a director and member of the audit committee for Diners Club Greece, the vice-chairman of the Citi insurance brokerage board in Greece and the chairman of the investments and insurance supervisory committee in Citibank Greece.

Save as set out below, there are no existing or proposed service agreements between any Director and any member of the Group providing for benefits upon termination of employment.

In addition to the executive management appointed to the Board of Directors, the Chief Risk Officer (the "**Senior Manager**") reports directly to the Board of Directors and is considered relevant to establishing that the Bank has the appropriate expertise for the management of its business:

Name	Position	Date of Appointment
Michalis Athanasiou	Chief Risk Officer	12 May 2014

Michalis Athanasiou. *Chief Risk Officer*. Mr. Athanasiou started his career in the treasury department of Laiki Bank in September 1995 and was appointed treasurer in 2003, where he, among other things, established Laiki Bank's first EMTN program. From June 2006 until the beginning of 2011 he was seconded to Laiki Bank Australia, as its chief executive officer and a member of its board of directors. On his return to Cyprus in 2011, he was appointed Laiki Bank's director of international operations where he was responsible for subsidiaries in Romania, Serbia and Estonia. In January 2012, Mr. Athanasiou was appointed Laiki Bank's group chief risk officer and he was reappointed to the same role in November 2013 when he joined the Bank following the application of the Laiki Transfer Decrees. Mr. Athanasiou is a member of the board of directors of CLR investment Fund PLC. Mr. Athanasiou holds a B.Sc. degree (with honours) in accounting and finance from the University of North London and an M.Sc (with Distinction) from the University of Reading in international securities, investment and banking.

The service contracts of executive directors and the Group's senior management comprise the service contract of Mr. John Patrick Hourican. This service contract has a three-year term and includes a clause providing for compensation in the event of an unjustified early termination equivalent to three monthly salaries.

3.18.5 Statements of the Members of the Board of Directors and Senior Manager

The members of the Board of Directors and Senior Manager of the Bank made the following statements:

(i) There is no family relationship or relationship by marriage of up to second degree, with any members of the administrative, management or supervisory bodies or senior management of the Bank.

(ii) They have not been convicted in relation to fraudulent offences for the previous five years.

(iii) Other than as set out immediately below, they have not been a director or senior manager of any company at the time of any bankruptcy, receivership or liquidation of such company within the previous five years.

During the last five years, Mr. Ross has been the director of companies that have entered into arrangements with their creditors as part of strategic efforts to improve their financial condition. For many years, Mr. Ross has led the investment firm WL Ross & Co, LLC, which specializes in recapitalizing and turning around troubled companies. When WL Ross & Co, LLC invests in a troubled company, Mr. Ross is sometimes appointed to the board of directors of the portfolio company. As part of their turnaround efforts, some of these portfolio companies have worked with creditors to restructure their debt and improve their future prospects.

(iv) No official public incrimination and/or sanctions have been made against them by statutory or regulatory authorities (including designated professional bodies) and they have never been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of a company, for the previous five years.

(v) There are no potential conflicts of interests between their duties as members of the administrative, management or supervisory bodies of the Bank and their private or other interests.

(vi) Save as set out below, there has been no arrangement or understanding with major shareholders, customers, suppliers or others, pursuant to which any of them was selected as a member of the administrative, management or supervisory bodies or member of senior management. It is noted that their appointment has been pursuant to a resolution that was put forward by shareholders holding directly or indirectly more than 5%. Their appointment has been approved by the Annual General Meeting of 20 November 2014.

(vii) With the exception of any restrictions deriving from the current legislation, they do not have any contractual restriction on the disposal within a certain period of time of their holdings in the Bank's securities.

3.18.6 Participation of the Directors in the Boards of Directors of Other Companies

In addition to their positions within the Group, the following Directors hold or have held the following directorships, and/or were members of the following partnerships, within the past five years:

Name	Current directorships/ partnerships	Past directorships/ partnerships	Date of resignation
Dr. Josef Ackermann	Investor AB	Deutsche Bank AG	May 2012
	EQT Holdings AB	Zurich Insurance Group	August 2013
	Renova Management AG	Royal Dutch Shell plc	May 2014
	Belenos Clean Power Holding Ltd.	Siemens AG	September 2013
	St. Gallen Foundation for International Studies (honorary Chairman)	World Economic Forum.	October 2014
	Foundation Lindau Nobel Prizewinners Meetings at Lake Constance (honorary senate member)		
	New York's Metropolitan Opera (Advisory Board)		

Name	Current directorships/ partnerships	Past directorships/ partnerships	Date of resignation
Wilbur L. Ross, Jr.	WL Ross Holding Corp[1]	Homeward Residential, lnc.	2013
	Arcelor Mitta1	Nikko Electric Industry Co. Ltd.	December 2009
	Diamond S Shipping LLC	Montpelier Re Holdings Ltd.	February 2010
	Diamond S Shipping Group, Inc.	Spice Jet, Ltd.	June 2010
	DSS Holdings LP	Whitney Museum of American Art	August 2010
	EXCO Resources, Inc.	International Coal Group, Inc.	June 2011
	International Automotive Group North America, Inc.	Compaigne Europeene de Wagons S.a.r.l.	May 2012
	International Automotive Group GmbH	Insuratex, Ltd.	May 2012
	International Automotive Group Japan, LLC	Nano-Tex, Inc.	May 2012
	International Automotive Components Group, S.A.	The Committee on Capital Market Regulation Inc.	2013
	Brookings Economic Studies Council	Greenbrier Companies, Inc.	January 2013
	Harvard University -Committee on University Resources	OCM, Ltd.	December 2013
	Palm Beach Civic Association	US-India Business Council	December 2013
	Partnership for New York City	Air Lease Corp	December 2013
	Yale University School of Management -Board of Advisors	Plascar Participacoes SA	January 2014
	Harvard Business School, Dean's Advisory Board	BankUnited, FSB	March 2014
	Harvard Business School Club of New York, In c.	BankUnited, Inc.	March 2014
	The Japan Society, In c.	Governor and Company of the Bank of Ireland	June 2014
	Palm Beach Preservation Foundation	Talmer Bancorp	November 2014
	Palm Beach Retirement Funds	NBNK Investments PLC	November 2014
	Briarcliffe Condominium Apartment Building	Assured Guaranty	November 2014
	Magritte Museum	PB Materials Holdings, Inc.	November 2014
	British American Business, Inc.	Ohizumi Mfg Co. Ltd .	November 2014
		Sun Bancorp	November 2014
		Navigator Holdings Ltd.	November 2014
		Ocwen Financial Corp.	November 2014
		International Textile Group	November 2014
Vladimir Strzhalkovskiy	-	INTER RAO UES	2013
		JSC Norilsk Nickel	December 2012
John Patrick Hourican		Royal Bank of Scotland Group	28 February 2013
Dr. Christodoulos Patsalides	-	-	-
Arne Berggren	LBT Varlik Yönetim AS	Swedbank (Russia)	September 2011
	DUTB Ldt.	Swedbank (Ukraine)	September 2011
	Valot Invest		
	FABEGE		
	Skrindan/Norrvidden		
Maksim Goldman	United Company RUSAL plc	OAO "GMK Norlisk Nickel"	June 2010
	OAO "Volga"		
	FC "Ural"		
	Independence Group		
	IBR International Ltd.		

Name	Current directorships/ partnerships	Past directorships/ partnerships	Date of resignation
Marios Kalochoritis	Loggerhead Holdings Limited	Auvest Capital Management	2014
	Loggerhead Management Consultants	Auvest Opportunities IGP	2014
	Carouge Investments	Auvest Global Investments	2014
		Auvest Services Limited	2014
		Kaloprint Ltd	2011
Michael Spanos	M.S. Business Power Ltd	Central Bank of Cyprus	September 2013
	Lanitis Bros Ltd	Lumiere TV	January 2012
	Green Dot (Cyprus) Public Co Ltd		
	Coca-Cola Içecek		
Ioannis Zographakis		Tiresias A.E.	March 2011
		Citibank Greece Insurance Brokerage	March 2011
		Diners Club Greece	March 2011

(1) Mr. Ross also holds a number of non-executive director positions in WL Ross & Co. LLC and Invesco related entities, not listed here.

3.18.7 Participation of the Senior Manager in the Boards of Directors of Other Companies

Mr. Athanasiou is a member of the board of directors of CLR investment Fund PLC.

3.19 EMPLOYEES

As of 30 June 2014, the Group had 6,747 employees, the majority of whom are employed by the Group in Cyprus and Russia.

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

	31 December		30 June	
	2012	2013	2013	2014
Banking companies	10,262	7,439	9,461	6,404
Non-banking companies	510	313	361	283
Total	10,772	7,752	9,822	6,747

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

	31 December		30 June	
	2012	2013	2013	2014
Cyprus	3,498	4,262	5,669	4,249
Greece	2,891	36	84	13
Russia	3,485	2,706	3,285	2,223
Ukraine	563	504	528	-
United Kingdom	158	177	162	206
Romania	177	67	94	56
Total	10,772	7,752	9,822	6,747

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

The Cyprus Union of Bank Employees (the "**Union**") is party to a collective agreement with the Cyprus Bankers Employers' Association (of which the Bank was a member until 31 December 2013). The Bank and the Union have entered into a bilateral agreement in 2013 and agreed on a package of salary reductions, which were implemented by the Bank in June 2013. In January 2014 the Bank exited the Cyprus Bankers Employers' Association and is currently in talks with the Union for a renewal of the collective agreement. 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.

3.19.1 Cyprus

The main retirement plan for the Group's permanent employees in Cyprus (52% of total Group employees) is a defined contribution plan with effect from 1 January 2012. This plan provides for employer contributions of 14% and employee contributions of 3% to 10% of the employees' gross salaries. The defined contribution plan replaced the defined benefit plan which was in effect until 31 December 2011, which provided for a lump sum payment on retirement or death in service of up to 78 average monthly salaries depending on the length of service. This plan is managed by a committee appointed by the members.

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. This plan is managed by an administrative committee composed of representatives of both the members and the employer.

A small number of employees of Group subsidiaries in Cyprus are also members of defined benefit plans. These plans are funded, with assets backing the obligations held in separate legal vehicles.

3.19.2 Greece

As part of the disposal of the Greek operations, the staff and the related obligations under the defined benefit plan in Greece were transferred to Piraeus Bank. A small number of employees of Group Greek subsidiaries remain members of the defined benefit plans.

All employees were entitled by law to compensation in case of dismissal or a lump sum payment upon normal retirement, at rates specified in the Greek legislation. All the benefits payable under this defined benefit plan were out of the Group's assets because this plan was unfunded.

In addition, a number of employees recruited up to 31 December 2002 participated in a defined benefit plan which comprised of two schemes, A and B. Scheme A covered part of the difference between the salary and the retirement benefit and it was settled in full and terminated with the consent of the employees in October 2011. Scheme B provided for a lump sum payment on retirement of up to approximately 50 monthly salaries depending on the length of service.

The third plan applied to employees recruited after 31 December 2002 and was a defined contribution plan.

3.19.3 United Kingdom

The Group's employees in the United Kingdom (2% of total Group employees) are covered by a defined contribution plan for all current employees and certain employees are covered by a defined benefit plan which was closed in 2013 to new members and was closed in December 2008 to future accrual of benefits for active members.

3.19.4 Other Countries

The Group does not operate any retirement benefit plans in Romania and Russia.

3.19.5 Share Option Plan

In 2008 the Bank granted share options to Group employees and in 2009 it approved the granting of additional share options under the 2008 options scheme. The fair value of the 12.5 million share options 2008/2010 issued on 28 May 2008 was measured at the grant date using the trinomial valuation model and amounted to €1.17 per share option. The main variables taken into account by the model are the share price (€8.56 on 28 May 2008), the exercise price (€9.41), the dividend yield (8.1%), the risk free interest rate (4.2%), the duration of the share options and the expected volatility of the share price (31.3% on an annual basis calculated using the historic volatility of the share).

The fair value of the additional 2,362 thousand share options 2008/2010 issued on 9 July 2009 was measured at the grant date using the trinomial valuation model and amounted to €0.87 per share option. The main variables taken into account by the model are the share price (€4.10 on 9 July 2009), the exercise price (€5.50), the dividend yield (6.9%), the risk free interest rate (2.7%), the duration of the share options and the expected volatility of the share price (23.6% on an annual basis calculated using the historic volatility of the share).

The share options 2008/2010 were vested in full on 31 December 2010 and could be exercised by their holders from 1 January to 31 March of years 2011, 2012 and 2013 and from 1 November to 31 December of years 2012 and 2013. The share options 2008/2010 were not transferable and were unlisted.

In accordance with their issue terms, the exercise price of the share options was adjusted to reflect the sequence of corporate actions and changes pursuant to the relevant provisions of the Bail-in Decrees.

The share options 2008/2010 lapsed on 31 December 2013.

3.20 LITIGATION AND RELATED MATTERS

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. The investigations and litigation proceedings disclosed below may have an impact on the financial position or profitability of the Group and on the Group's reputation in the market. At the same time, most cases and matters relate to the period prior to the issue of the decrees issued following the adoption of the Resolution Law in March 2013 (the "**Decrees**") and to the problems brought about as a result of the said Decrees. In most cases, the Bank believes that it has viable defences which it will advance in the course of the relevant proceedings.

3.20.1 Investigations and Litigation on Securities Issued by the Bank

A number of customers have filed actions against the Bank alleging that the Bank is guilty of mis- selling in relation to securities issued by the Bank and have claimed various remedies, including the return of the money they have paid. The Bank is contesting these claims, which are pending before the courts in Cyprus and in Greece.

The bonds and capital securities in respect of which claims have been brought are the following: 2007 Capital Securities, 2008 Convertible Bonds, 2009 Convertible Capital Securities and CECS.

The Bank observes that such claims vary between themselves considerably. In the case of many of them (including all institutional investors and those purchasers who had received investment advice from independent investment advisors before proceeding with the purchase) the Bank believes that it has a number of viable legal defences, which it will advance in the course of proceedings, particularly with respect to institutional holders. In the case of retail investors, particularly where it can be documented that the relevant Bank officers "persuaded" them to proceed with the purchase and/or purported to offer "investment advice", the Bank may face more significant difficulties. In any event, the resolution of the claims brought in the courts of Cyprus and Greece could take a number of years. Whilst there can be no assurance that the Bank will be successful in defending all the relevant claims, it is not thought that such claims will have a material impact on the financial condition of the Bank.

In addition, the CBC has conducted an investigation into the Bank's issue of capital securities and concluded that the Bank breached certain regulatory requirements concerning the issue of 2009 Convertible Capital Securities but not in relation to the CECS. The CBC imposed upon the Bank a fine of €4,000. On 25 October 2014, the Bank filed a recourse before the Supreme Court against the CBC's ruling and its imposition of a fine.

3.20.2 The Hellenic Capital Market Commission Investigation

The Bank is currently under investigation in Greece by the HCMC in relation to the issue of 2009 Convertible Capital Securities and CECS. The HCMC is investigating whether the Bank violated certain provisions of Greek law by providing investment advice without having entered into the required client agreements or having conducted the required fitness test pursuant to Article 25 of Greek law 3606/2007 (transposing Directive 2004/39/EC on Markets in Financial Instruments) and the implementing regulation.

The HCMC may impose a fine of up to €3 million or an amount equal to double the amount of any benefit accrued to the Bank. If the HCMC imposes a fine on the Bank, the Bank has the right to judicial review in the administrative courts in Greece. An adverse outcome may facilitate civil actions against the Bank. However, the Group does not expect that the final outcome will have a material adverse effect on the financial condition or the reputation of the Group. While the decision of the HCMC in this matter will not be binding on the Greek or Cypriot courts, it may be put before the court by the complainants in any proceedings against the Bank.

Overall, though much litigation may be expected, it is not believed that such litigation, when concluded, will have a material impact upon the financial position of the Bank.

3.20.3 The Cyprus Securities and Exchange Commission Investigations

On 2 August 2013, CySEC published its conclusions regarding an investigation it had conducted into the Bank concerning the failure in June 2012 to disclose material information to investors concerning a capital shortfall to meet the EBA requirements. CySEC came to the conclusion that the Bank was in breach of the Law on Insider Dealing and Market Manipulation (Market Abuse) of 2005 and on 27 November 2013 imposed an administrative fine on the Bank of €70,000. On 27 November 2013, CySEC also imposed administrative fines on certain of the then members of the Board of Directors. On 14 August 2013, the Bank filed a recourse before the Supreme Court challenging CySEC's decision published on 2 August 2013. On 8 January 2014, the Bank filed a recourse before the Supreme Court challenging CySEC's decision (as far as concerns the Bank) of 27 November 2013.

CySEC has concluded (in two stages) during 2013 and 2014 its investigation in respect of the Group's exposure to Greek Government bonds, related non-disclosure of material information and other corporate governance deficiencies. In this respect, CySEC has issued two decisions, coming to the conclusion that the Bank was in breach of certain laws regarding disclosure of information and has imposed as administrative fines upon the Bank the total sum of €1,110,000. It has also imposed fines upon certain of the then members of the Board of Directors of the Bank and management of the Bank. The Bank has filed a recourse before the Supreme Court regarding the decisions of CySEC and the fines imposed upon it. CySEC has meanwhile filed legal actions against the Bank for the non-payment of the fines imposed.

Recently, CySEC issued its decision regarding the Group's failure to publish its 2012 annual financial statements within the legally prescribed time limits. No fine was imposed, but a reprimand has been administered.

On 13 October 2014, CySEC issued certain "observations" to the Bank in relation to certain matters in its financial statements for 2010 and 2011 relating to certain disclosures for assumptions used in goodwill impairment testing. No fine was imposed and no reprimand was administered.

In addition to the above, as of the date of this Prospectus, CySEC is in the process of investigating:

- The increase of the share capital of Uniastrum in 2008.
- The level of goodwill impairment of Uniastrum recognised in the 2012 interim financial statements of the Bank.
- Matters concerning the Bank's investment in Banca Transilvania.
- A possible violation of Article 11 (1) (a) of Law 116 (I) / 2005, as in force, regarding the non-disclosure of inside information in relation to the funding through the ELA.
- A possible violation of Article 11 (1) (a) of Law 116 (I) / 2005, as in force, regarding the non-disclosure of inside information in relation to a request by the Bank to the Ministry of Finance for granting additional state guarantees worth €3 billion, for bonds that the Bank intends to issue for liquidity purposes.
- The adequacy of provisions for impairment of loans and advances recognised by the Bank in the years 2011 and 2012.
- The level of impairment of Greek government bonds in 2011.

A decision of CySEC will not be binding on the courts. If a person wishes to claim damages or any other remedy against the Bank, he must bring fresh proceedings against the Bank before the competent Courts of the Republic of Cyprus.

3.20.4 Bail-in Related Litigation

Depositors

A number of the affected depositors filed claims against the Bank and other parties (such as the CBC and the Ministry of Finance of Cyprus) on the ground that, *inter alia*, the Resolution Law and the Bail-in Decrees are in conflict with the Constitution of the Republic of Cyprus and the European Convention on Human Rights. Actions on the part of the affected depositors have been filed before the district courts (the "**District Courts**") and their objective is to obtain damages for the loss allegedly sustained by them as a result of the bail-in of their deposits effected by the relevant Decrees. In a number of those actions, interim orders were issued prohibiting the Bank from treating the deposits of the applicants in question as bailed-in (i.e. converted into shares of the Bank). The Bank took active steps and obtained the discharge and cancellation of all of these interim orders. In parallel, the Bank is defending the actions of depositors vigorously. Resolution of disputes through the courts in Cyprus can take five years or more and accordingly, the Bank believes that the substantive proceedings before the District Courts will take a significant period of time.

Shareholders

Numerous claims filed by shareholders against the Government and the CBC before the Supreme Court in relation to the dilution of their shareholding as a result of the Recapitalisation pursuant to the Resolution Law and the Bail-in Decrees issued thereunder. The objective of these proceedings before the Supreme Court was to obtain the annulment (i.e. cancellation and setting aside) of the Bail-in Decrees as unconstitutional and/or unlawful and/or irregular. The Bank appeared in these proceedings as an interested party and has supported the position that as with depositors the cases should be adjudicated upon in the context of private law. As of the date of this Base Prospectus, both the Resolution Law and the Bail-in Decrees have not been annulled by a court of law and thus remain legally valid and in effect. On 9 October 2014, the Supreme Court, accepting the Government's and the Bank's position, ruled that the proceedings fall within private and public law, and accordingly all recourses instituted before the Supreme Court (in its revisional jurisdiction) were dismissed. It is expected that actions for damages will be instituted in due course before the District Courts. Final adjudication of these claims through the courts in Cyprus could take a number of years.

Claims Based on Set-off

Certain claims have been filed by customers against the Bank. These claims allege that the implementation of the bail-in under the Bail-in Decrees was not carried out correctly in relation to them and, in particular, that their rights of set-off were not properly respected. Such proceedings will take a long time before a final outcome is reached and it is not thought that they will have a material impact on the financial condition of the Bank.

Laiki Bank Depositors and Shareholders

The Bank has been joined as a defendant with regard to certain claims which have been brought against Laiki Bank by its depositors, shareholders and holders of debt securities. These claims have been brought on grounds similar to the claims brought by the Bank's bailed-in depositors and shareholders as described above. Again, the legal process will be long. The Bank will continue defending such proceedings vigorously.

Implementation of Decrees

Occasionally, other claims are brought against the Bank in respect of the implementation of the Decrees issued following the adoption of the Resolution Law (as regards the way and methodology whereby such Decrees have been implemented). All such claims are being vigorously disputed by the Bank, in close consultation with the appropriate state and governmental authorities.

The position of the Bank is that the Resolution Law and the Decrees take precedence over all other laws. As matters now stand, both the Resolution Law and the Decrees issued thereunder are constitutional and lawful, in that they were properly enacted and have not so far been annulled by any court.

3.20.5 Commission for the Protection of Competition Investigation

Following an investigation, which began in 2010, the Cypriot Commission for the Protection of Competition (the "**CPC**") in April 2014 issued its statement of objections, alleging violations of Cypriot and EU competition law relating to the activities and/or omissions in respect of card payment transactions by, among others, the Bank. The CPC has alleged that the market conduct of JCC Payment Systems Limited ("**JCC**"), a card-processing business, owned and controlled by its shareholder banks, which includes the Bank (the Bank owns 75% of shares in JCC) together with the conduct of other banks, violates competition law in various respects. Both the Bank and JCC are contesting the allegations and charges.

There is also an allegation concerning the Bank's arrangements with American Express, namely that such exclusive arrangements violate competition law. The Bank contests such allegations and intends to file a defence in the matter.

A fine, if any, could be imposed as a percentage of the turnover of the Bank.

3.20.6 CNP – Arbitration

CNP had certain exclusive arrangements with Laiki Bank with respect to insurance products offered in Cyprus through the formation of a local company (CNP Cyprus). In this local company, CNP France held 50.1% of the shares and Laiki Bank held 49.9% of the shares. In the context of the total arrangement between the parties, two agreements were in place between CNP and Laiki Bank, a Shareholding Agreement (the "**Shareholding Agreement**") and a Distribution Agreement (the "**Distribution Agreement**" and, together with the Shareholding Agreement, the "**Agreements**"). As regards the Shareholding Agreement, the Bank (pursuant to the Resolution Law and the Decrees made thereunder) has succeeded to the shareholding of Laiki Bank, thus becoming a 49.9% shareholder of CNP Cyprus. Following the resolution of Laiki Bank, CNP has instituted arbitration proceedings in London under the auspices of the International Chamber of Commerce, alleging that the Bank is a successor to Laiki Bank in respect of both Agreements and that the said Agreements (particularly the Distribution Agreement) have been violated. Sums of €105 million and €75 million are claimed by CNP against the Bank. The Bank takes the view that it has viable defences in respect of both proceedings which it intends to contest vigorously. One of the defences raised by the Bank is that of frustration, namely that as a result of the very significant changes of March 2013 and subsequently the Agreements as concluded between CNP and Laiki Bank cannot possibly operate in the context of the new circumstances. The hearing of the Arbitration will take place some time in May 2016.

3.20.7 Other Litigation

The Group is involved in a number of other litigation proceedings involving cases against the Group arising in the course of its normal operating activities, mainly in Cyprus and Greece. For one of these cases (Themis case below) relating to the discontinued operations in Greece a provision of €38.3 million plus interest has been recognised, following a court judgment. The case is now pending before the Supreme Court.

Romanian Proceedings

For the past few years, two officers of the Bank have been accused of and charged with offences relating to the manipulation of the market in Romania (in respect of the purchase of a holding in Banca Transilvania). These officers were acquitted twice in the past but the Romanian Prosecution Authority filed a final appeal before the High Court of Justice, namely the highest judicial tier in Romania, before which "new evidence" was placed. In a decision issued on 2 July 2014, the High Court confirmed the previous acquittals and dismissed all charges against the accused.

Provident Fund Cases

Twenty three claims are pending before the Labour Disputes Tribunal by former employees with respect to their retirement benefits. These employees retired and/or departed in 1999 and claim that the Bank and/or the Bank's provident fund did not calculate their benefits correctly. In the event that the claims succeed, the total amount will be in the region of €24 million. A provision has been made based on management's best estimate of probable outflows.

Themis case

The Bank is the defendant in a claim by Themis Constructions ("**Themis**"), an enterprise owned by the Greek state, arising from the financing of a construction project in Greece. The project was never completed and the Bank, under an assignment agreement, sued Themis for the balance of the construction fees. The claim of the Bank was rejected and the appellate court issued a decision in favour of Themis for the amount of €38.3 million plus interest. The Supreme Court has heard an application to vacate, the judge rapporteur issued a recommendation to the Supreme Court in favour of Themis, but the Supreme Court has not yet issued its final judgments in this matter. The case relates to the discontinued operations of the Bank in Greece. The Bank does not expect that the final outcome of this case will have a material adverse effect on the financial condition or the reputation of the Bank.

Internal Audit Investigations

The Bank regularly conducts internal audit investigations with regard to a number of issues. In late May 2014, the Audit Committee reviewed an internal audit report (dated 19 May 2014) which concerned the timing of the Bank's reclassification of government bonds in 2010 and 2011, particularly with respect to the timing of reclassification of Greek government bonds during the second quarter of 2010. On the decision of the Board, this internal audit report has been recently referred to the CBC for guidance and advice. On 28 July 2014, the CBC issued a letter stating that the only issue that seems to exist is that the intention to reclassify the government bonds concerned was not appropriately documented by the Bank's top management at the time it was originally taken, as required by proper corporate governance principles. On the understanding that corrective measures have since been taken, the CBC considers the issues raised in the internal audit report to be unfounded. Based on the currently available information, the Bank is of the view that any further investigations or claims resulting from this process will not have a material impact on the financial position of the Bank.

Private Criminal Prosecutions

Six private criminal prosecutions have been instituted by certain customers of the Bank against the Bank and certain of its Directors and officers advancing their own grievances and complaints. These are proceedings instituted by individuals and not the State. Two of these concern allegations of failure to restructure loan obligations of clients, another two concern alleged misrepresentations in the financial statements, one concerns alleged conspiracy with respect to a claim under a guarantee and one refers to the registration of mortgages under false pretences. In all probability, they will be dismissed. The Bank has asked the Attorney-General to discontinue the proceedings (nolle prosequi).

General Criminal Investigations

As part of the investigations and inquiries following and relating to the financial crisis which culminated in March 2013, the Attorney-General and the Police are conducting various investigations (confidentially). The Bank is fully cooperating with the authorities of the Republic of Cyprus and is providing all information requested of it. Based on the currently available information, the Bank is of the view that any further investigations or claims resulting from these investigations will not have a material impact on the financial position of the Bank.

3.21 STATUTORY AND OTHER INFORMATION

3.21.1 Extracts from the Articles

Extracts from the Bank's Articles relating to voting rights, rights for profit distribution, rights in the case of a winding up and other provisions relating to General Meetings are presented below:

SHARES

3. Subject to any directions to the contrary that may be contained in a Special Resolution passed at the General Meeting of the Company, all new shares and/or other securities which give the right to purchase shares in the Company and/or which may be converted into shares in the Company, shall before issue be offered to the members of the Company in proportion (pro-rata) to the shares held by them on a date fixed by the Board of Directors. Such offer shall be made to the members by a notice in writing specifying the number of shares and/or other securities which give the right to purchase shares in the Company and/or which may be converted into shares in the Company, to which the member is entitled and limiting a time period within which the offer should be accepted, otherwise it will be deemed to be declined. If until the expiration of the said time period, no notification is received from the person to whom the offer was made or to whom the rights have been allotted, that he accepts all or any part of the offered shares or other securities which give the right to purchase shares in the Company or which may be converted into shares in the Company, the directors may dispose of the same in such manner, as they may think most beneficial to the Company. If, owing to any inequality in the number of the new shares of the other securities which give the right to purchase shares in the Company or which may be converted into shares in the Company and the number of shares held by members entitled to have the offer of such new shares or such other new securities that give the right to purchase shares in the Company or which may be converted into shares in the Company, any difficulty shall arise in the apportionment of such new shares and/or other securities amongst the members, such difficulty, shall, in the absence of directions by the Company in General Meeting to the contrary, be determined by the Directors.

4. Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, any share in the Company may be issued with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Company may, from time to time by ordinary resolution determine.

6. If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound up, be varied with the consent in writing of the holders of three-fourths of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class. To every such separate general meeting the provisions of these regulations relating to general meetings shall apply, but so that the necessary quorum shall be ten persons at least holding or representing by proxy one-third of the issued shares of the class and that any holder or shares of the class present in person or by proxy may demand a poll.

GENERAL MEETINGS

53 The Company shall in each year hold a general meeting as its Annual General Meeting in addition to any other meetings in that year, and shall specify the meeting as such in the notices calling it; and not more than fifteen months shall elapse between the date of one annual general meeting of the Company and that of the next. Provided that so long as the Company holds its first annual general meeting within eighteen months of its incorporation, it need not hold it in the year of its incorporation or in the following year. The annual general meeting shall be held at such time and place as the Directors shall appoint.

54. All general meetings other than annual general meetings shall be called extraordinary general meetings.

55. The Directors may, whenever they think fit, convene an extraordinary general meeting, and extraordinary general meetings shall also be convened on such requisition, or, in default, may be convened by such requisitionists, as provided by Section 126 of the Law. If at any time there are not within the Republic sufficient Directors capable of acting to form a quorum, any Director or any two members of the Company may convene an extraordinary general meeting in the same manner as nearly as possible as that in which meetings may be convened by the Directors.

NOTICE OF GENERAL MEETINGS

56. An annual general meeting and a meeting called for the passing of a special resolution shall be called by twenty-one days' notice in writing at the least, and a meeting of the Company other than an annual general meeting or a meeting for the passing of a special resolution shall be called by fourteen days' notice in writing at the least. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the place, the day and the hour of meeting and, in case of special business, the general nature of that business, and shall be given, in manner hereinafter mentioned or in such other manner, if any, as may be prescribed by the Company in general meeting, to such persons as are, under the regulations of the Company, entitled to receive such notices from the Company. Provided that a meeting of the Company shall, notwithstanding that it is called by shorter notice than that specified in this regulation, be deemed to have been duly called if it is so agreed:

(a) in the case of a meeting called as the annual general meeting, by all the members entitled to attend and vote thereat; and

(b) in the case of any other meeting by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent in nominal value of the shares giving that right.

PROCEEDINGS AT GENERAL MEETINGS

58. All business shall be deemed special that is transacted at an Extraordinary Meeting, and all business that is transacted at an Annual General Meeting shall also be deemed special, with the exception of sanctioning a dividend, the review of financial statements, and the reports of the Directors and Auditors, and other documents accompanying or annexed to the financial statements, the election of Directors in place of those retiring and the appointment and fixing of the remuneration of the Auditors.

59. No business shall be transacted at any General Meeting unless a quorum is present when the meeting proceeds to business. For all the purposes the quorum shall be at least ten persons present.

60. If, within half an hour from the time appointed for the holding of a General Meeting, a quorum is not present, the meeting, if convened on the requisition of members shall be dissolved. In any other case it shall stand adjourned to the same day in the next week at the same time and place and if at such adjourned meeting a quorum is not present within half an hour from the time appointed for holding the meeting, the members present shall be a quorum.

61. The Chairman of the Board of Directors shall preside at every General Meeting of the Company but if there be no such Chairman, or if at any meeting he shall not be present within fifteen minutes after the time appointed for holding the same, or shall be unwilling to act as Chairman, the members present shall choose some Director, or if no Director be present, or if all the Directors present decline to take the chair, they shall choose some member present to be Chairman of the meeting.

62. The Chairman may, with the consent of any meeting at which a quorum is present, and shall, if so directed by the meeting, adjourn any meeting from time to time and from place to place as the meeting shall determine. Whenever a meeting is adjourned for thirty (30) days or more, notice of the adjourned meeting shall be given in the same manner as in the case of an original meeting. Save as aforesaid, no member shall be entitled to any notice of an adjournment or of the business to be transacted at an adjourned meeting. No business shall be transacted at any adjourned meeting other than the business which might have been transacted at the meeting from which the adjournment took place.

63. At any General Meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded:

(a) by the Chairman, or

(b) by at least ten members present in person or by proxy, or

(c) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting, or

(d) by a member or members holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll be so demanded a declaration by the Chairman that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

64. If a poll be demanded in manner aforesaid, it shall be taken at such time (within fourteen days) and place, and in such manner, as the Chairman shall direct, and the result of the poll shall be deemed to be resolution of the meeting at which the poll was demanded. The demand for a poll may be withdrawn.

65. No poll shall be demanded on the election of a Chairman of a meeting or on any question of adjournment.

66. In the case of an equality of votes, either on a show of hands or on a poll, the Chairman of the meeting shall be entitled to a further or casting vote.

67. The demand of a poll shall not prevent the continuance of a meeting for the transaction of any business, other than the question on which a poll has been demanded.

VOTES OF MEMBERS

69. If two or more persons are jointly entitled to a share, then in voting upon any question the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the other registered holders of the share and for this purpose seniority shall be determined by the order in which the names stand in the register of members.

70. A member of unsound mind, or in respect of whom an order has been made by any court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, through any person appointed by the court, and any such person may, on a poll, vote by proxy.

71. Save as herein expressly provided, no member other than a member duly registered and who shall have paid everything for the time being due from him and payable to the Company in respect of his shares, shall be entitled to vote on any question either personally or by proxy, or to be reckoned in a quorum at any General Meeting.

73. Votes may be given either personally or by proxy. On a show of hands a member (other than a corporation) present only by proxy shall have no vote, but a proxy or representative of a corporation may vote on a show of hands. A proxy need not be a member of the Company.

74. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if such appointor is a corporation under its common seal, if any, and, if none, then under the hand of some officer duly authorised in that behalf.

75. The instrument appointing a proxy, together with the power of attorney (if any) under which it is signed or an officially certified copy thereof, shall be deposited at the office at least forty-eight hours before the time appointed for holding the meeting or adjourned meeting at which the person named in such instrument proposes to vote or in the case of a poll not less than twenty-four hours before the time appointed for taking the poll, and, in default, the instrument of proxy shall not be treated as valid.

DIRECTORS

81. The number of Directors shall not be less than seven (7) nor more than thirteen (13).

82. The remuneration of the Directors shall from time to time be determined by the Company in General Meeting. The Directors may also be paid all travelling, hotel and other expenses incurred by them in attending and returning from meetings of the Board of Directors or any committee of the Directors or General Meetings of the Company or in connection with the business of the Company.

ROTATION OF DIRECTORS

93. At the First and every subsequent Annual General Meeting of the Company one-third of the Directors for the time being, or if their number is not three or a multiple of three, then the nearest number to one-third, shall retire from office.

94. The Directors to retire in every year shall be those who have been longest in office since their last election, but as between persons who became Directors on the same day those to retire shall unless they otherwise agree among themselves be determined by lot.

MANAGING DIRECTOR

117. The Directors may from time to time appoint one or more of their body to the office of Managing Director for such period and on such terms as they think fit, and, subject to the terms of any agreement entered into in any particular case, may revoke such appointment.

118. A Managing Director shall receive such remuneration (whether by way of salary, commission or participation in profits, or partly in one way and partly in another) as the Directors may determine.

DIVIDENDS AND RESERVE

124. The Company in General Meeting may declare dividends, but no dividend shall exceed the amount recommended by the Directors.

125. The Directors may from time to time pay to the members such interim dividends as appear to the directors to be justified by the profits of the Company.

126. No dividend shall be paid otherwise than out of profits.

127. The Directors may, before recommending any dividend, set aside out of the profits of the Company such sums as they think proper as a reserve or reserves which shall, at the discretion of the Directors, be applicable for any purpose to which the profits of the Company may be properly applied, and pending such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments (other than shares of the Company) as the Directors may from time to time think fit. The Directors may also without placing the same to reserve carry forward any profits which they may think prudent not to divide.

128. Subject to the rights of persons, if any, entitled to shares with special rights as to dividend, all dividends shall be declared and paid according to the amounts paid or credited as paid on the shares in respect whereof the dividend is paid, but no amount paid or credited as paid on a share in advance of calls shall be treated for the purposes of this regulation as paid on the share. All dividends shall be apportioned and paid proportionately to the amounts paid or credited as paid on the shares during any portion of the period in respect of which the dividend is paid; but if any share is issued on terms providing that it shall rank for dividend as from a particular date such share shall rank for dividend accordingly.

129. The Directors may deduct from any dividend payable to any member all sums of money (if any) presently payable by him to the Company on account of calls or otherwise in relation to the shares of the Company.

130. Any General Meeting declaring a dividend or bonus may direct payment of such dividend or bonus wholly, or partly by the distribution of specific assets and in particular of paid up shares, debentures or debenture stock of any other company or in any one more of such ways, and the Directors shall give effect to such resolution, and where any difficulty arises in regard to such distribution, the Directors may settle the same as they think expedient, and in particular may issue fractional certificates and fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any members upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

131. Any dividend, interest or other moneys payable in cash in respect of shares may be paid by cheque or warrant sent through the post directed to the registered address of the holder or, in the case of joint holders, to the registered address of that one of the joint holders who is first named on the register of members or to such person and to such address as the holder or joint holders may in writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent. Any one of two or more joint holders may give effectual receipts for any dividends, bonuses or other moneys payable in respect of the shares held by them as joint holders.

132. No dividend shall bear interest against the Company.

CAPITALISATION OF PROFITS

138. The Company in General Meeting may upon the recommendation of the Directors resolve that it is desirable to capitalize any part of the amount for the time being standing to the credit of any of the Company's reserve accounts or to the credit of the profit and loss account or otherwise available for distribution, and accordingly that such sum be set free for distribution amongst the members who would have been entitled thereto if distributed by way of dividend and in the same proportions on condition that the same be not paid in cash but be applied either in or towards paying up any amounts for the time being unpaid on any shares held by such members respectively or paying up in full unissued shares or debentures of the Company to be allotted and distributed credited as fully paid up to and amongst such members in the proportion aforesaid, or partly in the one way and partly in the other, and the Directors shall give effect to such resolution. Provided that a share premium account and a capital redemption reserve fund may, for the purpose of this regulation, only be applied in the paying up of unissued shares to be issued to members of the Company as fully paid bonus shares.

WINDING UP

146. If the Company shall be wound up the liquidator may, with the sanction of an Extraordinary Resolution of the Company and any other sanction required by the Law, divide amongst the members in specie or kind the whole or any part of the assets of the assets of the Company (whether they consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the contributories as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any other securities whereon there is any liability.

3.21.2 Other Statutory Information

(i) There has been no significant change in the financial position of the Bank or the Group since 30 June 2014 except for the completion of the Capital Raising and except as otherwise disclosed in Section 4.1.2 (*Equity and Indebtedness*).

(ii) As at the date of this Prospectus, there has been no adverse change in the prospects of the Bank or of the Group since 30 June 2014.

(iii) On 1 September 2014 the nominal value of the Bank's Shares has been converted from €1.00 per share to €0.10.

(iv) As at the date of this Prospectus, no legal actions or claims of material importance are pending or threatened against the Bank or the Group with the exception of those described in Section 3.20 (*Litigation and Related Matters*) of this Prospectus.

(v) There are no, nor have there been any in the recent past, legal or arbitration proceedings in which the Group has been or is engaged in, which may have, or have had a significant effect on the financial position of the Bank or any of its subsidiaries with the exception of those described in Section 3.20 (*Litigation and Related Matters*) of this Prospectus.

(vi) Save as disclosed in Section 3.21.3 (*Material Contracts*), there are no financial contracts entered into by the Bank which are fundamentally material to the activities of the Bank or of the Group.

(vii) As from 30 June 2014 until the date of this Prospectus, neither the Bank nor the Group had any other borrowings or indebtedness in the nature of bonds, loan stock, borrowing, or any other mortgage or charges on the Bank's assets.

(viii) There are no existing service contracts between the Bank and its employees or of the employees of any of its subsidiaries, the termination of which will entail the payment of compensation, if terminated without cause.

(ix) There are no employee share option schemes and no outstanding options to acquire Ordinary Shares.

(x) There are no patents or licenses, industrial, commercial or financial contracts that would be of fundamental importance to the business or profitability and on which the Bank or any of its subsidiaries are dependant.

(xi) During the current or immediately preceding financial year, there was no public offer by any third parties in respect of the Bank's or any subsidiary's shares.

(xii) As at the date of this Prospectus, the Directors of the Bank have not made any firm commitments on principal future investments or acquisitions.

(xiii) During the two years preceding the date of this Prospectus, no material contract has been entered into by the Bank which is outside its normal course of business, except as described in Section 3.21.3 (*Material Contracts*).

3.21.3 Material Contracts

Set out below is a summary of (a) each material contract (other than a contract in the ordinary course of business) to which any member of the Group is a party which has been entered into within the two years immediately preceding the date of this Prospectus; and (b) any other contract (other than a contract in the ordinary course of business) entered into by any member of the Group which any member of the Group has any obligation or entitlement which is material to the Group as at the date of this Prospectus.

3.21.3.1 Agreements Entered into Pursuant to Resolution Authority Decrees Implementing the Restructuring of the Bank and Laiki Bank

As a result of negotiations between the Government and the Troika in relation to the EAP, the Bank and Laiki Bank were restructured by the Resolution Authority in line with the MoU and the Eurogroup Statement on Cyprus in 2013. The restructuring of the Bank and Laiki Bank involved, amongst other things, the transfer of certain assets and liabilities of Laiki Bank to the Bank, the acquisition by Piraeus Bank of the Greek operations of the Bank and the acquisition by Marfin Bank Romania of certain of the Romanian operations of the Bank which were effected by operation of law through decrees issued by the Resolution Authority. As certain of the assets and liabilities transferred were located in jurisdictions outside of Cyprus, the Bank entered into sale and purchase agreements in order to fully implement these decrees in those jurisdictions. For more detail on these transfers and acquisitions implemented by Resolution Authority decrees and their impact on the Bank, see Section 3.3. (*Restructuring of the Bank and Laiki Bank*) of this Prospectus.

3.21.3.2 EBRD Framework Agreement

The European Bank of Reconstruction and Development ("**EBRD**") subscribed for 500,000,000 Placing Shares and, as required of every company in which EBRD makes an equity investment, the Bank has entered into a framework agreement with EBRD (the "**Framework Agreement**"), pursuant to which the Bank has agreed that the Capital Raising will be carried out in accordance with and the Bank will apply, certain environmental and social policies of EBRD.

3.21.3.3 Ukrainian Business Sale and Purchase Agreement

On 17 April 2014, the Bank sold its Ukrainian business to ABH Ukraine Limited, a Cyprus company which is part of the Alfa Bank group ("**Alfa**"), consisting of PJSC Bank of Cyprus, the Bank's Ukrainian subsidiary bank, LLC Ikos Finance, an associated company (together, the "**Ukrainian Subsidiaries**") and a portfolio of loans (the "**Ukrainian Portfolio Loans**"). As part of this transaction, the Bank has agreed to complete the sale of three additional loans, which were transferred to the Bank pursuant to the Laiki Transfer Decrees (the "**Ukrainian Additional Loans**"), to Alfa on 31 March 2015. The purchase price for the entire transaction is €202.5 million, of which €100 million (the "**Deferred Payment**") is payable upon completion of the sale of the Additional Loans on 31 March 2015. The Deferred Payment will be adjusted downwards by any interest or principal received by the Bank from borrowers under the Ukrainian Additional Loans.

The sale and purchase agreement for the disposal of the Ukrainian business (the "**Ukrainian Sale and Purchase Agreement**") includes a number of customary warranties given by the Bank about the Ukrainian Subsidiaries, the Ukrainian Portfolio Loans and the Ukrainian Additional Loans. Under the terms of the Ukrainian Sale and Purchase Agreement, the liabilities of the Bank under the warranties are limited as to time and amount. In the event of a default in payment of the Deferred Payment, the Bank would be able to claim under three stand-by letters of credit issued by PJSC Alfa Bank which cover the full amount of the Deferred Payment and under a mortgage that has been taken over the head office premises of the Ukrainian Subsidiaries.

3.21.3.4 UK Loan Portfolio Agreement

On 31 October 2014, the Bank sold the UK Loan Portfolio, which is largely composed of loans, backed by residential and commercial real estate in England and Wales, which were transferred to the Bank pursuant to the Laiki Transfer Decrees, to Mars Capital Finance Limited (a mortgage lender and administrator regulated by the Financial Conduct Authority of the UK) and Camael Mortgages Limited, with effect from 15 April 2014. The nominal value of the UK Loan Portfolio, as at 15 April 2014, was £289.0 million (€361.0 million based on the pounds sterling to Euro exchange rate established by the Bank as at 30 June 2014). The sale of the UK Loan Portfolio is expected to enhance the Group's liquidity and to have a small positive impact on the Group's CET 1 capital due to the release of risk weighted assets.

The purchase agreement (the "**UK Loan Portfolio Agreement**") includes a number of customary portfolio warranties given by the Bank. Under the terms of the UK Loan Portfolio Agreement, the liabilities of the Bank under the Agreement are limited as to time and amount. The Bank will also be permitted to repurchase loans in relation to which the purchasers may have a claim against the Bank pursuant to the terms of the UK Loan Portfolio Agreement (for example, loans which are found to have breached any warranties).

3.22 LEGAL FRAMEWORK OF THE BANK

3.22.1 The Banking Sector in Cyprus

3.22.1.1 Recent Developments in the Banking Sector in Cyprus

The banking sector in Cyprus expanded rapidly between 2005 and 2012 due to deregulation, Cyprus' accession to the European Union in 2004, Cyprus' entry into the Eurozone in 2008 and technological advances. The growth of the sector was the result of both organic expansion as well as mergers and acquisitions. Average annual credit growth in Cyprus, based on calculations using CBC data, was approximately 15.0% per year between 2005 and 2012 and the increase was particularly steep in 2007 and 2008 when annual credit growth averaged 31.6% per year. Cyprus' entry into the Eurozone in 2008 has led to significantly lower borrowing costs for borrowers in Cyprus.

The stability of the Cyprus banking sector, however, has been challenged as a result of a combination of factors including:

- the start of the international financial crisis in 2008, which adversely affected the country's economic growth potential and its fiscal health;
- the rise and subsequent decline of the Cypriot property market, which adversely affected lending because most loans in Cyprus are collateralised with property; and

- the rapidly deteriorating economic conditions in Greece from 2010 onwards, which adversely affected Cypriot banks, including the Bank, because of significant exposures to Greek government bonds and loans extended to the private sector.

International credit rating agencies lowered Cyprus' sovereign credit ratings below investment grade through successive downgrades from early 2011 through to the beginning of 2014. This adversely affected the credit ratings of Cypriot banks. The key factors behind the downgrades were the severity of the sovereign debt crisis in Greece and its implications for the Cypriot banking system. Exposure to Greece was a significant vulnerability to Cyprus and its ratings, but a deteriorating fiscal position from 2009 onwards and an escalating current account imbalance in the period from 2006 to 2010 were additional vulnerabilities.

The liquidity positions of Cypriot banks have therefore been materially and adversely affected by:

- the successive downgrades of Cyprus' sovereign credit rating;
- the outflow of customer deposits from the middle of 2011 as a result of uncertainty in market conditions and because of the bail-in of uninsured depositors in the second quarter of 2013;
- uncertainty regarding Cyprus' continued participation in the Eurozone;
- the deterioration of the quality of the loan portfolios of Cypriot banks, including Greek government bonds; and
- the Cypriot banks' lack of access to international capital markets.

As a result of these factors, the Bank has been forced to rely on external financial resources. The primary source of liquidity for the Bank in recent years has been funding from central banks (comprising direct ECB funding from monetary operations and ELA through the CBC).

The CBC and the Government have adopted a series of actions pursuant to the EAP to protect and enhance the financial stability of the Cypriot banking system and the safety of customer deposits, including the recapitalisation and restructuring of commercial banks and the cooperative credit sector and significant advancements in banking sector regulation and supervision, such as the Loan Origination Directive, the code of conduct for dealing with troubled borrowers and the Arrears Management Directive. For more information on the Cypriot economic crisis and the current macroeconomic environment in Cyprus, please see Section 3.22.2 (*The Macroeconomic Environment in Cyprus*). For more information on the regulation of banks in Cyprus, please see Section 3.22.3 (*Regulation and Supervision of Banks in Cyprus*).

3.22.1.2 Key Operational Features of the Banking Sector in Cyprus

In February 2013, PIMCO Europe Ltd published a publicly available study entitled "Independent Due Diligence of the Banking System of Cyprus" which examined the Cypriot banking sector. Among other things, the study identified a number of key operational features of the Cypriot banking sector which differ from other international banking systems. Following the Cypriot economic crisis, the CBC, through a number of recently enacted directives, has attempted to bring certain of these key operational features in line with international standards; however, structural differences remain. For further information on the CBC's recently enacted directives, please see Section 3.22.3.11 (*CBC Credit Risk Directives*) and Section 2.4.6 (*The Bank is subject to certain regulatory and legal constraints in originating new loans, managing existing loans and foreclosing on collateral*).

Strict Classification of Non-Performing Loans

As a result of the recently adopted NPL Directive of the CBC, which is applicable to all credit institutions in Cyprus, Cyprus has one of the strictest definitions of NPLs of all EU Member States. For example, in Cyprus, restructured loans remain as NPLs for six months following the commencement of a new repayment schedule of principal and interest instalments or in the case of gradually increasing instalments, six months from the first month from which the higher instalment is due. In contrast, in other EU Member States, including Greece, Austria, Germany and the United Kingdom, reclassification from NPL to performing loan can follow from a repayment schedule consisting only of interest payments. In addition, Cyprus relies on a customer rather than facility-based approach to NPL assessment, which means that a customer with greater than 20% of aggregate loan exposure marked as non-performing will automatically have all of its exposure marked as non-performing. Finally, consistent with the majority of EU Member States, housing loans in Cyprus are reclassified as NPLs after the third delayed payment instalment whereas, in Greece, housing loans are reclassified as NPLs only after the sixth delayed payment instalment.

On 5 August 2014, the EBA published a final draft of the implementing technical standards on supervisory reporting on forbearance and non-performing exposures under Article 99(4) of Regulation (EU) No 575/2013. These technical standards are expected to enter into force before the end of 2014. The CBC has informed credit institutions in Cyprus that their reporting obligations under the NPL Directive will continue until the year ended 31 December 2014. The EBA's technical standards focus on a 90-day past due threshold for non-performing exposures, while the definition of forbearance focuses on concessions extended to debtors who face, or may face, difficulties in meeting payments. The adoption of these standards by the European Commission will harmonise the definition of NPLs across all Member States.

Cross-Collateralisation Across Loans

As a result of the prevalence of asset-based lending (see Section 3.22.1.2 (*Key Operational Features of the Banking Sector in Cyprus—Lending Based on Collateral Rather than Repayment Ability*)) and the limited resolution framework (see Section 3.22.1.2 (*Key Operational Features of the Banking Sector in Cyprus—Limited Legal Resolution and Foreclosure*)), cross-collateralisation of loans is a common feature in Cypriot lending market. The cross-collateralisation of loans in Cyprus is complex: a single property can secure multiple loans, multiple properties can secure a single loan and multiple properties can secure multiple loans. As a result of this feature, lenders in Cyprus may extend additional loans against pledges of additional collateral rather than strictly assessing the ability of a borrower group to service additional loans.

Limited Legal Resolution and Foreclosure

Lengthy foreclosure and repossession timelines are a characteristic feature of the banking system in Cyprus. Under the CBC's Arrears Management Directive, credit institutions are required to apply efficient and effective strategies, policies, structures, procedures and mechanisms for the management of arrears and the attainment of fair and viable restructurings of credit facilities for borrowers in financial difficulties. The Arrears Management Directive favours a negotiated resolution with problem borrowers. In Cyprus, legal proceedings to enforce loan collateral have historically taken between five and 13 years, which is much longer than the international standard. As part of the MoU policy reforms prepared by the Troika, the Foreclosure Law was passed by the Cypriot Parliament in September 2014. The Foreclosure Law is intended to amend the legal framework on foreclosures and the forced sales of mortgaged property, and is expected to improve banks' ability to negotiate with borrowers, as well as decreasing the time needed to repossess, in the event that negotiations fail. For more information, see Section 2.1.2 (*The implementation, conditions and requirements of the MoU entered into between Cyprus and the Troika, and any government actions aimed at alleviating the economic crisis, are uncertain and may create adverse results or have an adverse effect on the Bank*) and Section 2.4.6 (*The Bank is subject to certain regulatory and legal constraints in originating new loans, managing existing loans and foreclosing on collateral*).

For additional information on the status of amendments to foreclosure legislation, see Section 3.22.3.21 (*Laws Relating to Foreclosures*).

Lending Based on Collateral Rather than Repayment Ability

Credit institutions in Cyprus have historically placed more reliance on the collateral securing the loan than on the borrower's ability to service the loan repayments. Additionally, credit institutions in Cyprus often seek guarantees from both the borrower and third parties and the assets of the guarantor may be used as collateral in some circumstances. This cross-collateralization distributes the debt burden across the borrower group (see

Section 3.22.1.2 (*Key Operational Features of the Banking Sector in Cyprus—Cross-Collateralisation Across Loans*)). The CBC has recently considered this practice in its Loan Origination Directive and in its Arrears Management Directive, which require, among other things, that credit institutions evaluate the borrower's repayment ability, credit rating, loan contribution and collateral quality in deciding whether to extend credit.

Incomplete Information on Customer Financial Status

Currently the Cyprus credit bureau, Artemis, contains information only on problematic borrowers and their guarantors, specifically, borrowers who have had a lawsuit or a legal decision issued against them, borrowers who have filed for bankruptcy and borrowers listed in the CBC's register for issuing uncovered cheques. The information in the Artemis system is therefore incomplete and does not provide any information on a potential borrower's credit risk profile, its loans and deposit accounts with other credit institutions or whether the borrower is performing under its outstanding debt obligations. In connection with the Loan Origination Directive, which requires loan originators to collect a complete financial history from potential borrowers, and the Arrears Management Directive, it is expected that a central credit registry will be created (as required by the Troika), which will contain a broad range of data for both performing and non-performing borrowers, including information on loans and deposit accounts with other credit institutions.

3.22.1.3 Cyprus Banking System Structure

As of the date of this Prospectus, based on information publicly available from the CBC and the Cooperative Central Bank, there were 60 banks and financial institutions, including two representative offices, in Cyprus: seven domestic banks, 18 domestic CCIs, excluding the Cooperative Central Bank, eight subsidiaries of foreign banks, three of which are from non-Member States, and 25 branches of foreign banks, 16 of which are from non-Member States. Each category of bank and financial institution is discussed in more detail below.

Domestic Banks

The first category comprises domestic banks, which can be considered as universal banks, catering for domestic retail, SME and corporate clients and the international business segment. In addition, they offer non-credit institution services, such as insurance, brokerage, asset management, leasing and factoring.

Traditionally, commercial banks have dominated the Cypriot financial services market. Domestic banks and subsidiaries or branches of foreign banks together controlled 78.4% of the banking system's total loans and 75.5% of the banking system's total NPLs as at 30 June 2014.

Domestic Cooperative Credit Institutions

The second category comprises CCIs, a less sophisticated segment of the market offering basic banking products, usually geared towards retail and SME clients.

Following intense consolidation efforts due to EU harmonisation directives, the number of CCIs dropped to 18, based on information available from the Cooperative Central Bank, from around 96 in 2013. In accordance with the MoU, the CCIs were consolidated and recapitalised and now represent increasing competition to the Bank in the retail, and small and SME markets. CCIs controlled 21.6% of the banking system's total loans and 24.5% of the banking system's total NPLs as at 30 June 2014.

Subsidiaries or Branches of Foreign Banks

The third category comprises foreign banks' subsidiaries, or branches that cater for domestic retail, SME and corporate clients as well as for the international business segment. There are currently eight subsidiaries of foreign banks operating in Cyprus, three of which are from non-Member States, and 25 branches of foreign banks, 16 of which are from non-Member States. The largest entities in this category are subsidiaries of Greek banks.

3.22.1.4 Cyprus Banking System by Assets

The total credit outstanding and market shares of banks (including subsidiaries and branches of foreign banks) and CCIs as at 30 June 2014 is outlined below.

	Total Credit Outstanding			Market Share	
	Banks	**CCIs**	**Total**	**Banks**	**CCIs**
	(€ in billions)	(€ in billions)	(€ in billions)	(%)	(%)
Credit facilities to private individuals					
Purchase of immovable property	9.71	5.12	14.83	65.5	34.5
Consumer loans	3.10	4.30	7.40	41.9	58.1
Credit cards	0.33	0.04	0.37	89.9	10.1
Current accounts	0.54	0.46	0.99	54.1	45.9
Credit facilities to sole traders	1.07	0.44	1.51	70.8	29.2
Total credit facilities to private individuals	**14.76**	**10.35**	**25.10**	**58.8**	**41.2**
Credit facilities to legal entities					
Agriculture, forestry and fishing	0.30	0.05	0.35	84.3	15.7
Mining and quarrying	0.75	0.01	0.76	99.0	1.0
Manufacturing	1.68	0.24	1.91	87.7	12.3
Electricity, gas, steam and air conditioning supply	0.14	0.08	0.22	63.8	36.2
Water supply and waste management	0.10	0.09	0.19	51.7	48.4
Construction	7.29	0.38	7.67	95.0	5.0
Wholesale and retail trade	5.25	0.31	5.57	94.3	5.7
Transportation and storage	0.85	0.06	0.91	93.2	6.8
Accommodation and food service activities	2.39	0.15	2.54	94.2	5.8
Information and communication	0.39	0.01	0.40	98.0	2.0
Financial and insurance activities	4.10	0.00	4.10	99.9	0.1
Real estate activities	4.90	0.31	5.21	94.1	5.9
Professional, scientific and technical activities	0.94	0.14	1.08	87.0	13.0
Administrative and support services	0.37	0.01	0.39	96.1	3.9
Public administration and defence	0.40	0.81	1.21	33.3	66.7
Education	0.14	0.02	0.16	88.2	11.8
Human health and social work	0.24	0.03	0.27	87.6	12.4
Arts, entertainment and recreation	0.11	0.03	0.14	80.0	20.0
Other service activities	0.62	0.18	0.79	77.8	22.2
Total credit facilities to legal entities	**30.96**	**2.91**	**33.87**	**91.4**	**8.6**
Total intragroup facilities	**2.52**	**0.00**	**2.52**	**100.0**	**0.0**
Total facilities	**48.24**	**13.26**	**61.49**	**78.4**	**21.6**

Source: CBC

The total banking system NPLs held by banks (including subsidiaries and branches of foreign banks) and CCIs as at 30 June 2014 is outlined below.

	Total NPLs			Market Share	
	Banks	**CCIs**	**Total**	**Banks**	**CCIs**
	(€ in billions)	(€ in billions)	(€ in billions)	(%)	(%)
Credit facility NPLs to private individuals					
Purchase of immovable property	3.91	2.39	6.31	62.0	38.0
Consumer loans	1.63	2.70	4.34	37.7	62.3
Credit cards	0.11	0.01	0.12	90.9	9.1
Current accounts	0.26	0.25	0.51	50.6	49.4
Credit facilities to sole traders	0.61	0.34	0.95	64.0	36.0
Total credit facility NPLs to private individuals	**6.52**	**5.70**	**12.22**	**53.3**	**46.7**
Credit facility NPLs to legal entities					
Agriculture, forestry and fishing	0.18	0.04	0.21	83.0	17.0
Mining and quarrying	0.10	0.01	0.11	94.3	5.7
Manufacturing	0.81	0.17	0.98	82.9	17.1
Electricity, gas, steam and air conditioning supply	0.02	0.00	0.02	89.7	10.3
Water supply and waste management	0.01	0.01	0.02	37.8	62.2
Construction	5.20	0.29	5.49	94.7	5.3
Wholesale and retail trade	2.24	0.21	2.45	91.5	8.5
Transportation and storage	0.40	0.01	0.42	97.3	2.7
Accommodation and food service activities	1.42	0.09	1.51	94.1	5.9
Information and communication	0.14	0.01	0.15	95.6	4.4
Financial and insurance activities	0.68	0.00	0.68	99.8	0.2
Real estate activities	2.57	0.22	2.79	92.1	7.9
Professional, scientific and technical activities	0.58	0.08	0.66	87.9	12.1
Administrative and support services	0.23	0.01	0.23	96.1	3.9
Public administration and defence	0.03	0.05	0.08	35.6	64.4
Education	0.08	0.01	0.09	92.6	7.4
Human health and social work	0.11	0.01	0.12	93.5	6.5
Arts, entertainment and recreation	0.07	0.02	0.09	76.3	23.7
Other service activities	0.32	0.10	0.42	76.2	23.8
Total credit facility NPLs to legal entities	**15.19**	**1.33**	**16.52**	**92.0**	**8.0**
Total intragroup facility NPLs	**0.00**	**0.00**	**0.00**	**100.0**	**0.0**
Total facility NPLs	**21.71**	**7.03**	**28.74**	**75.5**	**24.5**

Source: CBC

3.22.1.4 Competition and the Bank's Position in the Market

Banks in Cyprus and their operations are subject to the Law 13(1)/2008 for the Protection of Competition, which prohibits any actions or conduct which have as their object or effect the restriction or distortion of competition. In addition, Law 13(1)/2008, together with Law 83(I)/2014 on the Control of Concentrations between Undertakings, constitute the foundations of competition policy in Cyprus and regulates significant concentrations in the banking sector.

Following the absorption of Laiki Bank's loan portfolio in Cyprus, the Bank is the single largest provider of credit in Cyprus with a market share (based on CBC data) of 39.5% of loans in Cyprus as at 30 June 2014. The Bank's deposit market share (based on CBC data) in Cyprus was 25.5% at 30 June 2014, compared to 27.5% at 31 December 2013.

3.22.2 The Macroeconomic Environment in Cyprus

3.22.2.1 Overview and Economic Trends

Cypriot Economy by Sector

The GDP and gross value added ("**GVA**") data included in this section is calculated based on publicly available information from the Cyprus Statistical Service.

The economy of Cyprus can generally be characterised as small, service-driven, open and dynamic. There is significant reliance on international trade with imports and exports of goods and services in the national accounts amounting to 101.3% of GDP in real terms in 2013.

With respect to sector output in real terms, the tertiary sector (service sector) is the biggest contributor to GDP, accounting in 2013 for about 85.8% of GVA, which is the total value of all output before import duties and value-added tax. This development reflects the gradual evolution of the Cypriot economy from an exporter of minerals and agricultural products from 1961 to 1973 and an exporter of manufactured consumer goods in the latter part of the 1970s and the early 1980s into an international tourist centre and a regional services centre during the 1980s and the 1990s. From the 1990s and extending into the current decade, there was a significant expansion of transit trade, shipping, telecommunications, financial and business services and the activities of international companies in Cyprus.

The share of the primary sector, including agriculture, forestry, fishing and mining, in real GVA declined from 3.7% in 2000 to 2.3% in 2013. The share of the secondary sector, including manufacturing, basic utilities and construction, in real GVA also declined from 19.9% in 2000 to 11.8% in 2013, with a decline both in manufacturing and construction activity.

In contrast, the tertiary sector's share of real GVA increased from 76.4% in 2000 to 85.8% in 2013. In 2013, shares of real GVA in the tertiary sector included real estate activities (11.4%), wholesale and retail trade, including repair of motor vehicles (15.1%), public administration and defence (11.2%), financial and insurance activities (7.6%), tourism, including accommodation and food services activities (6.9%), transport and storage (6.7%), education (6.4%), professional, scientific and technical activities (7.1%), information and communication (4.4%), and human health and social work (3.8%).

Recent Economic Trends

International Business Hub for Emerging Europe

Cyprus has been a member state of the European Union since 1 May 2004, a member of the European Monetary Union since 1 January 2008 and has one of the lowest corporate tax rates in the EU (see Section 3.22.2.4 (*Tax and Other Fiscal Measures*)). Its location in the eastern Mediterranean sea, together with its access to the EU single market and its developed legal, accounting and banking sectors, makes Cyprus a regional international business hub strategically positioned between Western Europe and the Mediterranean region and eastern Europe, including a number of emerging markets, such as Russia and Ukraine.

Additionally, because of its Mediterranean location, its membership in the EU and its developed infrastructure, Cyprus is a popular tourist destination for tourists from both within and outside the EU, with the majority of arrivals in 2013 from the United Kingdom (37.1%) and Russia (25.3%). In 2013, tourism receipts amounted to 11.5% of GDP in nominal terms.

Investment in Natural Resources

Reserves of oil and natural gas have recently been discovered off the coast of Cyprus in the Levant basin, which is located along the shores of Syria, Lebanon, the Palestinian Territories, Israel and Cyprus. In 2010, the U.S. Geological Survey estimated that the Levant Basin has mean probable undiscovered oil resources of approximately 1.7 billion barrels and mean probable undiscovered natural gas resources of approximately 122 trillion cubic feet. In late 2013, appraisal drilling and flow test results at the Cyprus block 12 prospect ("**Aphrodite**"), which is within Cyprus's exclusive economic zone, has estimated the Aphrodite field to hold between 3.6 and 6 trillion cubic feet of natural gas, with estimated gross mean resources of 5 trillion cubic feet of natural gas (Ministry of Energy, Commerce, Industry and Tourism of Cyprus). The Aphrodite block structure is the third largest field discovered to date in the deepwater Levant Basin.

The Ministry of Finance of Cyprus estimates that a significant investment in gas exploration and exploitation for the period from 2013 to 2020 will be required to develop the Levant Basin, which will have a positive contribution on the economy of Cyprus. The Government has publicized plans to construct and operate a liquefied natural gas terminal in the Vasilikos Energy Centre and has signed memorandum of understanding agreements with several exploration and production companies for the development of these potential natural gas resources. Upstream infrastructure, including the installation of an upstream production platform, subsea pipelines from production blocks to the shore and an internal gas transmission network to supply power stations in Cyprus, is also being planned to support the extraction of resources in the Levant Basin. The Ministry of Finance of Cyprus expects that development of the natural resource sector in Cyprus will have positive effects on the services industry and will result in lower energy prices. (See Section 2.1.5 (*There can be no assurance that the development of Cyprus' oil and natural gas reserves in the Levant Basin will be successful*)).

Post-Crisis Economic Sentiment

The post-crisis economic sentiment for Cyprus has improved as a result of better than expected macroeconomic and fiscal performance to date and positive Troika reviews leading to upgrades of sovereign credit ratings. The fifth Troika review of the EAP was performed in July 2014 and the Troika noted that the Cypriot authorities continued to meet the fiscal targets with significant margin in the first half of the year, as a result of prudent budget execution. The conclusion of the review is subject to the approval process of both the EU and the IMF (see Section 2.1.2 (*The implementation, conditions and requirements of the MoU entered into between Cyprus and the Troika, and any government actions aimed at alleviating the economic crisis, are uncertain and may create adverse results or have an adverse effect on the Bank*) and Section 2.4.6 (*The Bank is subject to certain regulatory and legal constraints in originating new loans, managing existing loans and foreclosing on collateral*)). The recent performance of the Cypriot economy reflects a number of underlying factors. Some sectors, particularly tourism and business services, have demonstrated resilience. While private consumption actually declined by 6.0% in real terms in 2013, the decline nonetheless had been less steep than initially predicted, reflecting the drawing down of personal savings. In the foreign sector, although exports of goods and services declined, a sharp decline in the corresponding imports resulted in net exports having a significant positive contribution to real GDP growth. The improved economic sentiment for Cyprus is also partially due to the flexibility of the Cypriot economy. Wages and prices decreased during 2013. Real unit labour costs declined in 2012 and 2013 and are expected to decline further in 2014, 2015 and 2016 according to the European Commission (European Economic Forecast, Autumn 2014). Therefore, the economic contraction in 2013 was mitigated by a decrease in prices and quantities. Real GDP contracted by 5.4% and the GDP deflator dropped by 1.3%, resulting in a contraction of nominal GDP by 6.7%. For more information, see Section 3.22.2.3 (*The Cypriot Macroeconomic Adjustment Programme*).

The Republic of Cyprus has recently regained access to the international financing markets, having completed an offering of €750 million of 4.750% bonds due 2019 on 25 June 2014. The transaction was more than two times oversubscribed and indicates positive investor sentiment on the progress of Cyprus' economic recovery. In addition, on 30 April 2014, the Republic of Cyprus placed €100 million of bonds with a private investor. On 1 July 2014, the Public Debt Management Office of the Republic of Cyprus repaid €950.0 million of an outstanding €1,987.0 million sovereign bond held by the Bank. The bond was transferred to the Bank in March 2013 as part of the acquisition of assets and liabilities of Laiki Bank. The bond was pledged as collateral with the ECB and the Bank used the proceeds of repayment to reduce its ECB funding by €550 million and ELA by €400 million. As the bond was transferred to the Bank at fair value and redeemed at nominal value, the Group recognised an accounting profit of €99.8 million for the second quarter of 2014, which had a positive impact of €99.8 million or 0.4 percentage points on the Group's CET 1 ratio.

3.22.2.2 The Cypriot Economic Crisis

Before the emergence of the global economic crisis Cyprus had enjoyed a track record of satisfactory economic growth, low unemployment and relatively stable macroeconomic conditions.

Between 2003 and 2008, real GDP rose at an average annual rate of 4.0% as a result of increasing investment and growth of private consumption and exports. Consumption was supported by annual employment growth averaging 2.5% over this period, attributable mainly to large inflows of migrant labour, particularly from other EU countries. During this period, per capita income in Cyprus converged rapidly with other EU Member States, with GDP in euro per capita terms reaching €23,861 in 2008, corresponding to 99.2% of the EU average in purchasing power parity terms.

The average annual growth of real GDP in the period from 2009 to 2012 was -0.7%, which includes a 2.0% contraction in 2009 and a 2.4% contraction in 2012, while inflation averaged 2.6% during that same period. Unemployment (as a percentage of the economically active population) rose from 3.7% in 2008 to 7.9% in 2011 and to 11.8% in 2012. The international economic crisis affected Cyprus indirectly mainly through lower external demand in tourism, whilst investment was also affected by lower external demand for housing by foreigners.

However, the crisis highlighted large existing imbalances in the economy stemming from the banking sector's large exposure to Greece, its overall size relative to the economy and domestic overexpansion in the property market. At the same time, persistent "twin deficits" in the fiscal and current accounts elevated the Cypriot economy's vulnerability.

Following a series of adverse economic developments in the Eurozone, including the restructuring of Greek government debt and the downgrading of Cyprus' credit rating by several credit rating agencies, the ability of the Government to borrow from international markets was significantly affected. In June 2012, the Government filed an application to the Eurozone for financial assistance through the ESM. The ESM is the crisis resolution mechanism for the Eurozone which issues debt instruments in order to finance loans and other forms of financial assistance to Eurozone members. The Government also applied at the same time to the IMF for external financial assistance to contain the risks to the Cyprus economy. These applications led to negotiations with the Troika on a comprehensive programme of financial assistance.

The key elements and principles of the Eurogroup Statement on Cyprus include the following:

- An appropriate downsizing of the financial sector.
- A restructuring of the banking sector through:
    - the immediate resolution of Laiki Bank, with the full contribution of shareholders, bondholders and uninsured depositors, by the CBC using the newly adopted bank resolution regime in Cyprus;
    - the split of Laiki Bank into a "good" bank and a "bad" bank with the "bad" bank being run down over time and the "good" bank (including the full amount of the ELA that had been provided by the CBC to Laiki Bank) being absorbed by the Bank; and

- the recapitalisation of the Bank through a deposit/equity conversion of uninsured deposits with full contribution of shareholders and bondholders.

- Any funds provided under the macroeconomic adjustment programme would not be used for the recapitalisation of Laiki Bank or the Bank.
- All insured depositors in all banks would be fully protected in accordance with the relevant EU legislation.
- The increase of the withholding tax on capital income and the statutory corporate income tax rate.
- An independent evaluation of the anti-money laundering framework in Cypriot financial institutions.

The financial assistance provided by the Eurogroup was conditional upon implementation of the extensive policy reforms agreed between the Troika and the Government in the MoU. The MoU policy reforms include financial sector reform, fiscal policy and fiscal structural measures, labour market reforms and improvements in goods and services markets.

3.22.2.3 The Cypriot Macroeconomic Adjustment Programme

The Troika agreed an EAP with the Government on 2 April 2013. The EAP was agreed by the Eurozone Member States on 24 April 2013 and by the IMF Board on 15 May 2013. The EAP covers the period from 2013 to 2016 and incorporates a financial assistance package for Cyprus of up to €10 billion. The ESM will provide up to €9 billion and the IMF will contribute up to €1 billion. The MoU specifies the conditions to be met for the first and subsequent disbursements of ESM financial assistance. Amendments to the MoU as agreed between the Troika and the Government were made in November 2013, July 2013, February 2014, May 2014 and August 2014. To date, the ESM and the IMF have disbursed €4.5 billion and €337 million, respectively, totalling about 48.4% of available programme financing. The fifth review mission of the Troika took place from 14 to 25 July 2014 and the conclusion of the review is subject to the approval process of both the EU and the IMF. Their approval would permit the disbursement of €350 million from the ESM and approximately €86 million from the IMF (see Section 2.1.2 (*The implementation, conditions and requirements of the MoU entered into between Cyprus and the Troika, and any government actions aimed at alleviating the economic crisis, are uncertain and may create adverse results or have an adverse effect on the Bank*) and Section 2.4.6 (*The Bank is subject to certain regulatory and legal constraints in originating new loans, managing existing loans and foreclosing on collateral*)).

The EAP's key objectives are:

- to restore the soundness of the Cypriot banking sector and rebuild depositors' and market confidence by thoroughly restructuring and downsizing financial institutions, strengthening supervision and addressing expected capital shortfalls, in line with the political agreement of the Eurogroup of 25 March 2013;
- to continue the on-going process of fiscal consolidation in order to correct the excessive general government deficit by 2016, in particular through measures to reduce current primary expenditure, and maintain fiscal consolidation in the medium-term, in particular through measures to increase the efficiency of public spending within a medium-term budgetary framework, enhance revenue collection and improve the functioning of the public sector; and
- to implement structural reforms to support competitiveness and sustainable and balanced growth, allowing for the unwinding of macroeconomic imbalances, in particular by reforming the wage indexation system and removing obstacles to the smooth functioning of services markets.

The implementation of the EAP commenced in April 2013 and, to date, has been the subject of five review missions by the Troika. The latest review mission took place from 14 to 25 July 2014, and, according to a joint statement by the Troika:

- The Cypriot authorities have continued to meet the fiscal targets with a significant margin in the first half of the year, primarily as a result of prudent budget execution.
- Cypriot banks are advancing their restructuring plans and capital raising while supervisory monitoring of their actions and operational capacity to address non-performing loans has been enhanced. Structural reforms are proceeding and the Government has implemented welfare reform, has commenced the integration of the revenue administration and has strengthened the revenue administration's powers to fight tax evasion. See Section 2.3.6 (*There can be no assurance that the Restructuring Plan will be successfully implemented or, even if implemented successfully, that the Bank will not be required to raise additional capital*).
- While the recession for 2014 is expected to be less severe than anticipated, the outlook remains challenging. Real GDP in 2014 is expected to contract by 4.2% compared to an initial expectation of a 4.8% contraction, with growth in the tourism sector cushioning weak activity in other sectors (the IMF's Article IV Consultation Country Report for Cyprus, October 2014 currently projects the decline in real GDP at 3.2% and the European Commission's European Economic Forecast, Autumn 2014, projects the decline in real GDP at 2.8%). While unemployment remains high, signs of stabilisation are emerging. Real GDP growth in 2015 is projected at 0.4%, with the recovery constrained by the high level of private sector debt. Significant risks remain, primarily related to constraints to the supply of credit as well as to the ongoing crisis in Ukraine.
- Reversing the rising trend of non-performing loans is critical to restoring credit, economic growth, and the creation of jobs and an effective legal framework for foreclosure and insolvency is essential to ensuring adequate incentives to borrowers and lenders to collaborate to reduce the level of non-performing loans. The debt-restructuring supervisory framework must be further strengthened. See Section 2.4.6 (*The Bank is subject to certain regulatory and legal constraints in originating new loans, managing existing loans and foreclosing on collateral*).
- Ongoing efforts by financial institutions to proactively raise capital in the private markets are welcome and such efforts will also be conducive to a smooth transition to the Single Supervisory Mechanism following the completion of the pan-European comprehensive assessment and are expected to help strengthen the financial sector's resilience to shocks and revive lending.
- In addition, financial institutions should continue to implement their restructuring plans to further reduce operational costs, ensure stable funding, strengthen arrears management capacity and processes and improve governance, which are key elements to a healthy banking sector that can support the Cypriot economy and allow for the gradual relaxation of capital controls according to a revised milestone-based roadmap (see Section 3.22.3.9 (*Capital Control Measures*)). To prevent vulnerabilities from re-emerging and preserve the integrity of the financial sector, the Cypriot authorities should further strengthen supervision and regulation and step up the implementation of the AML framework, in particular with respect to AML supervision of banks. See Section 3.22.3.14 (*Money Laundering and Terrorist Financing*).
- In the first half of 2014, the Government has pursued a cautious fiscal policy, which allowed it to meet its fiscal targets with a significant margin. Such prudence should continue, in light of lingering risks. In particular, the 2015 budget should be based on conservative assumptions, ensure the fiscal neutrality of the new welfare reform and help achieve a smooth path towards the medium-term primary fiscal surplus target of 4% of nominal GDP by 2018.

- Cypriot authorities should maintain the structural reform momentum. Cypriot authorities should also advance the implementation of the revenue administration reform by taking further steps toward the integration of the two tax departments under a unified and more effective revenue administration. This should be complemented by continued efforts to combat tax evasion and non-compliance and strengthen the management of public debt and of fiscal risks. Timely implementation of the privatisation plan is necessary to increase economic efficiency, attract investment, and reduce public debt.

Risks related to the implementation of the EAP remain significant. For a discussion of the risks, see Section 2.1.2 (*The implementation, conditions and requirements of the MoU entered into between Cyprus and the Troika, and any government actions aimed at alleviating the economic crisis, are uncertain and may create adverse results or have an adverse effect on the Bank*).

3.22.2.4 Tax and Other Fiscal Measures

The House of Representatives of Cyprus approved a number of legislative bills which amended Cyprus' tax legislation in line with the MoU. These amendments include:

- an increase of the corporate tax rate from 10% to 12.5% as of 1 January 2013;
- from 25 March 2013, in case of transfer of operations, assets, rights or obligations from one credit institution to another, under the Resolution of Credit and Other Institutions Law of 2013 (the "**Resolution Law**"), any accumulated tax losses of the transferring credit institution at the time of the transfer, are transferred to the acquiring credit institution and may be used by it for a period of up to fifteen years from the end of the year during which the transfer took place;
- the special defence contribution rate on interest was increased from 15% to 30% as of 29 April 2013. The special defence contribution on interest is payable only by tax residents of Cyprus and applies to physical persons as well as legal persons who receive interest that is not associated with the ordinary activities of the Bank;
- the Assessment and Collection of Taxes Law of 1978 has been amended in order to define the books and records which need to be maintained by a taxable person to enable him to prepare and file tax returns. In addition, supporting documentation should be maintained. Similar amendments were introduced into the Companies Law;
- the immovable property tax rates have been increased as of 1 January 2013 at rates which range from 0.6% to 1.9% of the value of the property as of 1 January 1980. The Department of Lands and Surveys has proceeded with new valuations with prices as at 1 January 2013. The Government has indicated an intention to impose immovable property tax from the year 2015 and future period on the basis of the new general price valuation as of 1 January 2013. For the year 2014, the immovable property tax will be on the basis of the valuation price as of 1 January 1980; and
- the special levy paid by banking institutions on deposits was increased from 0.11% to 0.15% as of 1 January 2013. In accordance with the existing legislation, the levy is imposed on deposits as of the end of the previous year and is payable in equal quarterly instalments. In order to take into account the significant drop in bank deposits, specifically for the year 2013, the levy is imposed on deposits as of the end of the previous quarter at the rate of 0.0375%. For the year 2014 onwards, the levy is imposed on deposits as at the end of the previous year.

In addition, the Tax Collection Law of 1962 was amended in June 2014 to provide the Cypriot tax authorities with wider powers to seize assets, including deposits in a financial institution.

3.22.2.5 Employment

Employment figures in this section are calculated based on publicly available information from Eurostat and the Cyprus Statistical Service.

The rapid growth of the Cypriot economy during the period 2003-2008 led to strong employment conditions. Consequently, unemployment remained below 5% during most of the period. The employment of foreign workers considerably increased the flexibility in labour markets and helped to moderate wage growth in the economy. The economic deceleration that started in 2009 gradually affected the labour market with some time lag, causing significant employment losses and a higher unemployment rate. In particular, the average unemployment rate increased from 5.4% in 2009 to 15.9% in 2013, with the new entrants, mainly young persons and persons employed in the construction and tourism sectors, being severely affected. Youth unemployment (persons aged less than 25 years) rose to 38.9% in 2013, which is the highest in the Eurozone after Greece, Spain and Italy. In the first nine months of 2014, the average unemployment rate was 15.9%.

The employment rate in Cyprus, the proportion of employed people to the economically active population, dropped to 61.7% in 2013 from 64.6% in 2012, but remains close to the Eurozone average (63.5%) and is higher than in other distressed countries, such as Greece (48.8%), Spain (54.8%) and Portugal (60.6%). Cyprus has favourable demographics*:* the old age dependency ratio in 2013 was 18.8% compared with 28.9% in the Eurozone and 27.5% in the European Union as a whole. The composition of the labour force in Cyprus provides additional cushioning against further steep increases in the unemployment rate*:* total employment in 2013 was comprised of 78.9% Cypriot nationals and 21.1% non-Cypriot nationals of whom 9.2% were non-EU nationals and 11.9% were non-Cypriot EU nationals. The drop in total employment in the year was 3.5% of which the drop in the employment of Cypriot nationals was 1.5% and that of non-Cypriot nationals was 10.2%. As a percentage of the total unemployed in 2013, Cypriot nationals were 78.8% of the total and non-Cypriot nationals were 21.2% of the total. Finally, while total employment decreased in 2013, wages have exhibited relative flexibility with a decreasing trend, adjusting to the overall economic situation. More specifically, real unit labour costs decreased by 4.6% in 2013 and are expected to decrease by a further 2.0% in 2014 according to the European Commission (European Economic Forecast, Autumn 2014), thus improving the overall cost competitiveness of the economy.

3.22.2.6 Ratings

As of the date of this Prospectus, the Republic of Cyprus has been rated by Standard & Poor's, Moody's, Fitch and DBRS. In October 2014, Standard & Poor's raised its long-term foreign and local currency sovereign ratings on the Republic of Cyprus to B+ from B with a stable outlook. Moody's Investors Service in November 2014 upgraded Cyprus' government bond rating to B3 and changed the outlook to stable from positive. Fitch in October 2014 revised the outlook on long-term foreign currency to positive from stable, affirming its long-term foreign and local currency issuer default ratings at B-. DBRS in June 2014 upgraded the long-term foreign and local currency issuer ratings from CCC to B (low) with stable trends.

3.22.2.7 Main Economic Indicators

The following table summarises the main economic indicators for the period 2010-2014 (as indicated below):

	2010	2011	2012	2013	2014
GDP at current market prices (€billion)	19.1	19.5	19.4	18.1	
GDP per capita (€thousand)	23.0	22.9	22.5	21.0	
GDP in constant prices (% change)	1.4	0.3	-2.4	-5.4	-2.5[(1)]
Employment (% change)	3.2	0.8	-3.3	-5.2	-1.2[(2)]
Unemployment rate (%)	6.3	7.9	11.8	15.9	15.9[(3)]
Harmonised index of consumer prices (% change)	2.6	3.5	3.1	0.4	-0.3[(4)]
Fiscal balance (€billion)	-0.9	-1.1	-1.1	-0.9	0.2[(5)]
Fiscal balance (in% of GDP)	-4.7	-5.8	-5.8	-4.9	

	2010	2011	2012	2013	2014
Public debt (€billion)	10.7	12.8	15.3	18.4	19.1(6)
Public debt (% of GDP)	56.0	66.0	79.5	102.2	106.0(7)
Exports of goods and services (% change)	4.3	6.1	0.0	-4.6	
Imports of goods and services (% change)	6.4	1.6	-2.8	-12.6	
Trade balance (€billion)	-4.7	-4.5	-4.0	-3.2	-2.3(8)
Trade balance (% of GDP)	-24.5	-23.2	-20.8	-17.7	
Current account balance (€billion)	-1.7	0.6	-1.1	-0.2	-0.8(9)
Current account balance (% of GDP)	-9.0	-3.0	-5.5	-1.3	

(1) First nine months of 2014.
(2) First half 2014.
(3) Average of first three quarters of 2014 (non-seasonally adjusted).
(4) January through September 2014.
(5) January through September 2014.
(6) As at 30 June 2014.
(7) As at 30 June 2014.
(8) First half 2014.
(9) First half 2014.

Source: Cyprus Statistical Service, CBC, Eurostat and BOC Economic Research estimates.

3.22.3 Regulation and Supervision of Banks in Cyprus

3.22.3.1 The Regulatory Framework

The Group is subject to financial services laws, regulations, administrative actions and policies in each location where the Group operates. The Bank has a primary listing on the main market of the CSE and a secondary listing on ATHEX (although, since 19 March 2013, the listed ordinary shares of the Bank, currently comprised of the Listed Shares, have been suspended from trading on both exchanges) and, therefore, the Group is also subject to the applicable capital markets laws.

In this section, references are made to laws, directives and regulations on an as amended basis.

The CBC is responsible for the licensing and supervision of credit institutions in Cyprus in accordance with (i) the Business of Credit Institutions Law of 1997, (ii) the Law on the Establishment and Operation of Deposit Protection and Resolution of Credit and Other Institutions Scheme of 2013 and the regulations issued thereunder on the Cypriot Deposit Protection Scheme (see Section 3.22.3.6 (*Deposit Protection Scheme*)), (iii) the Regulations on the Establishment and Operation of an Investor Compensation Fund for Clients of Banks of 2004 and 2007 on the Cypriot investor compensation fund, established under the Investment Firms Law of 2002, (iv) the Prevention and Suppression of Money Laundering Activities Laws of 2007 to 2013 (see Section 3.22.3.14 (*Money Laundering and Terrorist Financing*)) on anti-money laundering activities, (v) the Payment Services Laws of 2009 and 2010 on payment services and credit institutions and (vi) other relevant laws of Cyprus. Furthermore, in accordance with the Central Bank of Cyprus Law of 2002, the CBC has additional regulatory and supervisory powers relating to the operation of credit institutions in Cyprus.

The CBC issues a banking licence to credit institutions meeting the requirements set out in the provisions of the Business of Credit Institutions Law of 1997. Specifically, the Business of Credit Institutions Law of 1997 regulates or determines, inter alia, the criteria to be considered in the granting of an establishment and operation licence of a credit institution in Cyprus and in the revocation of such licence, the business of credit institutions, the establishment and provision of services by credit institutions, relations with third countries, matters relating to the capital of a credit institution, matters relevant to special participations of credit institutions in other businesses and the participations of individuals or entities in credit institutions, the maintenance of liquidity, the supervision and inspection of credit institutions by the CBC, both on an unconsolidated and a consolidated basis, bank secrecy, professional secrecy, matters relating to reorganisation measures, the winding up and dissolution of credit institutions and penalties. In 2013, the Resolution Law was enacted to provide a special resolution regime for Cypriot banks and other financial institutions.

The ECB is the central bank for the Eurozone and administers the monetary policy of the Eurozone. With the goal of establishing a single supervisory mechanism to oversee and unify credit institutions in the Eurozone, Regulation (EU) No 1024/2013 (the "**ECB Regulation**"), adopted on 15 October 2013, confers on the ECB prudential supervisory responsibility over credit institutions in the Eurozone and other EU Member States that participate in the SSM (together with the Member States of the Eurozone, "**participating Member States**"), with a view to contributing to the safety and soundness of credit institutions and the stability of the financial system within the EU and each Member State. The ECB fully assumed the following supervisory responsibilities, among others, on 4 November 2014 (subject to implementation arrangements and measures set forth in Article 33(2) of the ECB Regulation):

- to grant and revoke authorisations regarding all credit institutions established in participating Member States;
- with respect to significant credit institutions in a participating Member State establishing a branch or providing cross-border services in non-participating Member States, to carry out the tasks of the national competent authority (each, an "**NCA**") of the Member State;
- to assess notifications regarding the acquisition and disposal of qualifying holdings in credit institutions;
- in relation to significant credit institutions, to ensure compliance with requirements on securitisation, large exposure limits, liquidity, leverage, as well as on the reporting and public disclosure of information on those matters;
- in relation to significant credit institutions, to ensure compliance with respect to corporate governance, including requirements on risk management processes, internal control mechanisms, remuneration policies and practices and effective internal capital adequacy assessment processes (including internal ratings based models);
- in relation to significant credit institutions, to carry out supervisory reviews, including, where appropriate and in coordination with the EBA, stress tests and supervisory reviews to impose specific additional own funds requirements, specific publication requirements, specific liquidity requirements and other measures;
- in relation to significant credit institutions, to supervise the credit institutions on a consolidated group basis, extending supervision over parent entities established in one of the participating Member States; and
- in relation to significant credit institutions, to carry out supervisory tasks in relation to recovery plans, provide early intervention where a credit institution or group does not meet or is likely to breach the applicable prudential requirements and, only in the cases explicitly permitted under law, implement structural changes to prevent financial stress or failure, excluding any resolution powers.

The ECB and the national central banks together constitute the Eurosystem, the central banking system of the Eurozone. The ECB will exercise its supervisory responsibilities under the ECB Regulation in cooperation with the national central banks in the participating Member States. As such, in Cyprus, the ECB cooperates with the CBC and the Bank is a significant credit institution for the purposes of the ECB Regulation.

As regards the monitoring of financial institutions, the NCAs will continue to be responsible for supervisory matters not conferred on the ECB, such as consumer protection, money laundering, payment services, and branches of third country banks. The ECB, on the other hand, is responsible for prudential supervision, which includes, among other things, the power to: (i) authorise and withdraw authorisation (this applies to all credit institutions in participating Member States; the ECB will, however, only authorise a credit institution if the NCA of the relevant participating Member State has confirmed that relevant authorisation requirements in that state's laws have been met); (ii) ensure compliance with all prudential requirements laid down in general EU banking rules; (iii) set, where necessary, higher prudential requirements for certain banks to protect financial stability under the conditions provided by EU law; (iv) impose robust corporate governance practices and internal capital adequacy assessment controls; and (v) intervene at the early stages when risks to the viability of a credit institution exist, in coordination with the relevant resolution authorities.

The operation and supervision of credit institutions within the EU is governed by Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC ("**CRD IV**") and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (the "**CRR**", and together with CRD IV, "**CRD IV/CRR**"). CRD IV was required to be transposed into the national law by 31 December 2013, though certain provisions (including provisions relating to the requirements to maintain a capital conservation buffer and an institution-specific countercyclical capital buffer, the global and other systematically important institutions, the recognition of a systemic risk buffer rate, the setting of countercyclical buffer rates, the recognition of countercyclical buffer rates in excess of 2.5%, the decision by designated authorities on third country countercyclical buffer rates, the calculation of institution-specific countercyclical capital buffer rates and restrictions on distributions) shall enter into force from 1 January 2016. In August 2014, the CBC issued a directive on Governance and Management Arrangements transposing certain aspects of CRD IV into Cypriot law. Full implementation of CRD IV is expected to occur during 2014.

The CRR is directly applicable in all EU Member States from 1 January 2014, with the exception of certain of its provisions related to the application of the liquidity requirements on an individual basis and the disclosure of leverage ratios (which will apply from 1 January 2015) and stable funding (which will apply from 1 January 2016).

Under the current regulatory framework, credit institutions operating in Cyprus are required to, among other things:

- comply with the capital adequacy ratios determined by the CBC;
- observe the liquidity ratios prescribed by the CRD IV/CRR;
- comply with certain concentration ratios determined by the CBC;
- maintain efficient internal control, compliance and risk management systems and procedures;
- adopt a remuneration policy and set up a remuneration committee of the board of directors;
- submit to the CBC periodic reports and statements;
- disclose data regarding the credit institution's financial position and the risk management policy;
- provide the CBC with such further information as it may require;
- in connection with certain operations or activities, notify or request the prior approval of the CBC, in each case in accordance with the applicable laws of Cyprus and the relevant acts, decisions and circulars of the CBC; and
- permit the CBC to conduct audits and inspect books and records of the credit institution, in accordance with Cyprus law.

If a credit institution breaches any law or regulation falling within the scope of the supervisory power attributed to the CBC, the CBC is empowered to, amongst other things:

- require the relevant credit institution to take appropriate measures to remedy the breach or to restrict its operations by imposing conditions on its license (which may include, requiring the relevant credit institution to take certain actions or refrain from taking certain actions, imposing limitations on the acceptance (and solicitation) of deposits, the granting of credit or the making of investments, prohibiting the entering into of certain transactions, requiring the removal of corporate officers, requiring the holding of own funds in excess of prescribed levels and requiring the implementation of policies on the treatment of certain assets and risk);

- impose fines;
- assume control of, and carry on in the credit institution's name, the business of the credit institution, for so long as the CBC considers necessary;
- demand the increase of a credit institution's share capital;
- demand that the credit institution prepares and submits a recovery plan and submit information so that the CBC can prepare a resolution plan in its capacity as Resolution Authority;
- demand that dividends be limited or withheld; and
- revoke the licence of the credit institution where the breach cannot be remedied and place it in a state of special liquidation (i.e., where a court application is made for liquidation on an ex-parte basis where services performed by the relevant credit institution concern the public interest).

In 2013, the Resolution Law was enacted to provide a special resolution regime for Cypriot banks and other financial institutions (see Section 3.22.3.10 (*Resolution Law*)).

In relation to the recovery and resolution of credit institutions, the European Commission submitted a "Proposal for a directive of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directives 77/91/EEC and 82/891/EC, Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC and 2011/35/EC and Regulation (EU) NO. 1093/2010" on 6 June 2012. This proposal formed the basis of the BRRD, which was adopted by the European Parliament and the Council of the EU on 15 April and 6 May 2014, respectively, and was published in the Official Journal of the EU on 12 June 2014 and entered into force on 2 July 2014, the 20th day following its publication. Following the implementation of the BRRD in Cyprus, the majority of measures of which need to be implemented with effect from 1 January 2015, many of the Cypriot law provisions summarised above and contained in the Resolution Law will need to be amended or replaced in order to be consistent with the BRRD's provisions.

The BRRD equips the NCAs with common and effective tools and powers to tackle bank crises pre-emptively, safeguarding financial stability and minimising taxpayer exposure to losses in insolvency. The framework is meant to apply in relation to banks of all sizes and consists of three pillars: preparatory and preventative measures, early intervention, and resolution tools and powers, within a framework of improved cross-border cooperation.

The range of powers available to the relevant authorities consist of three elements: (i) preparatory steps and recovery and resolution plans to minimise the risks of potential problems (preparation and prevention); (ii) in the event of incipient problems, powers to arrest a bank's deteriorating financial situation at an early stage so as to avoid insolvency (early intervention); and (iii) if insolvency of an institution presents a concern as regards the general public interest, a clear means to reorganise or wind down the bank in an orderly fashion while preserving its critical functions and limiting to the maximum extent any exposure of taxpayers to losses in insolvency (resolution). In addition, the BRRD provides a framework to improve cooperation across borders to coordinate resolution measures in all affected Member States in the event that a cross-border banking group should fail.

The BRRD establishes common parameters for triggering the application of resolution tools. The conditions that have to be met before the competent authorities take a resolution action in relation to a credit institution are: (a) the NCA determines that the institution has reached a point of distress such that there are no realistic prospects of recovery in an appropriate timeframe; (b) there is no reasonable prospect that any alternative private sector or supervisory action taken would prevent the failure of the institution within a reasonable timeframe; and (c) a resolution action is necessary in the public interest. When the trigger conditions for resolution are satisfied, the BRRD provides a set of resolution tools that resolution authorities have the power to apply singly or in conjunction. These tools are the following:

- *Sale of Business*. Resolution authorities may effect a sale of the institution, in whole or in part, on commercial terms, without requiring the consent of the shareholders or complying with other procedural requirements.
- *Bridge Institution*. Resolution authorities may transfer all or part of the business of an institution to a publicly controlled entity. The operations of a bridge institution are temporary, the aim being to sell the business to the private sector when market conditions are appropriate.
- *Asset Separation*. Resolution authorities may transfer impaired or problem assets to an asset management vehicle to allow them to be managed and worked out over time.
- *Bail-In*. Resolution authorities may write down the claims of unsecured creditors of a failing institution and/or convert such claims into equity.

According to the transposition provisions of the BRRD, Member States are to adopt and publish by 31 December 2014, at the latest, the laws and regulations necessary to implement it. Member States shall apply their implementing laws and regulations from 1 January 2015. However, as an exception to this, Member States shall apply the provisions adopted in order to implement the bail-in tool from 1 January 2016 at the latest.

The BRRD relies on a network of NCAs and resolution funds to resolve banks. Nevertheless, according to the European Commission, such an approach is not sufficient for those Member States which share the supervision of credit institutions within the SSM. The European Council has recognised that in the banking union, bank supervision and resolution need to be exercised by the same level of authority, thus making the need for the establishment of the Single Resolution Mechanism (the "**SRM**") with a central decision-making body and a Single Bank Resolution Fund (the "**SRF**") obvious.

On 15 April 2014, the European Parliament adopted a regulation for the SRM and this regulation was published in the Official Journal of the European Union on 30 July 2014 (the "**SRM Regulation**"). The SRM Regulation establishes uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the SRM and the SRF. The SRM Regulation entered into force on 19 August 2014.

The SRM Regulation builds on the rulebook on bank resolution set out in the BRRD and establishes the following:

- the SRM applies to all banks within the SSM. The single resolution board (the "**SRB**") will prepare resolution plans for and directly resolve all banks directly supervised by the ECB and for cross-border banks. National resolution authorities will prepare resolution plans and resolve banks which only operate nationally and are not subject to full ECB direct supervision, provided that this will not involve any use of the SRF. Member States can opt to have the SRB directly responsible for all their banks. The SRB will decide in any case for all banks, including those that operate nationally and are not subject to full ECB direct supervision, whether resolution will involve the use of the SRF;
- centralised decision-making will be built around a strong SRB and will involve permanent members as well as the European Commission, the Council, the ECB and the national

resolution authorities. In most cases, the ECB will notify that a bank is failing to the SRB, the European Commission, and the relevant national resolution authorities. The SRF will then assess whether there is a systemic threat and the availability of any private sector solution. If no private sector solution exists, it will adopt a resolution scheme including the relevant resolution tools and any use of the SRF. The European Commission is responsible for assessing the discretionary aspects of the SRB's decision and endorsing or objecting to the resolution scheme. The European Commission's decision is subject to approval or objection by the Council only when the amount of resources drawn from the SRF is modified or if there is no public interest in resolving the bank. If the Council or the European Commission objects to the resolution scheme, the SRB will need to amend the resolution scheme. The resolution scheme will be implemented by the national resolution authorities. If resolution entails state aid, the European Commission will need to approve the aid prior to the adoption of the resolution scheme by the SRB;

- in its plenary session, the SRB will take all decisions of a general nature and any individual resolution decisions involving the use of the SRF in excess of €5 billion. In its executive session, the SRB will take decisions in respect of individual entities or banking groups where the use of the SRF remains below this threshold. The composition of the executive session of the SRB will include the chair, the executive director and three other permanent members, with the European Commission and the ECB sitting as permanent observers. In addition, to ensure that the interests of all Member States on which the resolution had an impact were considered, Member States that can potentially be affected by the resolution based on the institution being resolved will also participate in the session. None of the participants in the deliberation will have a veto;
- all the banks in the SSM will contribute to the SRF. The SRF has an estimated target level of €55 billion and can borrow from the markets if decided by the SRB in its plenary session. The SRF will be owned and administrated by the SRB. The SRF will reach a target level of at least 1% of covered deposits over an eight-year period. During this transitional period, the SRF, established by the SRM Regulation, will comprise national compartments corresponding to each participating Member State. The resources accumulated in those compartments will be progressively mutualised over a period of eight years, starting with 40% of these resources in the first year. The establishment of the SRF and its national compartments and decisions as to their use will be regulated by the SRM Regulation, while the transfer of national funds into the SRF and the activation of the mutualisation of the national compartments will be provided for in an inter-governmental agreement established among the participating Member States in the SSM; and
- the SRF will be funded through contributions made by all credit institutions established in participating Member States. Each year, the SRB, after consulting the ECB or the NCAs, and in close cooperation with the national resolution authorities, will calculate the individual contributions. The European Commission will adopt delegated acts to specify, among other things, the criteria for establishing the annual contributions payable by credit institutions. The European Commission published a consultation paper on the contributions of credit institutions to the resolution funding arrangements under the BRRD and the SRF on 20 June 2014. The consultation closed on 14 July 2014. The results of the consultation will further inform the work of the European Commission on the delegated act under the BRRD and the proposal for a Council implementing act under the SRM, which the European Commission intends to adopt simultaneously in September 2014.

The SRM is scheduled to enter into force on 1 January 2016 (with certain exceptions).

The Bank has a primary listing on the main market of the CSE and a secondary listing on ATHEX. The Bank is, therefore, subject to applicable Greek securities laws and ATHEX rules and regulations.

However, because (i) applicable Cypriot and Greek laws relating to, among other things, disclosure and reporting by listed companies and holders of their shares of certain changes to shareholdings in a listed company are both substantially based on Directive 2004/109/EC; and (ii) Cyprus is the home Member State of the Bank and the venue of its primary listing, the Bank (and holders of its Ordinary Shares) are deemed to comply with applicable Greek law and ATHEX obligations if they comply with the applicable Cypriot law and CSE obligations.

3.22.3.2 Guidelines for Capital Requirements

Regulation of the banking industry in Cyprus has changed in recent years as Cypriot law has changed largely to comply with applicable EU directives. In 2004, the Basel Committee for Banking Supervision (the "**Basel Committee**") issued a revised capital adequacy framework and final proposals on capital standards, known as "**Basel II**". Basel II's aim was to promote the adoption of certain enhanced risk management practices. It introduced conceptually sound approaches for the calculation of capital requirements that take into account the sophistication of risk management systems and methodologies applied by credit institutions. The Basel II framework was applicable in the EU from 1 January 2007 by means of EU Directives 2006/48 and 2006/49 ("**CRD I**"). CRD I was subsequently amended and on 24 November 2010 EU Directive 2010/76/EU was issued amending all previous related EU directives.

CRD I was transposed into Cypriot law through the CBC Directives to Banks for the Calculation of the Capital Requirements and Large Exposures of 2006 (the "**CBC Directives**"), and was subsequently amended to capture all related EU Directives by the CBC Directives to Banks for the Calculation of the Capital Requirements and Large Exposures of 2006 to (No. 2) 2011.

In December 2010, the Basel Committee issued two prudential framework documents ("Basel III: A global regulatory framework for more resilient credit institutions and banking systems", December 2010 and "Basel III: International framework for liquidity risk measurement, standards and monitoring", December 2010) which comprise the Basel III capital and liquidity reform package ("**Basel III**"). The Basel III documents were revised in June 2011. The Basel III framework has been transposed into law in the EU through new banking regulations adopted on 26 June 2013: CRD IV and the CRR. CRD IV/CRR came into force on 1 January 2014, with particular elements being phased in over a period of time (the requirements will be largely fully effective by 2019 and some minor transitional provisions provide for the phase-in until 2024) but it is possible that in practice implementation under national laws may be delayed until after such date.

Some important points of CRD IV/CRR framework include:

- *Quality and Quantity of Capital*. CRD IV/CRR revised the definition of regulatory capital and its components at each level. It also proposed a minimum CET 1 capital ratio of 4.5% and Tier I capital ratio of 6.0% and introduced a requirement for additional Tier I and Tier II capital instruments to have a mechanism that requires them to be written-off on the occurrence of certain triggering events (e.g. a bail-in of the institution), which would apply to internationally active credit institutions;
- *Capital Conservation Buffer*. In addition to the minimum CET 1 capital ratio and Tier I capital ratio, credit institutions will be required to hold an additional buffer of 2.5% of common equity as capital conservation buffer. Depletion of the capital conservation buffer will trigger limitations on dividends, distributions on capital instruments and compensation and it is designed to absorb losses in stress periods;
- *Systemic Risk Buffer*. According to CRD IV/CRR, Member States may require the creation of a buffer against systemic risk in the financial sector or subsets thereof in order to prevent and mitigate long-term non-cyclical systemic or macroprudential risks not covered by CRD IV/CRR. The buffer should be at least 1% and is constituted by CET 1 elements;

- *Deductions from CET 1*. CRD IV/CRR revises the definition of items that should be deducted from regulatory capital. In addition, most of the items that are now required to be deducted from regulatory capital will be deducted in whole from the CET 1 component;
- *A Grandfathering Period for Existing "own funds" items*. Capital instruments that qualify as own funds under Directive 2006/48/EC will be phased out over a period that began on 1 January 2014 and ends on 31 December 2021. The regulatory recognition of capital instruments that qualified as own funds prior to 31 December 2011 will be reduced by a specific percentage in subsequent years. Step-up instruments will be phased out at their effective maturity date (i.e., their call and step-up date) if the instruments do not meet CRD IV/CRR criteria for inclusion in Tier I or Tier II. Existing public sector capital injections will be grandfathered until 31 December 2017;
- *No Grandfathering for Instruments issued after 1 January 2012*. Only those instruments that were issued before 31 December 2011 qualify for the transition arrangements discussed above;
- *Countercyclical Buffer*. To protect the banking sector from excess aggregate credit growth, CRD IV/CRR gives Member States the right to require an additional buffer of 0% to 2.5% of CET 1, to be imposed during periods of excess credit growth, according to national circumstances. The countercyclical buffer, when in effect, will be introduced as an extension of the conservation buffer range;
- *Central Counterparties ("**CCPs**")*. A 2.0% risk-weight factor is introduced to certain trade exposures to qualifying CCPs (replacing the current 0% risk-weighting). The capitalisation of credit institution exposures to CCPs will be based in part on whether the CCP is a qualifying CCP, i.e., a CCP authorised or recognised under Regulation (EU) No 648/2012 (since non-qualifying CCPs will be treated as bilateral exposures and will not receive the preferential capital treatment referred to above). As mentioned above, a credit institution's collateral and mark-to-market exposures to CCPs meeting these enhanced principles will be subject to 2.0% risk-weight, and default fund exposures to CCPs will be capitalised based on a risk-sensitive waterfall approach;
- *Asset Value Correlation Multiplier for Large Financial Institutions*. A multiplier of 1.25 is proposed to be applied to the correlation parameter of all exposures to financial institutions meeting particular criteria;
- *Counterparty Credit Risk*. CRD IV/CRR raises counterparty credit risk management standards in a number of areas, including for the treatment of so-called wrong-way risk, i.e., cases where the exposure increases when the credit quality of the counterparty deteriorates. For example, a capital charge for potential mark-to-market losses associated with a deterioration in the creditworthiness of a counterparty and the calculation of expected positive exposure by taking into account stressed parameters;
- *Leverage Ratio*. Credit institutions are required under CRD IV/CRR to submit to their NCA all necessary information on the leverage ratio and its components and, from 1 January 2015, to disclose information on the leverage ratio publicly. In this regard, the Basel Committee has stated that it intends to make final adjustments to the definition and calibration of the Basel III leverage ratio before 2017 based on its findings during the "parallel run period" between 1 January 2013 and 1 January 2017 during which it is testing a minimum requirement of 3% for the leverage ratio, with a view to migrating to a binding minimum requirement from 1 January 2018;
- *Systemically Important Institutions*. Systemically important credit institutions should have loss-absorbing capacity beyond the minimum standards and work on this issue is ongoing. Under CRD IV/CRR, global systemically important institutions will, and other systemically important institutions may, be required to maintain a buffer of up to 3.5% and 2% of the total

risk exposure amount, respectively, taking into account the criteria for its identification as a systematically important credit institution. That buffer shall consist of and be supplemental to CET 1 capital; and

- *Liquidity Requirements*. CRD IV/CRR contains high level provisions on the liquidity coverage ratio (which is an amount of unencumbered, high quality liquid assets that must be held by a credit institution to offset estimated net cash outflows over a 30-day stress scenario, and will be phased in gradually, starting at 60% in 2015, and expected to be 100% in 2018) and the net stable funding ratio (which is the amount of longer-term, stable funding that must be held by a credit institution over a one year timeframe based on liquidity risk factors assigned to assets and off-balance sheet liquidity exposures, and which is being developed). The European Commission is required under CRD IV/CRR to adopt a delegated act on the liquidity coverage ratio by 30 June 2014; this act should apply from 1 January 2015 at the earliest. The European Commission is also required to produce a report on the net stable funding ratio by 31 December 2016, containing a legislative proposal if appropriate. The Basel Committee's aim is that the net stable funding ratio should be the minimum binding standard by 1 January 2018.

Although the CRR is directly applicable in each Member State, it leaves a number of important interpretational issues to be resolved through technical standards, and leaves certain other matters to the discretion of the NCA in each Member State. In addition, as contemplated on 4 November 2014, the ECB has assumed certain supervisory responsibilities formerly handled by national regulators. The ECB may interpret CRD IV/CRR or exercise discretion accorded to the NCA under CRD IV/CRR in a different manner than national regulators. The manner in which many of the new concepts and requirements under CRD IV/CRR will be applied to the Bank and the Group remains uncertain. Although it is difficult to predict with certainty the impact of the full implementation of CRD IV/CRR and its transposition into Cypriot law, changes arising in the transposition may lead to an increase in the Bank's capital requirements and capital costs (see Section 2.3.1 (*The Group is subject to evolving minimum capital requirements which may require it to raise additional capital or result in increased costs*)).

In addition to the substantial changes in capital and liquidity requirements introduced by CRD IV/CRR, there are several new global initiatives, in various stages of finalisation, which represent additional regulatory pressure over the medium term and will impact the EU's future regulatory direction. These initiatives include, among others, the revised Markets in Financial Instruments Directive and the Markets in Financial Instruments Regulation (see Section 3.22.3.4 (*MiFID (the Markets in Financial Instruments Directive (Directive 2004/39/EC*))) and the European Market Infrastructure Regulation (see Section 3.22.3.25 (*The European Market Infrastructure Regulation*)).

The Basel Committee has also published certain proposed changes to the current securitisation framework which may be accepted and implemented in due course.

In April 2014, the implementing technical standards for supervisory reporting were adopted by the European Commission and were published in the Official Journal of the European Union on 28 June 2014. These implementing technical standards, which apply as from 1 January 2014, establish rules on prudential reporting laid down in CRD IV/CRR and set out the content and format of data to be reported by credit institutions to their respective NCAs. The scope of the reporting requirements extend to reporting on the following items:

- own funds;
- financial information, including "FINREP" reporting for IFRS credit institutions;
- real estate losses;
- large exposures;
- leverage ratio;

- liquidity coverage ratio; and
- liquidity net stable funding ratio.

3.22.3.3 Solvency II

The directive on the undertaking and pursuit of the business of insurance and reinsurance "**Solvency II**" (Directive 2009/138/EC) of 25 November 2009 is a fundamental review of the capital adequacy regime for the European insurance sector business. When implemented the capital structure and overall governance of the Group's insurance business will alter and this may have an impact on the Group's capital position and the allocation of capital within the Group. The Group's insurance companies, GIC, Eurolife and CNP Cyprus Insurance Holdings Ltd, do not anticipate any material issues in complying with Solvency II requirements on the current timetable. Directive 2013/58/EU set the date for transposition of the Solvency II framework into national law at 31 March 2015, and 1 January 2016 was set as the date of application and subsequent removal of the existing relevant insurance and reinsurance directives.

3.22.3.4 MiFID (the Markets in Financial Instruments Directive (Directive 2004/39/EC))

Directive 2004/39 on markets in financial instruments (as supplemented by Directive 2006/73 and Commission Regulation 1287/2006) ("**MiFID**") provides for the regulation of firms that provide investment services and advice and introduced a regulatory regime for the trading of financial instruments on securities markets and other trading platforms. MiFID was incorporated into Cypriot law by the Investment Services and Activities and Regulated Markets Law and the CBC and CySEC have issued several directives with respect to the requirements of this law.

MiFID introduced significant changes in Cyprus' regulatory framework with a view to: improving investor protection, increasing transparency, requiring investment services providers to categorise their clients as per the client's risk profile, offering increased transparency on fees and expenses charged to clients, ensuring the timely and duly forwarding of clients' orders to exchanges, improving procedures to identify and prevent conflicts of interest and other relevant matters.

The Group has instituted appropriate procedures to comply with the requirements of MiFID, as implemented into Cypriot legislation and regulations, and to be in line with applicable guidelines and best practices in relation to the provision of investment services and advice as well as the trading of financial instruments.

MiFID will be amended by a new European Union Directive (commonly referred to as "**MiFID II**") and Regulation (commonly referred to as "**MiFIR**"). MiFID II and MiFIR are intended to improve the functioning of financial markets in light of the financial crisis and to establish a safer and more transparent financial system by enhancing regulatory requirements, market transparency and strengthening investor protection. MiFID II and MiFIR were published in the Official Journal of the European Union on 12 June 2014. Member States are required to implement MiFID II by 3 July 2016 and the national implementing measures shall apply, in relation to most provisions, from 3 January 2017. MiFIR will apply directly to investment firms regulated under MiFID from 3 January 2017 (with the exception of certain provisions).

3.22.3.5 Investor Compensation Fund

The Bank is a member of the Investor Compensation Fund for Clients of Banks (the "**Fund**") which was established pursuant to the Investment Firms Law of 2002 and the Establishment and Operation of an Investor Compensation Fund for Customers of Banks Regulations of 2004 (Regulations 530/2004).

The Fund was established on 1 May 2004 and is administered by a management committee of five members, two of which must be the Governor of the CBC and the Senior Manager of the Banking and Supervision and Regulation Division of the CBC. All Cypriot incorporated banks, which offer certain investment services, are required to become members of the Fund. In addition to the Bank's initial contribution to the Fund (which was a lump sum payment fixed in accordance with the covered services which the Bank is licensed to provide, the Bank is obligated to contribute annually an amount of up to 0.001% of the eligible funds and financial instruments of the Bank's clients (as defined in Regulations 530/2004). This contribution is required to be paid between the 16th and 31st of March of each year, and is calculated on the basis of the eligible funds and financial instruments of the Bank's clients for the previous year. Moreover, the management committee of the Fund may decide to call upon the members of the Fund to pay an extraordinary supplementary contribution if it deems that the existing means for the payment of compensation are inadequate, particularly in the event of a liquidation procedure occurring in respect of a member bank.

The object of the Fund is to provide compensation to certain clients to whom member banks have provided investment services in cases where the relevant bank is unable, due to its financial circumstances:

- to return to these clients funds owed to them or funds which belong to them but are, directly or indirectly, held by the member bank in the context of providing investment services to such clients; or
- to hand over to these clients financial instruments which belong to them and which the member bank concerned holds, manages or keeps on their account.

The total amount of compensation payable per client is €20,000 and the Fund does not cover certain types of clients, the most notable exception being clients which are institutional and professional investors.

3.22.3.6 Deposit Protection Scheme

The Deposit Protection and Resolution of Credit and Other Institutions Scheme 2013 (the "**Deposit Protection Scheme**") was established and has been in operation since March 2013. The relevant legal framework is Article 34 of the Business of Credit Institutions Laws, the Laws on the Establishment and Operation of Deposit Protection and Resolution of Credit and Other Institutions Scheme of 2013 and the Establishment and Operation of the Deposit Protection and Resolution of Credit and Other Institutions Scheme Regulations of 2013.

The Deposit Protection Scheme is comprised of three funds: the Deposit Protection Fund for banks, the Deposit Protection Fund for cooperative credit institutions and the Resolution of Credit and Other Institutions Fund. The Deposit Protection Scheme is administered by a management committee, the members of which are representatives from the Ministry of Finance of Cyprus and the CBC.

The purpose of the funds administered under the Deposit Protection Scheme is:

- to compensate depositors of a bank in the event that the bank is unable to repay its deposits; and
- to fund the implementation of resolution measures in respect of banks.

The Deposit Protection Scheme is denominated in all currencies and participation in the Deposit Protection Scheme is compulsory for all credit institutions with authorisation to operate and accept deposits in Cyprus from the CBC. Accordingly, all credit institutions incorporated in Cyprus (including their branch operations located in other Member States of the EU) and all Cypriot branches of credit institutions incorporated in countries other than EU Member States are required to contribute to the relevant funds under the Deposit Protection Scheme. The Cypriot branch operations of credit institutions incorporated in other EU Member States are covered by the corresponding deposit protection schemes in the applicable EU Member State. The management committee has the power to exempt, from the obligation to contribute to the funds under the Deposit Protection Scheme, credit institutions established in other countries which are licensed to carry on banking business in another country. The Bank is obligated to contribute, within 21 business days of receipt of notice from the management committee requesting a contribution to the Deposit Protection Fund for banks, the percentage, determined by the management committee, based on the average deposit base as reported on the last day of each month of the year prior to the decision of the management committee to require payment of a contribution to the Deposit Protection Fund for banks. The management committee may also, in limited circumstances to recover amounts paid out of the Deposit Protection Funds and to ensure that there is available capital, require a special contribution. If a covered credit institution's contribution to the applicable Deposit Protection Fund exceeds 1% of its deposit base, it is not required to make any additional contributions to the applicable Deposit Protection Fund. The general parameters of the Deposit Protection Scheme are that:

- the payment of compensation is triggered if it is determined that a credit institution is unable to repay deposits. This determination can be made by the CBC or through an order issued by a Cypriot court or the competent court in the jurisdiction where the credit institution is incorporated, for the special liquidation of the credit institution concerned; and
- the maximum amount of compensation, per depositor per credit institution, is €100,000.

The Deposit Protection Scheme does not provide compensation in relation to certain categories of deposits such as bank deposits (interbank), deposits by cooperative credit institutions, insurance companies, government departments, semi-government organisations and local authorities, deposits by collective investment schemes and deposits by financial institutions. In addition, deposits by persons:

- against which criminal proceedings have been instigated or for which a confiscation order has been made, under the Money Laundering Activities Laws or a corresponding law of another country; or
- who, in the opinion of the management committee, are responsible for the credit institution's bankruptcy or have profited out of circumstances which led to the credit institution's bankruptcy or any other similar situation,

are also excluded from compensation under the Deposit Protection Scheme.

3.22.3.7 Cypriot Guarantee Scheme for Credit Institutions

In 2012, the Government established a €6 billion guarantee scheme for credit institutions incorporated in Cyprus and licensed by the CBC (including subsidiaries of foreign financial institutions) and the Cooperative Central Bank to facilitate the access by eligible credit institutions to medium-term funding and to reinforce the overall stability of the banking system.

Pursuant to the Granting of Government Guarantees for the Conclusions of Loans and/or the Issue of Bonds by Credit Institutions Law of 2012, and implementing decrees, the maximum amount of Government guarantees that may be allocated to any credit institution cannot exceed 15% of the total domestic deposits of such credit institution and guarantees can only be granted in respect of debt obligations for a term between 3 months and 5 years. In addition, pursuant to the relevant Cypriot legislation, as long as the Government guarantee is in place, the relevant credit institution is, among other things, not allowed to repurchase its own shares, provide any discretionary bonuses to members of its board of directors or senior management or engage in aggressive commercial strategies which would not otherwise take place without the guarantee.

Before a Government guarantee can be granted, the relevant credit institution is required to provide the CBC with a plan for its mid-to-long term funding requirements and provide (subject to limited exceptions) eligible collateral to cover the guarantee allocated. In addition, the government guarantee scheme for credit institutions provides for the payment of a fee calculated based on the tenor of the debt obligation subject to the guarantee and the risk profile of the credit institution (based on an analysis of its credit default swap data or sample bank credit default swap data).

On 6 November 2012, the European Commission approved the establishment of the bank guarantee scheme under EU state aid rules, and in June 2014, the European Commission announced that the fourth extension of the bank guarantee scheme until 31 December 2014 was in line with EU state aid rules (having confirmed the same in January 2013, July 2013 and December 2013). For more information, see Section 2.3.3 (*The Bank is dependent on central bank (ECB and ELA) funding for liquidity and difficulties in securing traditional sources of liquidity may affect the Group's ability to meet its financial obligations*).

3.22.3.8 Payment Services and Single Euro Payments Area

Payment Services

Cyprus has transposed Directive 2007/64/EC on payment services, also known as the "Payment Services Directive" (the "**PSD**") into the Payment Services Law of 2009 and 2010, requiring every payment service provider, such as the Bank, to ensure in an accessible form a minimum level of information and transparency regarding the provided payment services, under the terms and conditions set forth in such law. The PSD also provides further protection regarding the rights of the users of the payment services, but it only applies where both the payer's payment service provider and the payee's payment service provider are located in the EU, with the exception of the provision regarding the value date of the transaction.

On 24 July 2013, the European Commission published a proposal for a new payment services directive to incorporate and repeal the PSD. This proposal, referred to as the "**PSD2**", is expected to improve the functioning of the internal market for payment services and more broadly for all goods and services.

Single Euro Payments Area

Regulation (EC) No 2560/2001 on cross-border payments in euro laid the foundations of the SEPA policy by establishing the principle that banks are not permitted to impose different charges for domestic and cross-border payments or automated teller machine ("**ATM**") withdrawals within the EU. After the publication of the PSD, Regulation (EC) No 924/2009 on cross-border payments in the European Community, which repealed Regulation (EC) No 2560/2001, came into force on 1 November 2009 and introduced additional provisions that further promoted EU financial integration in general and SEPA implementation in particular and reduced significantly the charges payable by consumers and other payment service users for regulated payment services, such as credit transfers, direct debits, cash withdrawals and money remittance. Regulation (EC) No 924/2009 applies to payments in euro in all EU member States.

Regulation (EC) No 924/2009 has been amended by Regulation (EU) No 260/2012 which is also known as the SEPA (migration) Regulation (the "**SEPA Regulation**"). The SEPA Regulation established technical and business requirements for credit transfers and direct debits in euro. In non-euro countries, the provisions of the SEPA Regulation will become effective as of 31 October 2016. Effectively, this means that as of these dates, existing national euro credit transfer and direct debit schemes will be replaced by SEPA credit transfer and SEPA direct debit schemes, which should comply with the technical requirements detailed in the SEPA Regulation. The currency of the funds exchanged through such schemes is also euro.

Full compliance with the SEPA Regulation is expected to lead to more streamlined internal processes, lower information technology costs, reduced costs based on bank charges, a consolidated number of bank accounts and cash management systems, and more efficiency and integration with an organisation's payment business.

3.22.3.9 Capital Control Measures

In order to address the risk of a significant outflow of funds from the Cypriot banking sector as a result of negotiations between the Government and the Troika for financial assistance, the first Enforcement of Restrictive Measures on Transactions in case of Emergency Law of 2013 Decree (each such decree, a "**Capital Controls Decree**") was issued by the Ministry of Finance of Cyprus on 27 March 2013 and imposed a wide ranging set of restrictions and controls on the flow of funds from within and outside of Cyprus including:

- a limit on the amount of cash that can be withdrawn daily to €300 per natural person and €500 per legal person (or their equivalent in foreign currencies) in each credit institution irrespective of the number of accounts held;
- the prohibition on the cashing of cheques;
- the prohibition on the transfer of funds of more than €5,000 per month to accounts held outside of Cyprus or in any other bank, subject to limited exceptions; and

- increased scrutiny of large cashless payments or transfers of deposits/funds from Cyprus to accounts held outside of Cyprus.

The Ministry of Finance of Cyprus issued a Capital Controls Decree on 25 April 2013, which permitted the transfer of funds by international customers of credit institutions which are a branch or a more than 50% subsidiary of a foreign bank operating in Cyprus unless the transfer of funds involved domestic customers or domestic banks. On 30 July 2013, the Ministry of Finance of Cyprus issued a Capital Controls Decree that specified restrictions on the Affected Deposits, which originated on 30 July 2013 as a result of a written notification of the Resolution Authority, from the conversion of titles, governed by the terms of Annexes A and B of the Bail-in Decrees (see Section 3.3.2.3 (*Holders of Deposits and Other Products of the Bank as of 26 March 2013—Deposits Conversion*)) into deposits, and which included a prohibition on the termination of any Affected Deposits (subject to limited exceptions), set the interest rates applicable to the Affected Deposits and provided the Bank with the option of rolling over the Affected Deposits into another fixed term deposit of an equal term. The Bank has not exercised this option in relation to New Deposits with a fixed term of 6 months and has chosen to exercise this option in a limited manner with respect to New Deposits with a fixed term of 9 months and 12 months (see Section 3.3.2.6 (*Release of New Deposits*) for more details on the release of the 6-month, 9-month and 12-month new deposits).

However, the Ministry of Finance of Cyprus has progressively relaxed the restrictions and prohibitions contained in each successive Capital Controls Decree issued since March 2013. In June 2014, the Ministry of Finance of Cyprus abolished the €300 daily cash withdrawal limits from all bank accounts, along with the restrictions on breaking fixed-interest time deposits prior to maturity. Although the domestic capital controls have essentially been lifted (including the ability to open domestic bank accounts freely), the restrictions on the transfer of funds of more than €5,000 outside of Cyprus remains. The Government, in August 2013, published a roadmap which provides for the relaxation of capital controls in Cyprus in line with targets being met in relation to stabilisation measures being implemented with respect to the Cypriot banking sector. Subject to continued progress with the Cypriot economic recovery, the Ministry of Finance of Cyprus has publicly stated that it expects all capital controls to be lifted by the end of 2014.

3.22.3.10 Resolution Law

In 2013, the Resolution Law was enacted to provide a regime to allow the CBC, in its capacity as Resolution Authority, to resolve failing banks in Cyprus. As a result of amendments made to the Resolution Law in August 2013, the Resolution Authority is comprised of the Cypriot Minister of Finance, the CBC and the chairman of the board of CySEC.

Under the Resolution Law, the Resolution Authority is provided with broad resolution powers, including:

- the power to write down capital instruments and eligible liabilities of a financial institution and/or the power to restructure or convert them into ordinary shares (so called "bail-in");
- the power to direct the sale of the relevant financial institution or the whole or part of its business on commercial terms without requiring the consent of the shareholders or complying with the procedural requirements that would otherwise apply;
- the power to transfer all or part of the business of the relevant financial institution to a "bridge bank"; and
- the power to transfer the impaired or problem assets of the relevant financial institution to an asset management vehicle to allow them to be managed over time.

The Resolution Law contains general principles in the context of the adoption and implementation of resolution measures which include the principle that the shareholder of a bank should bear any losses resulting from the implementation of the resolution measures and the creditors of a bank under resolution should bear losses after shareholders. The Resolution Law powers apply regardless of any contractual restrictions. Although the Resolution Law does provide that there should be appropriate protection of security, title transfer financial collateral and set-off and netting arrangements, the form of such protection is subject to the

Resolution Law's provision that the implementation of any resolution measures shall not activate, amongst other things (i) any contractual clause or statutory provision that would be activated in case of bankruptcy or insolvency or upon the occurrence of another event, which may qualify as a credit event or an event equivalent to insolvency, or (ii) the rights, contractual or statutory of secured creditors of the bank concerned over assets and rights used as a collateral for their claims against the bank. Any member state of the European Union which has nationally implemented the CIWUD is likely to recognise resolution measures taken by the Resolution Authority under the Resolution Law with respect to any credit institution for which Cyprus is its home member state.

In addition, further amendments to the Resolution Law were passed in June 2014 as a result of the review of the effectiveness of the Resolution Authority conducted by the Government, in consultation with the Troika, in March 2014. These amendments include:

- a change in the composition of "Resolution Authority" so that it will be comprised of the Governor of the CBC together with the appointed executive directors of the CBC;
- the requirement for the consent of the Cypriot Minister of Finance for any decision which may affect the Cypriot economy or is of a systemic nature; and
- additional powers to be granted to the Resolution Authority for the collection of information, the imposition of fines and imposition of specific criminal sanctions.

In addition, it is expected that the Resolution Law will be further amended in due course to reflect the provisions of the BRRD.

3.22.3.11 CBC Credit Risk Directives

As part of the restructuring of the financial sector in Cyprus, the CBC issued, at the end of 2013 and in 2014, a number of new directives which significantly impact the Bank's credit risk policies and the management of its credit risk. The Group has instituted, or is in the process of instituting, appropriate procedures to comply with the requirements of the directives described below.

Directive on Loan Origination Processes and Processes of Reviewing Existing Loans

The Directive on Loan Origination Processes and Processes of Reviewing Existing Loans issued by the CBC (the "**Loan Origination Directive**") prescribes new minimum practices to be followed by, and new documentation requirements for, credit institutions during the process of assessing and granting or reviewing the provision of credit facilities. In particular, this directive has significantly increased the amount of data required from both borrowers and guarantors in relation to their financial history, regardless of loan amount. Credit institutions were required to be in full compliance with the Loan Origination Directive by 31 March 2014.

The Loan Origination Directive:

- includes detailed requirements for the type of information credit institutions are required to collect during the loan origination process. The information requirements are specific to the category of borrower and type of loan for which the application has been made;
- includes detailed criteria that credit institutions must consider in the evaluation of credit applications, such as the borrower's repayment ability, credit rating, loan contribution and collateral quality, among others;
- creates new guidelines for lending in foreign currencies;
- creates procedures and guidelines that credit institutions must adhere to when extending credit to real estate companies or for the purchase of real property;

- creates procedures for the review of existing credit facilities and for type of information credit institutions are required to collect during the review process;
- includes guidelines for the selection and use of property surveyors and the preparation of property valuation reports; and
- provides a set of best practises to be followed by credit institutions in granting credit facilities to customers.

Directives on Arrears Management of 2013 and 2014

The Arrears Management Directive requires the establishment of internal divisions and processes (including an appeals process for borrowers) in relation to the management of delinquent loans, sets out a code of conduct for dealing with borrowers who are in default and establishes parameters for cooperation between credit institutions in relation to borrowers who have borrowed from multiple credit institutions.

The Arrears Management Directive requires credit institutions to ensure the application of efficient and effective strategies, policies, structures, procedures and mechanisms for the management of arrears and the attainment of fair and viable restructurings of credit facilities for borrowers in financial difficulties. At a minimum this includes:

- the establishment of policies on arrears management for each category of credit facility;
- the implementation of appropriate governance structures and control mechanisms by the credit institution with regard to arrears management;
- the implementation of portfolio segmentation requirements to permit credit institutions to segment and analyse their loan books in granular detail;
- the establishment of a clear and determined approach to arrears management for each category of credit facility;
- the establishment of procedures, mechanisms and systems, including data requirements, for arrears management;
- adherence to the CBC's "Code of Conduct on the Handling of Borrowers in Financial Difficulties";
- the establishment of an independent, centralised arrears management unit within the credit institution (see Section 3.7.6 (*Restructuring and Recoveries Division*)); and
- the establishment of an independent internal appeals process for borrowers and the establishment of an appeals committee within the credit institution that is independent from the credit granting, monitoring and restructuring functions.

The Bank has developed a comprehensive strategy for the management of arrears, which it has submitted to the CBC. The CBC has, with assistance of an external expert, reviewed credit institutions' arrears management policies and practices in light of international best practice. The responsible CBC supervisory units are expected to examine the implementation of credit institutions' action plans to correct deficiencies, if any, identified by the external expert and will submit the main findings and recommendations to the CBC board. After completion of the review of credit institutions' arrears management policies, revisions of the Arrears Management Directive and the related code of conduct are expected to be introduced. For more information, see Section 2.4.5 (*The Group's business and operations are subject to substantial regulation and supervision and can be negatively affected by its non-compliance with certain existing regulatory requirements and any adverse regulatory and governmental developments*).

Directive on Loan Impairment and Provisioning Procedures of 2014

The Directive on Loan Impairment and Provisioning Procedures of 2014 issued by the CBC (the "**Loan Provisioning Directive**") sets out loan provisioning requirements and procedures and requires credit institutions to include appropriate disclosure in their financial statements which reflect the quality of their loan portfolio and provisioning policies and levels. Credit institutions are required to submit a detailed action plan leading to full compliance with the provisions of the Loan Provisioning Directive in their annual financial statements for 2014.

Directive on the Definitions of Non-Performing and Restructured Credit Facilities of 2013

The Directive on the Definitions of Non-Performing and Restructured Credit Facilities of 2013 issued by the CBC (the "**NPL Directive**") provides for a new definition of non-performing loans which came into effect on 1 July 2013. The new definition of non-performing loans is stricter than the more common definition of non-performing loans which is based on a loan being more than 90 days past due.

In accordance with the NPL Directive, an NPL is defined as a loan which is:

- in arrears of interest or capital or any other charges for a period of more than 90 days;
- in excess of its contractual limit on a continuous basis for a period of more than 90 days; and/or
- has been restructured and at the time of restructuring was classified as NPL or was in arrears/excess for a period of more than 60 days or has been restructured twice within a period of 18 months.

Restructured loans remain as NPLs for six months following the commencement of the new repayment schedule of capital instalments or in the case of gradually increasing instalments, six months from the first month from which the higher instalment is due. In the case of lump-sum or bullet payments at maturity in excess of 20% of the loan amount, the loan remains as an NPL until its maturity.

On 5 August 2014, the EBA published a final draft of the implementing technical standards on supervisory reporting on forbearance and non-performing exposures under Article 99(4) of Regulation (EU) No 575/2013. These technical standards are expected to enter into force before the end of 2014. The CBC has informed credit institutions in Cyprus that their reporting obligations under the NPL Directive will continue until the year ended 31 December 2014. The EBA's technical standards focus on a 90-day past due threshold for non-performing exposures, while the definition of forbearance focuses on concessions extended to debtors who face, or may face, difficulties in meeting payments. The adoption of these standards by the European Commission will harmonise the definition of NPLs across all Member States.

3.22.3.12 Directive on Governance and Management Arrangements in Credit Institutions

In August 2014, the CBC issued the Governance Directive which imposes new requirements for corporate governance on credit institutions operating in Cyprus. The Governance Directive, amongst other things, establishes new requirements for the board of directors and board committees of credit institutions in Cyprus. The Governance Directive also establishes new rules for the internal control functions, including rules regarding compliance, audit, risk and information security.

3.22.3.13 Directive on the Assessment of the Fitness and Probity of Directors and Managers of Credit Institutions

In November 2014, the CBC issued the Directive on the Assessment of the Fitness and Probity of Directors and Managers of Credit Institutions which transposes certain CRD IV requirements relating to conduct of directors of credit institutions and amends the criteria used in determining director independence.

3.22.3.14 Consumer Protection

Banks in Cyprus are subject to consumer credit legislation that seeks to protect consumers from abusive contractual terms and conditions. This legislation also sets forth rules on the distance marketing and advertisement of consumer financial services, prohibits unfair and misleading commercial practices and includes penalties for violations of such rules and prohibitions. The Unfair Contract Terms in Consumer Contracts Laws of 1996 to 2014, for example, provides that, inter alia, terms which allow a seller or a services provider to (i) terminate (without a material reason) a contract of unlimited duration without providing reasonable notice; or (ii) unilaterally amend the terms of a contract (without there being a material reason, which is specified in the contract), may be rendered void and unenforceable. See also Section 3.22.3.18 (*Interest Rates*).

In 2010, Cyprus transposed Directive 2008/48/EC of the European Parliament and of the Council on credit agreements for consumers (repealing the previous Directive 87/102/EEC) through the passing of the Consumer Credit Agreements Law of 2010 (No. 2) to 2013 which in respect of certain consumer credit arrangements and amongst other things, provides the minimum content of pre-contractual information, introduces the obligation to assess the creditworthiness of the consumer, determines the minimum content of credit agreements, establishes the "Real Total Annual Interest Rate" and regulates issues regarding credit providers and credit intermediaries and other specific issues.

Moreover, the Consumer Credit (Housing Loans and Hire Purchase Agreements) Law of 2001 includes provisions for the protection of consumers in relation to certain housing loans and hire purchase agreements.

3.22.3.15 Money Laundering and Terrorist Financing

As a fully cooperative member of the Financial Action Task Force ("**FATF**") and a Member State of the European Union, Cyprus abides by FATF recommendations and has transposed into national law Council Directives 2005/60/EC and 2006/70/EC and has adopted the International Convention for the Suppression of the Financing of Terrorism through the passing of the Prevention and Suppression of Money Laundering Activities Law 2007 and the issue by the CBC of the Fourth CBC Directive on the Prevention of Money Laundering and Terrorism Financing (together, the "**Money Laundering Activities Laws**").

The Money Laundering Activities Laws, *inter alia*, cover the following and establishes that:

- money laundering, including money laundering deriving from tax evasion, and terrorist financing are criminal offences;
- credit institutions and financial organisations, including credit companies and insurance companies that provide life insurance or/and services related to investments, are included among the persons being bound by the provisions of the law;
- credit institutions are obliged to apply measures for verifying the identity of their customers, ongoing monitoring of the business relationship, holding files and reporting suspicious transactions to competent authorities;
- the CBC is the competent authority supervising, among others, credit institutions in relation to their compliance with the requirements prescribed by the Money Laundering Activities Laws and responsible for issuing implementing administrative and regulatory acts, while the Ministry of Finance of Cyprus is the central coordinator regarding the implementation of such law, assessment of the effectiveness of the mechanisms put in place for this purpose and coordination and enhancement of the actions of all competent authorities involved;
- banking secrecy related restrictions do not apply in the context of the exchange of information for the purpose of money laundering prevention and suppression;
- the Cypriot Unit for Combating Money Laundering ("**Mokas**") is responsible for investigating reports filed by all persons subject to the requirements of the Money Laundering Activities Law with respect to suspicious transactions; and
- a money laundering compliance officer (approved by the CBC) is required to be appointed by the board of directors of each credit institution and that such compliance officer is required to file an annual report on compliance matters with the relevant credit institution's board of

directors and the CBC. This reporting obligation is separate from the obligation to report certain suspicious transactions to Mokas.

The CBC has issued a number of decisions which are applicable to credit and financial institutions supervised by them and, where relevant, take into account and reflect the FATF recommendations and the common position regarding the obligations imposed by Regulation (EC) No 1781/2006 on information on the payer accompanying transfers of funds. These decisions relate to, among other matters, the "know-your-customer" process and related documentation, an indicative typology of unusual or suspicious transactions and the framework of administrative sanctions that may be imposed upon credit and financial institutions supervised by the CBC. Furthermore, the CBC has adopted regulations generally providing guidance on matters relating to tax evasion (for example, recommending that due diligence is performed on cash withdrawals in excess of €15,000).

The MoU includes an anti-money action plan focused on: strengthening customer due diligence procedures; ensuring the transparent and timely access to information on the beneficial ownership of trusts; and the implementation of a risk-based approach to supervision for financial and non-financial institutions.

The Group has put in processes to procure compliance with the Money Laundering Activities Laws as well as the sanctions administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury.

3.22.3.16 Equity Participation in Companies

Credit institutions in Cyprus must follow certain procedures regarding holdings in other companies. Under the Business of Credit Institutions Laws of 1997, unless the CBC grants its prior written approval and subject to any conditions connected to such approval, an authorised credit institution cannot acquire or hold (directly or indirectly) more than 10% of the share capital of any other company or otherwise exercise control (10% or more of the voting rights of credit institution or its holding company or the power to elect the majority of the directors of a credit institution) over such company. An authorised credit institution incorporated in Cyprus is also subject to two additional requirements: (i) the value of any share capital held in any other company cannot exceed 15% and (ii) the total value of its shareholdings in other companies cannot exceed 60%, in each case, of its own funds.

Excluded from this restriction are arrangements where a credit institution acquires or holds:

- any part of the share capital of a company under an underwriting or sub-underwriting contract (subject to certain time-related conditions);
- any holding of share capital in a company which carries out functions integral to or closely related to the business of credit institutions (e.g. lending services, payment services, security-related services and trustee functions); and
- any part of the share capital of a company acquired or held as a result of the satisfaction of debts due to it (subject to certain time-related conditions).

The CRR, which, since 1 January 2014, applies directly in all Member States (including Cyprus) provides that NCAs of Member States shall publish their choice of the requirements applicable to acquisitions by credit institutions of qualifying holdings in other companies, based on the choices made available in Article 89 of the CRR (i.e., for qualifying holdings exceeding certain thresholds, whether the NCA chooses to apply a risk weight of 1250% or to prohibit such qualifying holdings in excess of certain thresholds). On 14 August 2014, the CBC published its election and credit institutions in Cyprus must apply a risk weight of 1250% in accordance with Article 89 3(a) of the CRR.

New and significant holdings (concentrations) must be reported to the Cyprus Commission for the Protection of Competition according to the Control of Concentrations between Undertakings Law of 2014 (Law 83(I)/2014), and, if such transactions have a European Community dimension within the meaning of Regulation (EC) No 139/2004 on the control of concentrations between undertakings (as supplemented by

Commission Regulation (EC) 802/2004), these new and significant holdings must also be notified to the European Commission and cannot be put into effect prior to receiving a clearance from the European Commission. With respect to listed companies, the CySEC and the CSE must be notified once the ownership threshold of 5% is exceeded (whether in a single transaction or in a series of transactions), in accordance with the Securities and Cyprus Stock Exchange Laws of 1993 to 2012. Moreover, pursuant to the provisions of the Takeovers Bids Law of 2007, a person or persons acting in concert who acquire(s) 30% or more of the voting rights of a company registered in Cyprus and whose shares are traded on a regulated market in Cyprus is generally under an obligation to make an offer to buy all remaining shares.

3.22.3.17 Constraints on the Use of Capital

There are no constraints on the use of capital that have or may have a significant impact, directly or indirectly, on the Group's activities, except for the constraints imposed by the banking regulations discussed above and the legal framework applicable to credit institutions operating in Cyprus.

Part of this framework includes a prohibition set out in the Business of Credit Institutions Laws of 1997 requiring CBC written approval (with such approval subject to the provisions set out in Cypriot company law) for any transaction which relates to a credit institution acquiring or dealing for its own account in its own shares. The granting, directly or indirectly, of credit facilities for the purchase of a credit institution's own shares or the shares of a holding company or subsidiary is also prohibited.

3.22.3.18 Equity Participations of Individuals or Legal Entities in Cypriot Credit Institutions

Any individual or legal entity that has decided to acquire "control" (10% or more of the voting rights of credit institutions or its holding company or the power to elect the majority of the directors of a credit institution) or further increase its equity participation beyond, directly or indirectly, certain legally defined thresholds (20%, 30% or 50%) of equity participation in a Cypriot credit institution (or its parent) must notify the CBC of this decision and obtain the CBC's approval for such acquisition, pursuant to the Business of Credit Institutions Laws of 1997.

The CBC will conduct an assessment of the acquirer and approve or reject the contemplated acquisition. If a person fails to comply with the CBC notification requirement, the CBC may, among other things, declare ineffective the legal documentation underlying the acquisition, suspend the voting rights attached to the relevant shares and impose fines.

The notification obligations also exist in the case where an individual or legal entity decides to cease to hold, directly or indirectly, an equity participation or voting rights in a Cypriot credit institution or to reduce its current participation or voting rights resulting in a decrease thereof below the legally defined thresholds set out above, or to cease to "control", directly or indirectly, a Cypriot credit institution. In connection with this notification requirement, there is also an obligation on Cypriot credit institutions to inform the CBC annually on changes to the percentages of holding in its capital structure so that the CBC is aware of the identity of any beneficial owner holding at least 5% of the voting rights in any Cypriot credit institution.

3.22.3.19 Interest Rates

Pursuant to The Liberalisation of Interest Rates and Related Matters (Amending) Law of 2014, terms in agreements relating to credit facilities that give a credit institution the right to unilaterally increase the interest rate margin payable by the borrower are void and unenforceable. This law applies to all credit facilities in existence as at the date the law came into effect (9 September 2014) and all agreements relating to credit facilities entered into thereafter. In addition, the law, *inter alia*,:

- requires credit institutions to ensure clarity and transparency on changes to the amount of interest charged, to the timing of interest payments and the methodology for calculating such interest; and

- establishes that default interest shall not exceed 2%. If a credit institution cannot show that the default interest charged in the past above the 2% threshold relates to its real costs, the credit institution will have to reimburse the borrower for the additional amounts charged.

The CBC has issued a directive on 24 April 2013 requiring credit institutions to maintain an additional special reserve relating to high deposit interest rates. The special reserve applies to deposits with an interest rate higher than the relevant EURIBOR/LIBOR plus 3%.

3.22.3.20 Compulsory Deposits with the CBC

The compulsory reserve requirement framework has been amended in accordance with EU regulations. As from January 2012, the compulsory reserve requirement ratio set by ECB Regulation (EU) No 1745/2003 and ECB Regulation (EU) No 1358/2011 is 1% for all categories of deposits to clients comprising the commitment base, with the exception of the following categories, to which a zero ratio applies:

- deposits with agreed maturity over two years;
- deposits redeemable at notice over two years;
- repurchase agreements; and
- debt securities with agreed maturity over two years.

As of the date of this Prospectus, the Bank is in compliance with the applicable compulsory reserve requirements.

3.22.3.21 Loan Collateral

Banks are allowed to provide loans and credit to their customers on an unsecured and secured basis against real estate and movable property, assets and receivables including cash deposits.

Mortgages, charges (fixed and floating), pledges and assignments are all recognised as valid security interests in Cypriot law. The primary step for the perfection of security in Cyprus is registration with either the Registrar of Companies and/or registration with a specialist register (e.g. the Districts Lands Office in respect of mortgages).

In general, loan collateral can be enforced by obtaining a judgment of a competent court in Cyprus or through the appointment of a receiver or manager in the manner set out in the relevant security agreement. The general timeframe for the enforcement of loan collateral after a court judgment has been obtained has historically taken between five and 13 years, which is much longer than the international standard. With respect to mortgaged property, however, the recently enacted Foreclosure Law is intended to enable foreclosure within two years. For additional information on the status of amendments to foreclosure legislation, see Section 3.22.3.21 (*Laws Relating to Foreclosures*).

In general, the appointment of a receiver or manager takes immediate effect.

3.22.3.22 Laws Relating to Foreclosures

As part of the MoU policy reforms prepared by the Troika, the Foreclosure Law was passed by the Cypriot Parliament in September 2014. This law is intended to amend the legal framework on foreclosures and the forced sales of mortgaged property, and is expected to improve banks' ability to negotiate with borrowers, as well as decreasing the time needed to re-possess, in the event that negotiations fail.

The Foreclosure Law aims to ensure that foreclosures cannot be indefinitely delayed and establishes procedures for the valuation and auctioning of properties. The law, however, gives borrowers the right to appeal, *inter alia*, against valuations and imposes an obligation on lenders to attempt to reach an agreement with borrowers to restructure the defaulted loan. The law also ensures the protection of property buyers who have deposited their sale contract at the Land Registry Department, but who have not secured the property's title deed. Contemporaneously with the passing of the Foreclosure Law, the Cypriot Parliament also passed The Legal Aid (Amending) (No 3) Law of 2014, which will expand mortgagors' rights to legal assistance in court proceedings relating to foreclosures. In addition, the Cypriot Parliament passed the Central Bank of Cyprus (Amending) (No 2) Law of 2014, which requires the CBC to report to the Cypriot Parliament on a quarterly basis on the number and types of debts which have been restructured per credit institution and to report on developments with the application of the Foreclosure Law.

However, opposition political parties, acting together, were able to pass at the same time as the Foreclosure Law a series of separate supplementary bills intended to provide additional protections to borrowers that could potentially conflict with the main objectives of the Foreclosure Law. These supplementary bills if enacted into law in their current form will:

- release mortgagors and any guarantors from the obligation to pay any shortfall between the sale proceeds from the forced sale of a mortgaged property and the amount of the mortgaged debt (The Release of Mortgagor and Guarantors from the Guarantee (after the forced sale of mortgaged property) Law of 2014 and The Release of Guarantors from Guarantees (after the forced sale of mortgaged property) Law of 2014);
- provide borrowers (and others with a legal interest) with respect to mortgaged properties that are primary residences (i.e., a property used on a permanent basis as a family home) and certain commercial mortgaged properties (i.e., the main premise for the conduct of business) additional protection by giving such persons the right to file an application with the court requesting that any forced sale proceedings are suspended. When deciding whether to issue an order suspending proceedings, a court will be expected to consider the financial circumstances of the borrower, how they came to default on their obligations (e.g. as a result of prevailing economic conditions) and whether the parties attempted to restructure the debt before proceedings were initiated. If the application is successful, the court will specify the duration of the suspension but the lender has the right to make an application for an order to lift the suspension if it is of the view that the financial circumstances of the borrower has improved. The right to file the application requesting the suspension of foreclosure proceedings applies to borrowers with a debt of less than €350,000 and, in the case of commercial mortgaged properties only, requires the borrower to have turnover of less than €2 million during the 12 preceding calendar months (The Forbearance of Collection of Debts, Protection of Primary Residence and Commercial Premises and the Regulation of other Related Matters (Temporary Provisions) Law of 2014);
- delay the implementation of the Foreclosure Law until the implementation of a new insolvency framework, expected by the end of the year (The Suspension of the Coming into Force of the Transfer and Mortgage of Immovable Property (Amending) Law of 2014 Until the Coming into Force of the New Insolvency Framework Law of 2014);
- give customers the right to file a complaint with the Governor of the CBC alleging a breach of the Arrears Management Directive by credit institutions. If the Governor of the CBC following an investigation, which may not exceed 45 days, establishes that a breach has occurred, the relevant credit institution will be prohibited from commencing a forced sale against mortgaged property that is a primary residence and any proceedings that have been commenced will be suspended until the breach is rectified in full (The Business of Credit Institutions (Amending) Law of 2014); and
- give the CBC the power to regulate through the issue of directives and guidelines the number and type of forced sales that can take place per credit institution (The Central Bank of Cyprus (Amending) (No 3) Law of 2014).

Four of the supplementary bills (The Release of Mortgagor from the Payment of Outstanding Amounts Following the Sale of Mortgaged Property Law of 2014, The Release of Guarantors from Guarantees Following the Sale of Mortgaged Property Law of 2014, The Forbearance of Collection of Debts, Protection of

Primary Residence and Commercial Premises and the Regulation of other Related Matters (Temporary Provisions) Law of 2014 and The Suspension of the Coming into Force of the Transfer and Mortgage of Immovable Property (Amending) Law of 2014 Law of 2014) were referred to the Supreme Court by the Cypriot President for a ruling on their constitutionality. On 31 October 2014, the Supreme Court unanimously held that the four supplementary bills were unconstitutional.

In addition, the Cypriot President declined to sign into law The Business of Credit Institutions (Amending) Law of 2014 and The Central Bank of Cyprus (Amending) (No 3) Law of 2014, which were, accordingly, sent back to the Cypriot Parliament for further consideration. On 23 September 2014, the Cypriot Parliament voted to withdraw The Business of Credit Institutions (Amending) Law of 2014 and refer it to the ECB for its consideration. However, The Central Bank of Cyprus (Amending) (No 3) Law of 2014 was re-confirmed (with an amendment allowing the CBC to regulate foreclosure procedures if the CBC reaches the view that the financial stability of Cyprus is being affected by such procedures), and was enacted into law in October 2014.

Generally, see Section 2.4.5 (*The Group's business and operations are subject to substantial regulation and supervision and can be negatively affected by its non-compliance with certain existing regulatory requirements and any adverse regulatory and governmental developments*) and Section 2.1.2 (*The implementation, conditions and requirements of the MoU entered into between Cyprus and the Troika, and any government actions aimed at alleviating the economic crisis, are uncertain and may create adverse results or have an adverse effect on the Bank*).

3.22.3.23 Capital Requirements in Foreign Markets

Group subsidiaries are regulated and supervised by the regulator in their respective jurisdictions of incorporation and are subject to local guidelines and directives. All Group subsidiaries comply with their applicable minimum capital requirement ratios.

3.22.3.24 Amendments to Cyprus Tax Legislation

The House of Representatives of Cyprus approved a number of legislative bills which amended Cyprus' tax legislation in line with the MoU. For more information, see Section 3.22.2.4 (*Tax and other fiscal measures*).

3.22.3.25 The Foreign Account Tax Compliance Act

FATCA was enacted in 2010 by the U.S. Congress as part of the Hiring Incentives to Restore Employment (HIRE) Act. FATCA requires Foreign Financial Institutions ("**FFIs**"), such as the Bank and many entities in its Group, to report to the U.S. Internal Revenue Service (the "**IRS**") information about financial accounts held by U.S. taxpayers or by foreign entities in which U.S. taxpayers hold a substantial ownership interest.

In order to avoid withholding under FATCA, a participating FFI will have to enter into an agreement with the IRS to: (a) identify U.S. accounts; (b) report certain information to the IRS regarding U.S. accounts; and (c) withhold a 30% tax on certain U.S.-connected payments to non-participating FFIs and account holders who are unwilling to provide the required information.

FFIs that do not enter into an agreement with the IRS will be subject to a 30% withholding tax on certain U.S.-source payments made to them. The FATCA rules will apply beginning 1 July 2014.

Registration of FFIs will take place through the "FATCA Registration Website" and, upon approval, the FFIs will receive a Global Intermediary Identification Number ("**GIIN**") from the IRS. Usually, every month since June 2014, the IRS publishes a list of registered and approved FFIs and their GIINs. Withholding agents will rely on this list to verify an FFI's GIIN and not withhold on payments made to the FFI.

The U.S. Department of the Treasury has collaborated with foreign governments to develop two alternative model intergovernmental agreements ("**IGAs**") that facilitate FATCA implementation and further reduce burdens on FFIs in partner jurisdictions. Under a Model 1 IGA, reporting Model 1 FFIs would report specified information about U.S. accounts to their government, followed by the automatic exchange of that information on a government-to-government basis with the United States. Under a Model 2 IGA, reporting Model 2 FFIs would report specified information about U.S. accounts directly to the IRS in a manner consistent with the final FATCA regulations (as modified by the applicable Model 2 IGA), supplemented by a government-to-government exchange of information on request.

The U.S. Treasury has engaged with more than 80 countries and jurisdictions around the world to combat offshore tax evasion and improve global tax compliance. Currently, more than 30 countries have signed or initialled these agreements, specifically (for example): for Model 1 IGA — the United Kingdom, Mexico, Bermuda, Guernsey, Isle of Man, Italy, Jersey, Malta, the Netherlands, Denmark, Ireland, Spain, Norway, Germany, France, Costa Rica and Cayman Islands; and for Model 2 IGA — Austria, Bermuda, Chile, Japan and Switzerland and more signed agreements are expected to follow in the near future. The Government has reached an agreement in substance in respect of a Model 1 IGA with the United States, and this agreement is expected to be signed in December 2014.

All Group FFIs (except for Uniastrum) have registered with the IRS as Model 1 IGA Registered Deemed Compliant FFIs and have obtained their GIINs. In the absence of an IGA, Uniastrum is expected to be registered as a Participating FFI.

Taking into consideration the impact that FATCA will have on Group entities that are considered FFIs, as well as the fact that Cyprus is expected to sign an intergovernmental agreement with the IRS during 2014, the Bank is closely following developments regarding FATCA and is coordinating with all relevant authorities.

3.22.3.26 The European Market Infrastructure Regulation

On 16 August 2012, EMIR came into force. EMIR introduces certain requirements in respect of derivative contracts, which will apply primarily to financial counterparties ("**FCs**"), such as investment firms, credit institutions, insurance companies, amongst others, and non-financial counterparties which are entities established in the EU which are not FCs. The Bank is classified as an FC under EMIR.

Broadly, EMIR's requirements in respect of derivative contracts, as they apply to FCs, are (i) mandatory clearing of OTC derivative contracts declared subject to the clearing obligation through an authorised or recognised central counterparty (a "**CCP**"); (ii) the implementation of risk mitigation techniques in respect of uncleared OTC derivative contracts; and (iii) reporting and record-keeping requirements in respect of all derivative contracts. These requirements are described in more detail below.

- *Clearing Obligation*. The initial "frontloading" period with respect to the clearing obligation began on 18 March 2014. Any OTC derivative contracts entered into by FCs during a frontloading period which fall within the classes of derivative contracts ultimately declared subject to the clearing obligation may need to be cleared once the clearing obligation for such classes of derivatives enters into force (subject to certain counterparty categorisation, phase-in and remaining maturity requirements, which have not yet been published); provided such contracts are entered into with entities who are also subject to the clearing obligation (such as another bank).
- *Risk Mitigation Techniques.* The Bank is required to apply certain risk mitigation techniques in relation to timely confirmation, portfolio reconciliation and compression and dispute resolution to any OTC derivatives contracts which it enters into that are not cleared by a CCP. In due course, the Bank will also be required to comply with mandatory margining requirements in respect of any uncleared OTC derivative contracts which it enters into with certain counterparties; although the technical standards which will contain the detail relevant to EMIR's mandatory margining requirement have not yet been finalised.

- *Reporting Obligation.* The Bank is required to report certain information about the derivative contracts which it enters into, modifies or terminates, to a trade repository registered or recognised under EMIR.
- *Record-Keeping Obligation.* EMIR imposes a record-keeping requirement on FCs, such as the Bank, pursuant to which counterparties, such as the Bank, must keep records of any derivative contracts they have concluded and any modification thereto for at least five years following the termination of the contract.

3.22.3.27 Regulatory Proposals in Cyprus

One of the pillars of the MoU requires the implementation of structural reforms to support competitiveness and the sustainable growth of the Cypriot banking sector and the wider economy (see Section 3.22.2 (*The Macroeconomic Environment in Cyprus*)).

Some of the initiatives currently being formulated by the Government include:

- establishing a modern insolvency framework, which is expected to include, *inter alia* (i) laws relating to the insolvency of companies and natural persons for the purposes of making the insolvency process in Cyprus more efficient; (ii) new procedures for the administration of viable companies; and (iii) laws establishing a regime for the proper licensing and regulation of insolvency practitioners;
- the creation of a central credit register for credit assessment purposes, which is expected to record a broad range of data for both performing and non-performing borrowers, including information on loans and deposit accounts with other credit institutions; and
- various tax reforms aimed at reinforcing the efficiency and effectiveness of revenue collection, bolstering tax administration agencies and infrastructure, improving the effectiveness of the immovable property tax and facilitating the exchange of information of tax matters across Member States (see Section 2.4.9 (*The Group is exposed to tax risk and failure to manage such risk may have an adverse impact on the Group*)).

Generally, see Section 2.4.5 (*The Group's business and operations are subject to substantial regulation and supervision and can be negatively affected by its non-compliance with certain existing regulatory requirements and any adverse regulatory and governmental developments*).

3.22.3.28 EU Regulatory Proposals

Proposed EU Regulation on Mandatory Separation of Certain Banking Activities

On 29 January 2014, the European Commission adopted a proposal for a new regulation following the recommendations released on 31 October 2012 by the High Level Expert Group (the Liikanen Group) on the mandatory separation of certain banking activities. The proposed regulation contains new rules to stop the biggest and most complex banks from engaging in the activity of proprietary trading. The new rules would also give supervisors the power to require those banks to separate certain trading activities from their deposit-taking business if the pursuit of such activities compromises financial stability. In connection with this proposal, the European Commission has adopted accompanying measures aimed at increasing transparency of certain transactions in the shadow banking sector.

The proposed regulation will apply to European banks that will eventually be designated as global systemically important banks under CRD IV/CRR or that exceed the following thresholds for three consecutive years: (a) total assets are equal to or exceed €30 billion and (b) total trading assets and liabilities are equal to or exceed €70 billion or 10% of their total assets. The banks that meet the aforementioned conditions will be automatically banned from engaging in proprietary trading, defined narrowly as activities with no hedging purposes for client activities or no connection with customer needs. In addition, such banks will also be prohibited from investing in or holding shares in hedge funds, or entities that engage in proprietary trading or acquires units/shares in hedge funds. Other trading and investment banking activities—including market-making, lending to venture capital and private equity funds, investment and sponsorship of complex securitisation, sales and trading of derivatives—are not subject to the ban, however they might be subject to separation.

The proprietary trading ban is proposed to apply as of 1 January 2017 and the effective separation of other trading activities is proposed to apply as of 1 July 2018.

EU Financial Transactions Tax

The European Commission has published a proposal for a Directive for a common financial transactions tax ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**FTT participating Member States**").

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in corporate bonds (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are exempt.

Under current proposals the FTT could apply in certain circumstances to persons both within and outside of the FTT participating Member States. Generally, it would apply to certain dealings in corporate bonds where at least one party is a financial institution, and at least one party is established in a FTT participating Member State. A financial institution may be, or be deemed to be, "established" in a FTT participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a FTT participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a FTT participating Member State.

The FTT proposal has been the subject of much discussion. A joint statement issued in May 2014 by ten of the participating Member States indicated an intention to implement the FTT progressively such that the initial stage would be implemented by 1 January 2016 in relation to shares and certain derivatives only.

3.23 OUTLOOK FOR THE CURRENT FINANCIAL YEAR AND FIRST QUARTER OF 2015

With 93.8% of its total assets as of 30 June 2014, and 90.5% of its total income from continuing operations for the first half of 2014, derived from its operations in Cyprus, the Bank's financial performance is highly correlated to the economic and operating conditions in Cyprus. Although the economic situation in Cyprus remains challenging, the economy in 2014 has proven to be relatively resilient. Following Troika's fifth review mission, the Troika stated that "*…the authorities have continued to meet the fiscal targets with significant margin in the first half of the year, as a result of prudent budget execution. In the financial sector, banks are advancing with their restructuring plans and capital raising while supervisory monitoring of their actions and operational capacity to address non-performing loans has been enhanced. Structural reforms are proceeding: the authorities have implemented a welfare reform providing a guaranteed minimum income for all those in need, have commenced the integration of the revenue administration, and have strengthened the administration's powers to fight tax evasion*". Assuming the trends and developments described by the Troika continue, the economic and operating conditions in Cyprus should also continue to improve to the Group's benefit in terms of its financial performance.

However, there are a number of trends and uncertainties which are reasonably likely to have a material effect on the Bank's prospects for the current financial year, including the following:

- if non-performing loans in Cyprus and of the Group continue to rise. The establishment of an effective legal framework for foreclosure and insolvency is particularly critical to the Group's ability to reduce its non-performing loans. Although the Cypriot Parliament has successfully passed a package of foreclosure law reforms, the reforms have only come into effect recently and the impact of these laws from an operational and procedural perspective is highly uncertain. In addition, although legislative proposals for the reform of Cyprus' insolvency framework have been made, certain political parties in Cyprus are claiming that the implementation of the foreclosure law reforms should be delayed until the implementation of the insolvency framework reforms and may also seek to delay or implement changes to the insolvency framework reforms which are not in line with the MoU's objectives. Further, any failure to implement the policy reforms requested by Troika, particularly the new legal framework for foreclosure and insolvency, could result in the withholding and/or delay in the disbursement of the financial assistance to Cyprus and any such delay could have a material adverse effect on the Cypriot financial sector as well as the Group.

- if unemployment rates remain elevated and real estate values remain depressed. Provisions for the impairment of customer loans are driven by the default rate of borrowers and by any reduction in collateral values. Although the Cypriot economy is expected to grow, and unemployment rates are expected to decrease, in 2015, unemployment rates will still be at a historical high and certain sectors of the economy, such as construction and real estate development, may continue to be subdued. Elevated unemployment rates and the continuing depression of real estate collateral values will continue to put pressure on the quality of the Group's loan portfolio.
- the ability of the Bank to maintain and attract deposits. While the Bank has increased its marketing efforts to attract new deposits and while the retention of deposits which were issued under the Bail-in Decrees and released by the Bank has been relatively high, any further relaxation or lifting of capital controls on the transfer of funds outside of Cyprus could result in deposit outflows from the Bank. Subject to continued progress with the Cypriot economic recovery, the Ministry of Finance of Cyprus has publicly stated that it expects all capital controls to be lifted by the end of 2014.
- the continuing reliance on and availability of the central bank liquidity facilities. Even though the Bank has significantly strengthened its capital and liquidity with the Capital Raising and expects that it should be able to resume access to the international capital markets for additional funding, the Bank remains dependent on central bank (ECB and ELA) funding for liquidity in the current financial year.
- uncertainty as to the cost of deposits and lending rates. As the Bank reduces its dependence on central bank funding and increases its funding from deposits, its interest income and net interest margin is expected to decline. In particular, the Bank's cost of deposits may increase in 2015 as a result of its marketing efforts to attract new deposits and there is uncertainty as to the Bank's ability to increase lending rates.
- negative pressure on the net interest margin. In addition to the reduction of the Bank's dependence of central bank funding, the repayment of a sovereign bond by the Republic of Cyprus in July 2014 (as well as any future repayment of a sovereign bond by the Republic of Cyprus) will have a negative impact on the Bank's net interest margin.

For a more detailed discussion of the risks and uncertainties affecting the Cypriot economy and the Group's business, see Section 2.1 (*Risks Relating to the Economic Crisis in Cyprus) and Section 2.3 (Risks Relating to the Group's Business*).

4 SECURITIES NOTE

4.1 MATERIAL INFORMATION

4.1.1 Working Capital Statement

The Bank states that in its opinion, the working capital is sufficient for the Group's present requirements over the next 12 months from the date of this Prospectus.

4.1.2 Equity and Indebtedness

Capital and Indebtedness

The tables that follow, which have been prepared by the Bank as per management accounts, present the capital structure and net financial assets of the Group as at 30 September 2014.

The Group's debt securities in issue, subordinated loan stock and equity as at 30 September 2014 are as follows:

Debt securities in issue, subordinated loan stock and equity	**30 September 2014**
Liabilities	**€'000**
Debt Securities in issue	
- Medium term senior debt	687
- Short term commercial paper	–
- Other debt securities in issue	4,028
	4,715
Subordinated Loan Stock	
- Subordinated Bonds in US Dollars 2014/2015	5,178
Total Debt Securities in issue and subordinated loan stock	**9,893**
Equity	
- Share Capital	892,238
- Share premium	553,373
- Capital reduction reserve	1,952,486
- Shares subject to interim orders	297
- Revaluation and other reserves	95,531
- Retained earnings	240,526
- Equity attributable to owners of the Bank	3,734,451
- Non-controlling interests	56,974
Total equity	**3,791,425**
Indebtedness to Equity ratio	0.26%

Debt securities in issue are not secured and the rights and claims of debt security holders rank pari passu with the claims of depositors and other creditors of the Group. The subordinated loan stock is not secured and the rights and claims of loan stockholders are subordinated to the claims of depositors and other creditors of the Bank, but have priority over those of the shareholders of the Bank.

As at 30 September 2014 the Group's total equity stood at €3,791.4 million and its indebtedness at €9.9 million.

The following table summarises the Group's net financial assets as at 30 September 2014:

	30 September 2014
	€'000
A. Cash and balances with central banks	432,262
B. Placements with Banks	1,404,089
C. Investments available for sale	748,754
D. Total Liquidity (D) = (A) + (B) + (C)	**2,585,105**
E. Advances to banking institutions	759,726
F. Obligations to central banks and amounts due to banks – Short term	2,542,158
G. Debt Securities in issue- Short term	6,905
H. Current Financial Debt (H) = (F) + (G)	**2,549,063**
I. Net Current Financial Assets (Indebtedness) (I) = (D) + (E)- (H)	**795,768**
J. Obligations to central banks and amounts due to banks – Long term	6,191,507
K. Subordinated loan stock – Long term	2,988
L. Non current Financial Indebtedness (L) = (J) + (K)	**6,194,495**
M. Net Financial Assets (Indebtedness) (M) = (I) - (L)	**(5,398,727)**

The Management of the Bank declares that there were no major changes in the financial position of the Bank and the Group that would affect the equity and borrowings, as listed in the table above, from 30 September 2014 to the date of this Prospectus.

The following table sets out the Group's contingent liabilities and commitments at 30 September 2014:

Contingent liabilities and commitments	**30 September 2014**
	€'000
Contingent liabilities	
Acceptances and endorsements	11,480
Guarantees	999,557
Commitments	
Documentary credits	15,572
Undrawn formal standby facilities, credit facilities and other commitments to lend	2,498,497
Total	**3,525,106**

4.2 SHARE CAPITAL INCREASE

4.2.1 Key Terms of the Share Capital Increase

On 4 July 2014, the Board of Directors of the Bank resolved to explore investor interest for a potential capital raise to expedite the implementation of the Group's Restructuring Plan in tandem with further strengthening of the Group.

Following the decision of the Board of Directors on 4 July 2014, senior management of the Bank met with a number of international institutional investors and determined that there was sufficient interest to proceed with a capital raise. The capital raise was structured in three phases:

(1) The first phase involved the placing (the "**Placing**") by the Bank on 28 July 2014 of 4,166,666,667 new Ordinary Shares (the "**Placing Shares**") at a price per share of €0.24 (the "**Placing Price**") to (i) certain institutional investors in the European Union who are "qualified investors" (as defined in Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) (the "**Prospectus Directive**")) and similarly qualified institutional investors in other jurisdictions and (ii) certain existing shareholders of the Bank that met the requirements of a qualified investor in their relevant jurisdiction, subject to clawback in favour of eligible existing shareholders under the Open Offer (as described below) in accordance with the terms and conditions of the Placing as set out in the information memorandum dated 4 July 2014 issued by the Bank in connection with the Placing (the "**Information Memorandum**"). The total number of Ordinary Shares that were issued to Placing Investors (following clawback) was 3,733,623,899 (see the table "*Summary Data for the Share Capital Increase*" below).

(2) The second phase involved the "**Open Offer**": an invitation to eligible existing shareholders of the Bank to subscribe for up to a total of 833,333,333 new Ordinary Shares (which, for the avoidance of doubt, comprised 20% of the total number of Placing Shares rounded down to the nearest whole ordinary share) at the price per share of €0.24 (the "**Offer Price**"). Each eligible shareholder could participate in the Open Offer so long as its subscription was for a total consideration of at least €100,000 (a minimum threshold which provides an exemption from the requirement to produce an approved prospectus for the purposes of the Prospectus Directive). The Open Offer started on 31 July 2014 and ended on 21 August 2014. A total of 433,042,768 new Ordinary Shares (the "**Open Offer Shares**") were clawed back from the Placing pursuant to the Open Offer.

(3) The third phase is the Retail Offer in which the Bank will offer up to 416,666,667 new Ordinary Shares (which is in addition to those sold in the Placing and the Open Offer) for subscription by existing shareholders of the Bank (which will not include investors who participated in the Placing unless they were already existing shareholders at that time) at a subscription price of €0.24 per share, following completion of the Placing and the Open Offer and prior to any listing of the Ordinary Shares on the CSE and ATHEX (subject to the necessary regulatory approvals). The terms and conditions of the Retail Offer are set out in Section 4.3 (*Terms and Conditions of the Retail Offer*) below.

The Placing Price, Offer Price and the Subscription Price are the same. The Placing and the Open Offer are together referred to as the "**Capital Raising**" in this Prospectus and have raised total gross proceeds of €1 billion for the Bank. The Placing, Open Offer and the Retail Offer are collectively referred to as the "**Share Capital Increase**".

SUMMARY DATA FOR THE SHARE CAPITAL INCREASE

NUMBER OF ISSUED SHARES PRIOR TO THE CAPITAL RAISING	**4,755,710,678**
- LISTED SHARES (ADJUSTED FOR BAIL-IN)	17,951,405
- SHARES ISSUED TO HOLDERS OF DEBT SECURITIES PURSUANT TO BAIL-IN	5,781,443
- LAIKI SHARES	858,708,764
- BAIL-IN SHARES	3,873,269,066
NUMBER OF NEW SHARES ISSUED PURSUANT TO THE CAPITAL RAISING	**4,166,666,667**
- PLACING	3,733,623,899
- OPEN OFFER	433,042,768
TOTAL NUMBER OF ISSUED SHARES POST COMPLETION OF THE CAPITAL RAISING	**8,922,377,345**
MAXIMUM NUMBER OF SHARES FOR SUBSCRIPTION IN THE RETAIL OFFER	416,666,667
NOMINAL VALUE PER SHARE (IN €)	0.10
ISSUE PRICE PER SHARE (IN €)*	0.24
CAPITAL RAISING GROSS PROCEEDS (in €)	1,000,000,000
RETAIL OFFER GROSS PROCEEDS (MAXIMUM AMOUNT) (in €)	100,000,000
SHARE CAPITAL INCREASE GROSS PROCEEDS (in €)	up to 1,100,000,000
TOTAL NUMBER OF ISSUED SHARES POST COMPLETION OF SHARE CAPITAL INCREASE	up to 9,339,044,012

It is noted that this Prospectus relates to the Retail Offer of up to 416,666,667 Ordinary Shares and their subsequent admission to listing and trading on the CSE and ATHEX, as well as the admission to listing and trading on the CSE and ATHEX of the Relevant Shares.

4.2.2 Reasons for the Share Capital Increase and Use of Proceeds

In August and September 2014, the Bank raised total gross proceeds of €1 billion through the Capital Raising. As of 30 June 2014, the Bank's Common Equity Tier 1 ratio was 11.3%. The capital increase of €1 billion from the Capital Raising, combined with deleveraging actions completed after the first quarter of 2014, has strengthened the Bank's Common Equity Tier 1 ratio (CRD IV/CRR – transitional basis) to 15.6% and its Common Equity Tier 1 ratio (CRD IV/CRR – fully loaded basis) to 15.1%, which is significantly ahead of European peers.

In addition to strengthening the Bank's capital base, the Bank believes that the Capital Raising has provided the following additional strategic benefits:

- increased the Bank's ability to meet regulatory tests and withstand potential exogenous shocks;
- improved stakeholders' confidence in the Bank;
- expedited the implementation of the Group's Restructuring Plan;
- improved funding options, enhancing the Bank's ability to access the capital markets; and
- positioned the Bank to stimulate and benefit from the recovery of the Cypriot economy.

The Retail Offer constitutes the third phase of the Share Capital Increase and represents an additional opportunity (after the Open Offer) for non-institutional Shareholders to participate in the Share Capital Increase.

Assuming that the Retail Offer is subscribed in full, the total gross proceeds of the Retail Offer will be €100 million.

The total expenses of the Retail Offer (including the professional fees of the independent auditors, legal advisers, Lead Manager and printing and advertising costs) are estimated to be in the region of €2.2 million. The Bank does not intend to charge investors any expenses in relation to the Retail Offer.

The proceeds of the Capital Raising have strengthened the Bank's capital position. Moreover, the Capital Raising has enhanced the Bank's liquidity position as a significant part (together with proceeds from further deleveraging actions and liquid assets) has been applied to repay ELA funding. The continuous and active liquidity management have led to a reduction in ELA funding of €1,280 million since 30 June 2014.

The proceeds of the Retail Offer, assuming there are Retail Shares which are validly subscribed for under the Retail Offer, will strengthen the capital base of the Bank.

4.2.3 Subscription Price

The Subscription Price of €0.24 per share is the same as the price per share for all three phases of the Share Capital Increase. The Subscription Price was determined by the Board on 28 July 2014 following the completion of a book-building process under which investors participating in the Placing (which comprised both new institutional investors and existing shareholders of the Bank that met the requirements of a qualified investor in their relevant jurisdiction) were requested to submit bids indicating the number of shares they wish to subscribe for and the relevant price.

Having taken into consideration the Bank's objective of raising approximately €1 billion through the Share Capital Increase, the Bank considers the Subscription Price to be a fair reflection of the market value of the Bank's ordinary shares as it has been determined by market participants as the price at which €1 billion could be raised by the Bank.

As one of the key terms of the Retail Offer, the Subscription Price was also approved at €0.24 at an extraordinary general meeting of shareholders of the Bank held on 28 August 2014 as further described below in Section 4.2.4 (*Special Resolutions Approved by Shareholders in Connection with the Share Capital Increase*).

4.2.4 Special Resolutions Approved by Shareholders in Connection with the Share Capital Increase

At the EGM held on 28 August 2014, the shareholders of the Bank by the requisite majority:

(a) authorised the issue and allotment of ordinary shares at the price of €0.24 per share to the investors and existing shareholders who were allocated ordinary shares in the Placing and Open Offer (the "**Allocated Parties**");

(b) approved the reduction of the nominal value of each ordinary share of the Bank to €0.10 (the "**Nominal Value Reduction**");

(c) approved the Retail Offer;

(d) approved the disapplication of the existing shareholders' pre-emption rights in relation to the Placing, Open Offer and Retail Offer; and

(e) approved the removal of the age limit for directors of the Board.

The Placing and the Open Offer were conditional upon the issue of the Court Order by the District Court of Nicosia approving the Nominal Value Reduction of the Ordinary Shares and the filing of the Court Order with the Department of the Registrar of Companies and Official Receiver. On 29 August 2014, the District Court of Nicosia issued an order approving the Nominal Value Reduction, which was filed with the Department of the Registrar of Companies and Official Receiver on 1 September 2014. With the filing and registration of the Court Order with the Department of the Registrar of Companies and Official Receiver, all conditions precedent to the closing of the Placing and the Open Offer were satisfied. The Placing and the Open Offer closed on 18 September 2014 with the issue of Ordinary Shares to Allocated Parties.

The full text of the special resolutions passed in relation to the Share Capital Increase and the percentages by which they were approved at the EGM are set out below:

(A) SPECIAL RESOLUTIONS TO REDUCE THE NOMINAL VALUE OF EACH ORDINARY SHARE ("RESOLUTIONS A")

1. THAT subject only to confirmation of such reduction by the District Court of Nicosia as required under Section 64 of the Companies Law:-

   (a) the authorized share capital of the Bank be reduced from EUR 4,767,759,272.00, divided into 4,767,759,272 ordinary shares with a nominal value of EUR1.00 each, to EUR 476,775,927.20 divided into 4,767,759,272 ordinary shares with a nominal value of EUR 0.10 each; and

   (b) the issued share capital of the Bank be reduced from EUR 4,755,710,678.00, divided into 4,755,710,678 fully paid ordinary shares with a nominal value of EUR 1.00 each, to EUR 475,571,067.80 divided into 4,755,710,678 fully paid ordinary shares with a nominal value of EUR 0.10 each.

   through the reduction of the nominal value of each of the ordinary shares comprising the authorized and issued share capital of the Bank from EUR 1.00 to EUR 0.10.

2. THAT from the amount of EUR 4,280,139,610.20 corresponding to the amount which shall be cancelled from Bank's paid up share capital (though the reduction of the nominal value of each share as aforesaid), EUR 2,327,654,000.00 be applied for writing off accumulated losses of the Bank and EUR 1,952,485,610.20 be applied for the creation of a capital reduction reserve fund, in accordance with paragraph (3) of subsection (1) of Section 64 of the Companies Law.

3. THAT upon the reduction of the issued and authorized share capital of the Bank, the authorized share capital of the Bank be increased from EUR 476,775,927.20 divided into 4,767,759,272 ordinary shares with a nominal value of EUR 0.10 each to EUR 4,767,759,272.00 divided into 47,677,592,720 ordinary shares of EUR 0.10 each, through the creation of 42,909,833,448 new (but unissued) ordinary shares with a nominal value of EUR 0.10 each which shall rank *pari passu* in all respects with each other and with all other ordinary shares of the Bank (except, in relation to the other ordinary shares which are listed on the CSE and ATHEX, solely with respect to the listing of such other ordinary shares).

4. THAT the Board of Directors be and is hereby, or a duly authorised committee of the Board be and is hereby, authorised to apply for, and take all actions necessary to obtain, such approval by the District Court of Nicosia in order for the abovementioned resolutions to become effective.

The Resolutions A were approved by holders of shares representing 87.25% of the existing ordinary shares voted at the EGM.

(B) SPECIAL RESOLUTIONS TO AUTHORISE THE ISSUE AND ALLOTMENT OF ORDINARY SHARES UNDER THE PLACING AND THE OPEN OFFER ("RESOLUTIONS B")

1. THAT, subject to the passing of Resolutions A and to the reduction of capital contemplated thereunder becoming effective, the Board of Directors (or a duly authorised committee of the Board) be and is hereby authorised to exercise all the powers of the Bank to issue and allot ordinary shares in the Bank up to an aggregate nominal amount of €416,666,666.70 (equivalent to 4,166,666,667 ordinary shares of €0.10 each in the share capital of the Bank) in connection with and/or for the implementation of the Capital Raising at a subscription price per ordinary share of €0.24. This authority shall expire on 31 December 2014 (unless renewed, varied or revoked by the Bank prior to or on such date) save that the Bank may, before such expiry make offers or agreements which would or might require ordinary shares to be allotted after such expiry and the Directors (or a duly authorised committee of the Board) may allot ordinary shares in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

2. THAT any pre-emptive rights the Bank's shareholders may have by operation of law and/or pursuant to the Articles of Association of the Bank and/or otherwise in connection with the authority conferred on the Board of Directors (or a duly authorised committee of the Board) for the issue and allotment of shares in the Bank as contemplated in resolution B1, be and are hereby irrevocably and unconditionally waived.

The Resolutions B were approved by holders of shares representing 87.49% of the existing ordinary shares voted at the EGM.

(C) SPECIAL RESOLUTIONS TO AUTHORISE THE ISSUE AND ALLOTMENT OF ORDINARY SHARES UNDER THE RETAIL OFFER ("RESOLUTIONS C")

1. THAT, subject to the passing of Resolutions A and to the reduction of capital contemplated thereunder becoming effective, the Board of Directors (or a duly authorised committee of the Board) be and is hereby authorised to exercise all the powers of the Bank to issue and allot ordinary shares in the Bank up to an aggregate nominal amount of €41,666,666.70 (equivalent to 416,666,667 ordinary shares of €0.10 each in the share capital of the Bank) in connection with and/or for the implementation of the Retail Offer at a subscription price per ordinary share of €0.24. This authority shall expire on 31 December 2014 (unless renewed, varied or revoked by the Bank prior to or on such date) save that the Bank may, before such expiry make offers or agreements which would or might require ordinary shares to be allotted after such expiry and the Directors (or a duly authorised committee of the Board) may allot ordinary shares in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

2. THAT any pre-emptive rights the Bank's shareholders may have by operation of law and/or pursuant to the Articles of Association of the Bank and/or otherwise in connection with the authority conferred on the Board of Directors (or a duly authorised committee of the Board) for the issue and allotment of shares in the Bank as contemplated in resolution C1, be and are hereby irrevocably and unconditionally waived.

The Resolutions C were approved by holders of shares representing 87.47% of the existing ordinary shares voted at the EGM.

4.3 TERMS AND CONDITIONS OF THE RETAIL OFFER

4.3.1 Introduction

The Retail Offer comprises the third and final phase of the Share Capital Increase which, if subscribed in full, will result in the Bank raising gross proceeds of €100 million and account for 4.46% of the enlarged share capital of the Bank following the completion of the Retail Offer. The Retail Offer is not underwritten. CISCO is the Lead Manager of the Retail Offer.

The Retail Offer is an opportunity for Qualifying Shareholders to subscribe for Retail Shares at the Subscription Price in accordance with the terms and conditions of the Retail Offer as set out in this Section 4.3 (the "**Terms and Conditions**"). Unless otherwise defined herein, capitalised terms used in the Terms and Conditions can be found in the *Glossary of Selected Terms* of the Prospectus.

Qualifying Shareholders should read the Terms and Conditions in full before completing the Application Form. The Application Form for the Retail Offer can be found at the back of this Prospectus. **The latest time and date for receipt of completed Application Forms and payment in full under the Retail Offer is 1.30 p.m. on 9 January 2015**.

4.3.2 Terms of the Retail Offer

(a) *Invitation to Subscribe:* Subject to the terms and conditions set out in this Section 4.3, each Qualifying Shareholder is being invited to subscribe for up to a maximum of 416,666,667 Retail Shares at the Subscription Price of €0.24 per Retail Share (payable in full and free of all expenses). Qualifying Shareholders will not be required to subscribe for any minimum number of Retail Shares or for any minimum amount of consideration.

(b) *Qualifying Shareholders:* only Shareholders on the share register of the Bank as at the Record Date (with the exclusion of (i) Shareholders who have registered addresses in, who are incorporated in, registered in or otherwise resident or located in any Excluded Territory and (ii) Shareholders who were allotted Ordinary Shares pursuant to the Placing unless they were already Shareholders as at record date for the Placing) ("**Qualifying Shareholders**") are eligible to subscribe for Retail Shares in the Retail Offer. The "**Record Date**" for the purposes of the Retail Offer is 3.00 p.m. on 21 November 2014. The Excluded Territories are defined in Section 4.3.9 (*Overseas Shareholders*) below.

(c) *Allotment of Retail Shares:* If the Retail Offer is not taken up in full, each Qualifying Shareholder which has submitted a valid application for Retail Shares will be allotted the full number of Retail Shares that it has subscribed for.

If the Retail Offer is oversubscribed, priority allotment will be given to valid applications for a total consideration per Qualifying Shareholder of less than or equal to €100,000.08 ("**Minority Applications**"). Minority Applications will be allotted on a *pro rata* basis (i.e. proportionally based on the number of shares applied for by the relevant Minority Applications and the total number of shares applied for by all Minority Applications). Once all Minority Applications have been satisfied and assuming all shares have not been fully allotted, share applications for a total consideration per Qualifying Shareholder which is more than €100,000.08 ("**Majority Applications**") will be allotted on a *pro rata* basis (i.e. proportionally based on the number of shares applied for by the relevant Majority Application and the total number of shares applied for by all Majority Applications).

Fractional Retail Shares will not be issued and any fractions will be ignored.

No assurance can be given that applications by Qualifying Shareholders for Retail Shares will be met in full or in part or at all.

(d) *Status of the Retail Shares:* The Retail Shares will be fully fungible and rank *pari passu* with each other and with all other Ordinary Shares. Holders of the Retail Shares will be entitled to fully participate in any dividend payment with a record date that falls after the Issue Date (as defined below), subject to the CBC's prohibition on the distribution of dividends by the Bank during the period of the Restructuring Plan which is up to and including 31 December 2017.

(e) *Subscription Period:* Qualifying Shareholders must submit their Application Forms within the subscription period which commences at 9.00 a.m. on 15 December 2014 and will remain open until 1.30 p.m. on 9 January 2015 (the "**Subscription Period**").

(f) *Application and Payment Procedure:* Applications for Retail Shares must be made on the Application Form set out at the end of this Prospectus or as may be otherwise published by the Bank. The procedure for application and payment under the Retail Offer is set out below in Section 4.3.3 (*Application and Payment Procedure for the Retail Offer*).

(g) *Excluded Territories and Overseas Shareholders:* Except in limited circumstances, the Retail Offer is not being made to Shareholders in any Excluded Territories. Shareholders who are resident in, ordinarily resident in, or citizens of, countries other than Cyprus and Greece ("**Overseas Shareholders**") and any person (including, without limitation, any nominee, custodian or trustee) who has a contractual or other legal obligation to forward this Prospectus or any Application Form to a country other than Cyprus or Greece should read Section 4.3.9 (*Overseas Shareholders*) below.

Qualifying Shareholders should note that the Retail Offer is not a rights issue and the Application Forms are not negotiable documents and cannot be traded. Qualifying Shareholders should be aware that in the Retail Offer, unlike with a rights issue, any Retail Shares not applied for by Qualifying Shareholders will not be sold in the market on behalf of, or placed for the benefit of, Qualifying Shareholders who do not apply under the Retail Offer. If and to the extent that all valid applications under the Retail Offer have been met in full and there are still Retail Shares which have not been applied for at the end of the Subscription Period, these Retail Shares will not be issued.

4.3.3 Application and Payment Procedure for the Retail Offer

The Application Form, which can be found at the back of the Prospectus, sets out certain terms and instructions and these terms and instructions set out in the Application Form constitute part of the Terms and Conditions. If there is any conflict between the terms and instructions of the Application Form and the Terms and Conditions, the Terms and Conditions shall prevail.

Applications to acquire Retail Shares may only be made on the Application Form and may only be made for, or on behalf of, the Qualifying Shareholder named in it. Multiple applications will not be accepted and Application Forms may not be assigned, transferred or split.

Qualifying Shareholders who do not want to take up or apply for Retail Shares should take no action and should not complete or return the Application Form.

(a) **Application Procedures**

Each Qualifying Shareholder who wishes to subscribe for Retail Shares must complete and sign the Application Form in accordance with the instructions thereon and arrange for its submission by hand (during normal office hours only) to an officer or manager at a branch of the Bank in Cyprus (a "**Branch Officer**") so as to be received by such Branch Officer by no later than 1.30 p.m. on 9 January 2015, after which time Application Forms will not be valid.

Qualifying Shareholders should note that applications, once made, are irrevocable.

Completed Application Forms should be returned together with payment or payment instructions in accordance with Section 4.3.3 (b) below.

(b) **Payment**

Payments may be made by:

(i) *Cheque or banker's draft:* cheque or banker's draft in euros payable to "The Bank of Cyprus Public Company Limited" and crossed "A/C payee only". Third party cheques may not be accepted except cheques or banker's drafts where the bank has confirmed the name of the account holder by stamping or endorsing the cheque or banker's draft to such effect. It is recommended that the account name should be the same as that shown on the application. Cheques or banker's drafts must be drawn on an account at a bank or a branch of a bank which must be in Cyprus and which is either a settlement member of the Cyprus Clearing

House or which has arranged for its cheques or banker's drafts to be cleared through the facilities provided by the Cyprus Clearing House. Post-dated cheques will not be accepted.

Cheques must be for the full amount payable on acceptance, and delivered (together with the Application Form which has been completed, signed and submitted in accordance with Section 4.3.3(a) above) to the relevant Branch Officer so as to be received as soon as possible and, in any event, not later than 1.30 p.m. on 9 January 2015.

The Bank reserves the right to have cheques and banker's drafts presented for payment on receipt. Cheques must be honoured on first presentation and the Bank may elect to treat as invalid any acceptances in respect of which cheques are not honoured. Return of the Application Form with a cheque will constitute a warranty that the cheque will be honoured on first presentation;

(ii) *Debit from account with the Bank:* if specified in the Application Form, debit from a bank account held with the Bank. The Bank reserves the right to debit the full amount payable from a bank account held with the Bank on receipt of the Application Form; or

(iii) *Electronic transfer of funds:* if specified in the Application Form, electronic transfer to the following bank account:

Name of Account:	Bank of Cyprus Public Company Ltd.
Bank:	Bank of Cyprus Public Company Ltd.
BIC Code	BCYPCY2N
Account Number	357018676058
IBAN	CY20 0020 0195 0000 3570 1867 6058

Payment by electronic transfer of the full amount payable must be made on or before 1.30 p.m. on 9 January 2015.

Other than the methods specified in this Section 4.3.3(b) above, the Bank will not accept payment for the Retail Shares by any other method. No interest will be allowed on payments made before they are due and any interest on such payments will be paid to the Bank.

If Retail Shares are allotted to a Qualifying Shareholder and a cheque for that allotment is subsequently not honoured, there are insufficient funds in the bank account with the Bank to be debited for payment in full for that allotment or payment by electronic transfer has not been made in full for that allotment by the deadline specified above (as applicable), the Bank may (in its absolute discretion as to manner, timing and terms) make arrangements for the sale of such shares on behalf of such Qualifying Shareholder and hold the proceeds of sale (net of the Bank's reasonable estimate of any loss that it has suffered as a result of the acceptance being treated as invalid and of the expenses of sale including, without limitation, any taxes payable on the transfer of such shares, and of all amounts payable by such Qualifying Shareholder pursuant to the provisions of this Section 4.3 in respect of the acquisition of such shares) on behalf of such Qualifying Shareholder. Neither the Bank nor any other person shall be responsible for, or have any liability for, any loss, expenses or damage suffered by any Qualifying Shareholder as a result.

(c) **Discretion as to Validity of Acceptances**

The Bank may (in its absolute discretion) treat an Application Form as valid and binding on the person(s) by whom or on whose behalf it is lodged even if it is not completed in accordance with the relevant instructions or is not accompanied by a valid power of attorney where required.

The Bank reserves the right to treat as invalid any application or purported application for the Retail Shares pursuant to the Retail Offer that appears to the Bank to have been executed in or despatched from an Excluded Territory.

(d) **Return of Application Monies**

Where application monies have been banked and/or received, if any application is not accepted in whole, or is accepted in part only, the application monies or, as the case may be, the balance of the amount paid on application will be returned without interest and after the deduction of any applicable bank charges by:

(i) crossed cheque in your favour, by post at the risk of the person(s) entitled thereto; or

(ii) if specified in the relevant Application Form, credit to the bank account held with the Bank.

(e) **Effect of Application**

All documents and remittances sent by or to an applicant (or as the applicant may direct) will be sent at the applicant's own risk. By completing and delivering an Application Form the applicant:

(i) represents and warrants to each of the Bank and CISCO that he has the right, power and authority, and has taken all necessary action, to make the application under the Retail Offer and to execute, deliver and exercise his rights, and perform his obligations, under any contracts resulting therefrom and that he is not a person otherwise prevented by legal or regulatory restrictions from applying for Retail Shares or acting on behalf of any such person on a non-discretionary basis;

(ii) agrees with each of the Bank and CISCO that all applications under the Retail Offer and contracts resulting therefrom, and any non-contractual obligations related thereto, shall be governed by, and construed in accordance with, the laws of Cyprus;

(iii) confirms to each of the Bank and CISCO that in making the application he is not relying on any information or representation other than that contained in this Prospectus, and the applicant accordingly agrees that no person responsible solely or jointly for the Prospectus or any part thereof, or involved in the preparation thereof, shall have any liability for any information or representation not so contained and further agrees that, having had the opportunity to read the Prospectus, he will be deemed to have had notice of all information contained in the Prospectus;

(iv) confirms that in making the application he is not relying and has not relied on CISCO or any other person affiliated with CISCO in connection with any investigation of the accuracy of any information contained in this Prospectus or his investment decision;

(v) represents and warrants to each of the Bank and CISCO that he is a Qualifying Shareholder and the information contained in the Application Form is true and accurate;

(vi) represents and warrants to the Bank and CISCO that he is not, nor is he applying on behalf of any person who is*:* (a) located, a citizen or resident, or a corporation, partnership or other entity created or organised in or under any laws, in or of any Excluded Territory or any jurisdiction in which the application for Retail Shares is prevented by law, and (b) he is not applying with a view to re-offering, reselling, transferring or delivering any of the Retail Shares which are the subject of his application to, or for the benefit of, a person who is located, a citizen or resident, or which is a corporation, partnership or other entity created or organised in or under any laws of any Excluded Territory or any jurisdiction in which the application for Retail Shares is prevented by law, nor acting on behalf of any such person on a non-discretionary basis nor a person otherwise prevented by legal or regulatory restrictions from applying for Retail Shares under the Retail Offer;

(vii) represents and warrants that it is not applying on behalf of a person engaged in money laundering, drug trafficking or terrorism;

(ix) undertakes to ensure that, in the case of an Application Form signed by someone else on the Qualifying Shareholder's behalf, the original of the relevant power of attorney (or a complete copy certified by a solicitor or notary) is enclosed with your Application Form together with full identity documents for the person so signing; and

(vii) requests that the Retail Shares to which he will become entitled be issued to him on the terms set out in this Prospectus, subject to the Articles.

4.3.4 Verification of Identity Requirements

CISCO or the Bank may require, at its absolute discretion, verification of the identity of the beneficial owner by whom or on whose behalf the Application Form is lodged with payment (which requirements are referred to below as the "**verification of identity requirements**").

The person lodging the Application Form with payment (the "**applicant**"), including any person who appears to CISCO or the Bank to be acting on behalf of some other person, shall thereby be deemed to agree to provide CISCO or the Bank with such information and other evidence as CISCO or the Bank may require to satisfy the verification of identity requirements. Submission of an Application Form shall constitute a warranty that the applicant has complied with and will continue to comply with any obligations it may have under any anti-money laundering laws and regulations applicable to it and In Respect of the subscription for Retail Shares and an undertaking by the applicant to provide promptly to CISCO or the Bank such information as may be specified by CISCO or the Bank as being required for the purpose of the verification of identity requirements.

If CISCO or the Bank determines, in its absolute discretion, that the identity of any applicant should be verified, the relevant Retail Shares (notwithstanding any other term of the Retail Offer) will not be issued to the relevant applicant unless and until the verification of identity requirements have been satisfied in respect of that applicant or application. CISCO or the Bank is entitled, in its absolute discretion, to determine whether the identity of any applicant should be verified and whether such requirements have been satisfied, and neither CISCO nor the Bank will be liable to any person for any loss or damage suffered or incurred (or alleged), directly or indirectly, as a result of the exercise of such discretion.

If the verification of the identity of any applicant is requested by CISCO or the Bank, failure to provide the necessary evidence of identity within a reasonable time may result in delays and potential rejection of an application. If, within a reasonable period of time following a request for verification of identity, CISCO or the Bank has not received evidence satisfactory to it as aforesaid, the Bank may, in its absolute discretion, treat the relevant application as invalid, in which event the application monies will be returned (at the applicant's risk) without interest by cheque or, if specified in the Application Form, to the bank account held with the Bank.

4.3.5 Settlement

As soon as reasonably practicable after the announcement by the Bank of the Retail Offer results, each Qualifying Shareholder allocated Retail Shares in the Retail Offer (each, an "**Allocated Shareholder**") will be sent an allocation letter (the "**Allocation Letter**") by the Bank indicating the number of Retail Shares allocated to him/her and the Issue Date. The "**Issue Date**" is the date on which the Retail Shares are issued by the Bank through the registration of the relevant number of Retail Shares in the name of each Allocated Shareholder (or its custodian, nominee, trustee or agent as indicated in the relevant Application Form) in the register of members of the Bank. The Issue Date is expected to be on or about 14 January 2015 and the Bank expects to file the Retail Shares Application with the CSE and ATHEX on or about the same date. For the avoidance of doubt, the Retail Shares will not be dematerialised or delivered to Securities Accounts with the CSE or the DSS of the Hellenic Exchanges on the Issue Date.

The Bank will publish an announcement on its website (www.bankofcyprus.com) confirming the approvals from the CSE and ATHEX for Second Admission and indicating the date of Second Admission. The Bank expects Second Admission to become effective, and dealings in the Retail Shares to commence, on or about 28 January 2015.

On the date of Second Admission, the Bank shall deliver the Retail Shares by crediting the relevant number of Retail Shares in dematerialised form to each Allocated Shareholder's Securities Account (or, as the case may be, the Securities Account of its custodian, nominee, trustee or agent) with the Central Depository/Registry of the CSE or the DSS of the Hellenic Exchanges (as applicable) specified in the relevant Application Form. Allocated Shareholders will not incur any costs or taxes in relation to the issue and delivery of the Retail Shares in the manner specified in this Section 4.3.5. Unless Section 4.3.6 (*Right to Allot and Issue Retail Shares in Certificated Form*) applies**,** no share certificates or other statements of shareholding will be issued or delivered in respect of the Retail Shares.

Each Allocated Shareholder must specify its Investor Share Code, Securities Account Number, Operator's Code and Operator's Name in the Application Form in order for the Bank to issue and deliver the Retail Shares to its Securities Account with the CSE or the DSS of the Hellenic Exchanges in accordance with this Section 4.3.4. In particular, any Allocated Shareholder who does not specify an Operator's Code in the Application Form will have their Retail Shares credited to the Special Account (Securities Account Number*:* 9999999999) of the CSE or the Special Account (Securities Account Number*:* 9999999999) of the DSS of the Hellenic Exchanges, even if all the other CSE or DSS Securities Account details are specified in its Application Form. Allocated Shareholders will not be able to trade their Retail Shares which have been credited to either of these Special Accounts unless and until they take the appropriate steps to transfer these Retail Shares to their own Securities Account.

Accordingly, Allocated Shareholders are required to have an active Investor Share Code and Securities Account with the CSE or the DSS of the Hellenic Exchanges in order for the Retail Shares to be credited to their Securities Account so that they will be able to trade these Retail Shares on Second Admission.

Application Forms from interested Shareholders will only be accepted if it is the registered holder or joint registered holder for the Investor Share Code appearing in the application. Shareholders should note that if the Investor Share Code, the Securities Account Number and the Operator’s Code or the Operators’ Code of the Special Account of the CSE or the Special Account of the DSS of the Hellenic Exchanges, as appropriate, are not indicated on the application form or are wrong, the Shareholder concerned will be excluded from the allocation of Retail Shares.

Each Qualifying Shareholder may subscribe for at least one trading unit (i.e. for one Retail Share) and integral multiples thereof. The maximum subscription limit for each Qualifying Shareholder is the total number of the Retail Shares (i.e. 416,666,667).

If, after completion of the Retail Offer, it is discovered that more than one subscription by the same natural or legal persons has been made on the basis of DSS records, common characteristics of the subscribing Shareholder(s) and/or identified practices for the submission of multiple subscriptions, all of these subscriptions will be treated as a single subscription. Shareholders will not incur any costs and taxes for the registration of the Retail Offer Shares in their Investor Share Code and their Securities Account.

4.3.6 Right to Allot and Issue Retail Shares in Certificated form

Notwithstanding any other provision of this Prospectus, the Bank reserves the right to allot and to issue any Retail Shares under the Retail Offer in certificated form. In normal circumstances, this right is only likely to be exercised in the event of an interruption, failure or breakdown of the CSE or ATHEX or of a part of the facilities and/or systems operated in connection with the CSE or ATHEX.

4.3.7 Withdrawal Rights

(i) Subject to Section 4.3.7(ii) below, Qualifying Shareholders wishing to exercise the withdrawal rights under Articles 14(1)(6) and 14(1)(7) of the Public Offer and Prospectus Law of 2005 (as amended) ("**Withdrawal Rights**") after the issue by the Bank of a prospectus supplementing this Prospectus (if any) must do so by lodging a written notice of withdrawal, which shall not include a notice sent by fax or any other form of electronic communication, that must include the full name, address and details of the CSE or DSS Securities Account of the person wishing to exercise such statutory withdrawal rights so as to be received by a Branch Officer no later than two Business Days after the date on which the supplementary prospectus is published. Notice of withdrawal given by any other means or which is received after expiry of such period will not constitute a valid withdrawal.

(ii) Withdrawal Rights cannot be exercised on or after the Issue Date, even if Second Admission of the Retail Shares has not yet occurred.

4.3.8 Taxation

Information on taxation in Cyprus and Greece with regard to the purchase, ownership and disposition of Ordinary Shares is set out in Section 4.7.1 (*Taxation*) of this Prospectus. The information contained in Section 4.7.1 (*Taxation*) of this Prospectus is intended only as a general guide to the current tax position in Cyprus and Greece and Qualifying Shareholders should consult their own tax advisers regarding the tax treatment of the Retail Offer in light of their own circumstances. Those who are in any doubt as to their tax position or who are subject to tax in a jurisdiction other than Cyprus or Greece should consult their professional advisers immediately.

4.3.9 Overseas Shareholders

This Prospectus has been approved by CySEC, being the competent authority in Cyprus. Whilst it is expected that Qualifying Shareholders resident in an EEA State will be able to participate in the Retail Offer, **the distribution of this Prospectus and the Application Form and the making of the Retail Offer to persons resident in, or who are citizens of, or who have a registered address in countries other than Cyprus and Greece may be affected by the law of the relevant jurisdiction.**

It is the responsibility of any person (including, without limitation, custodians, nominees and trustees) outside Cyprus and Greece wishing to participate in the Retail Offer to satisfy him or herself as to the full observance of the laws of any relevant territory in connection therewith, including the obtaining of any governmental or other consents which may be required, the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such territories. The comments set out in this Section 4.3.9 are intended as a general guide only and any Overseas Shareholder who is in doubt as to his, her or its position should consult his, her or its professional adviser without delay.

Neither the Bank nor CISCO, nor any of their respective representatives, is making any representation to any offeree or purchaser of the Retail Shares regarding the legality of an investment in the Retail Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser.

(a) ***General***

This section sets out the restrictions applicable to Shareholders who have registered addresses outside Cyprus and Greece, who are physically located outside Cyprus and Greece, or who are citizens or residents of countries other than Cyprus and Greece, or who are persons (including, without limitation, custodians, nominees and trustees) who have a contractual or legal obligation to forward this Prospectus to a jurisdiction outside Cyprus and Greece, or who hold Ordinary Shares for the account or benefit of any such person.

Having considered the circumstances, the Board has formed the view that it is necessary and expedient to restrict the ability of Shareholders in the Excluded Territories to participate in the Retail Offer due to the time and costs involved in the registration of this Prospectus and/or compliance with the relevant local legal or regulatory requirements in those jurisdictions. "**Excluded Territories**" means Australia, Canada, Japan, the Republic of South Africa and the United States and any jurisdiction where the extension or availability of the Retail Offer (and any other transaction contemplated thereby) would breach any applicable laws or regulations, and "**Excluded Territory**" means any of them.

The Retail Offer is not extended to persons who have registered addresses in, or who are resident or ordinarily resident in, or citizens of, or which are corporations, partnerships or other entities created or organised under the laws of, any Excluded Territory or to persons who are nominees of or custodians, trustees or guardians for citizens, residents in or nationals of, any Excluded Territory.

Receipt of this Prospectus and/or the Application Form will not constitute an offer in or into any Excluded Territory, and, in those circumstances, this Prospectus and/or the Application Form must be treated as sent for information only and should not be copied or redistributed. No person receiving a copy of this Prospectus and/or an Application Form in any territory other than Cyprus and Greece may treat the same as constituting an invitation or offer to him, nor should he in any event use the Application Form unless, in the relevant jurisdiction (other than any Excluded Territories), such an invitation or offer could lawfully be made to him and the Application Form could lawfully be used or dealt with without contravention of any unfulfilled registration or other legal or regulatory requirements.

Accordingly, persons who have a copy of this Prospectus and/or an Application Form should not, in connection with the Retail Offer, distribute or send the same in or into any Excluded Territory, including the United States. If the Application Form is received by any person in any Excluded Territory, including the United States, or by their agent or nominee in any such territory, he must not seek to subscribe for the Retail Shares referred to in the Application Form or in this Prospectus or renounce the Application Form. Any person who does forward this Prospectus or the Application Form into any Excluded Territory (whether under contractual or legal obligation or otherwise) should draw the recipient's attention to the contents of this section.

Notwithstanding any other provisions of this Prospectus or the Application Form, the Bank reserves the right to permit any Overseas Shareholder to participate in the Retail Offer if the Bank, in its sole and absolute discretion, is satisfied that the transaction in question is exempt from or not subject to the legislation or regulations giving rise to the restriction in question. If the Bank is so satisfied, the Bank will allow the relevant Overseas Shareholder to submit an Application Form if he is reasonably believed to be a Qualifying Shareholder.

Those Overseas Shareholders who wish, and are permitted, to participate in the Retail Offer should note that payments must be made as described in Section 4.3.3(b) (*Payment*) above.

Specific restrictions relating to certain jurisdictions are set out below.

(a) *Offering Restrictions Relating to the United States*

The Retail Shares have not been and will not be registered under the Securities Act or any relevant securities laws of any state or other jurisdiction of the United States and may not be offered, sold, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, within the United States.

No offering is being made in the United States and neither this Prospectus nor the Application Form constitutes or will constitute an offer or an invitation to apply for, or an offer or an invitation to acquire or subscribe for, any Retail Shares in the United States. No Application Form will be sent to any Shareholder with a registered address in the United States. Application Forms should not be postmarked in the United States or otherwise despatched from the United States.

None of the Retail Shares, the Application Form, this Prospectus and any other document connected with the Retail Offer have been or will be approved or disapproved by the United States Securities and Exchange Commission or by the securities commissions of any state or other jurisdiction of the United States or any other regulatory authority, nor have any of the foregoing authorities or any securities commission passed upon or endorsed the merits of the Retail Offer, the Application Form, or the accuracy or adequacy of this Prospectus or any other document connected with the Retail Offer. Any representation to the contrary is a criminal offence in the United States.

Any person who subscribes for Retail Shares will be deemed to have declared, represented, warranted and agreed to the representations and warranties set out in Section 4.3.10 (*Representations and warranties relating to overseas territories*) below.

The Bank reserves the right, in its absolute discretion, to treat as invalid any Application Form*:* (i) that appears to the Bank or its agents to have been executed in or despatched from the United States; or (ii) where the Bank believes acceptance of such Application Form may infringe applicable legal or regulatory requirements, and the Bank shall not be bound to issue any Retail Shares In Respect of any such Application Form.

(b) *Australia, Canada, Japan and South Africa*

Due to restrictions under the securities laws of Australia, Canada, Japan and the Republic of South Africa, subject to certain limited exceptions, no copies of this Prospectus will be sent to, and no Application Forms will be accepted from, Shareholders who have registered addresses in or are resident in, and the Retail Shares may not be transferred or sold to or renounced or delivered in, Australia, Canada, Japan and the Republic of South Africa or any other Excluded Territory. Accordingly, no offer of Retail Shares is being made by way of this Prospectus or any Application Form to such Shareholders.

(c) *Other Overseas Territories*

Application Forms will not be accepted from Qualifying Shareholders who have registered addresses in the Excluded Territories. No offer of or invitation to subscribe for Retail Shares is being made by virtue of this Prospectus or the Application Form into the Excluded Territories. Overseas Shareholders in jurisdictions other than the Excluded Territories may, subject to the laws of their relevant jurisdiction, apply to subscribe for Retail Shares under the Retail Offer in accordance with the instructions set out in this Prospectus and the Application Form.

Shareholders who have registered addresses in or who are resident in, or who are citizens of, countries other than Cyprus and Greece should consult their appropriate professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to subscribe for, and take up, Retail Shares. If you are in any doubt as to your ability to subscribe for, and take up, Retail Shares, you should contact your appropriate professional adviser immediately.

(d) *United Kingdom*

This Prospectus is for distribution only to persons in the United Kingdom who are both (i) "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive and (ii) persons who fall within Article 43(2)(a) to (d) (*Members and creditors of certain bodies corporate*) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (the "**UK Financial Promotion Order**") and other persons who fall within the UK Financial Promotion Order (all such persons together being referred to as "**Relevant Persons**". This Prospectus is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this Prospectus relates, including the Retail Shares, is available only to Relevant Persons and will be engaged in only with Relevant Persons.

(e) *Russia*

This Prospectus and the information contained herein is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer securities in the Russian Federation to or for the benefit of any Russian person or entity and does not constitute an advertisement or offering of securities in the Russian Federation within the meaning of Russian securities laws. Information contained in this Prospectus is not intended for any persons in the Russian Federation who are not "qualified investors" within the meaning of Article 51.2 of the Federal

Law No. 39-FZ "On the Securities Market" dated 22 April 1996, as amended (the "**Russian QIs**") and must not be distributed or circulated into Russia or made available in Russia to any persons who are not Russian QIs, unless and to the extent they are otherwise permitted to access such information under Russian law. The Ordinary Shares have not been and will not be registered in Russia and are not intended for "placement" or "circulation" in Russia (each as defined in Russian securities laws) unless and to the extent otherwise permitted under Russian law.

(f) *Ukraine*

Nothing in this Prospectus or any other documents, information or communications relating to the Retail Shares shall be interpreted as containing any offer or invitation to, or solicitation of, any circulation, distribution, placement, sale, purchase or other transfer or advertisement of the Retail Shares in the territory of Ukraine.

(g) *British Virgin Islands*

This Prospectus is not a general offer to sell, or a solicitation or invitation to make offers to purchase or subscribe for, the Retail Shares or any other securities or investment business services in the British Virgin Islands. This Prospectus may not be sent or distributed to persons in the British Virgin Islands and the Retail Shares are not available to, and no invitation or offer to subscribe, purchase or otherwise acquire the Retail Shares will be made to, persons in the British Virgin Islands. However, the Retail Shares may be offered and sold to business companies and international limited partnerships existing under the laws of the British Virgin Islands, provided that any such offering and sale is made outside the British Virgin Islands or is otherwise permitted by British Virgin Islands legislation. To the extent that this Prospectus is sent to any business company and international limited partnership in the British Virgin Islands, it shall only be sent to the registered office of such business company and international limited partnership and such information received at any other location shall be disregarded.

This Prospectus has not been reviewed or approved by, or registered with, the Financial Services Commission of the British Virgin Islands.

4.3.10 Representations and Warranties Relating to Overseas Territories

Any person submitting an Application Form or requesting issue or delivery of the Retail Shares comprised therein represents and warrants to the Bank that, except where proof has been provided to the Bank's satisfaction that such person's use of the Application Form will not result in the contravention of any applicable legal requirement in any jurisdiction*:* (i) such person is not submitting or executing the Application Form from within the United States or any other Excluded Territory; (ii) such person is not in any territory in which it is unlawful to make or accept an offer to subscribe for Retail Shares or to use the Application Form in any manner in which such person has used or will use it; (iii) such person is not acting on a non-discretionary basis for a person located within the United States or any other Excluded Territory or any territory referred to in (ii) above at the time the instruction to accept or renounce was given; and (iv) such person is not acquiring Retail Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Retail Shares into the United States or any other Excluded Territory or any territory referred to in (ii) above.

The Bank may treat as invalid any acceptance or purported acceptance of the allotment of Retail Shares comprised in, or renunciation or purported renunciation of, an Application Form if it*:* (a) appears to the Bank to have been executed in or despatched from the United States or any other Excluded Territory or otherwise in a manner which may involve a breach of the laws of any jurisdiction or if the Bank believes the same may violate any applicable legal or regulatory requirement or (b) purports to exclude the representation and warranty required by this Section.

4.3.11 Waiver

The provisions of Sections 4.3.9 (*Overseas Shareholders*) and 4.3.10 (*Representations and Warranties Relating to Overseas Territories*) above and of any other Terms and Conditions relating to Excluded Shareholders may be waived, varied or modified as regards specific Shareholder(s) or on a general basis by the Bank in its absolute discretion. Subject to this, the provisions of Sections 4.3.9 (*Overseas Shareholders*) and 4.3.10 (*Representations and Warranties Relating to Overseas Territories*) above supersede any Terms and Conditions inconsistent herewith. References in Sections 4.3.9 (*Overseas Shareholders*) and 4.3.10 (*Representations and Warranties Relating to Overseas Territories*) above and in this Section 4.3.11 to Shareholders shall include references to the person or persons executing an Application Form and, in the event of more than one person executing an Application Form, the provisions of this Section 4.3.11 shall apply jointly to each of them.

4.3.12 Governing Law

The Terms and Conditions and the Application Form shall be governed by, and construed in accordance with, the laws of Cyprus.

4.3.13 Jurisdiction

The courts of Cyprus are to have exclusive jurisdiction to settle any dispute, whether contractual or non-contractual, which may arise out of or in connection with the Retail Offer, this Prospectus and/or the Application Form. By submitting an application for Retail Shares under the Retail Offer in accordance with the instructions set out in this Prospectus and the Application Form, each Qualifying Shareholder irrevocably submits to the exclusive jurisdiction of the courts of Cyprus and waive any objection to proceedings in any such court on the ground of venue or on the ground that proceedings have been brought in an inconvenient forum.

4.3.14 Retail Offer Results Announcement

The Bank pursuant to the relevant legislation will announce the results of the Retail Offer and the issuance of the Retail Shares with an announcement on the CSE and ATHEX.

4.4 ADMISSION TO LISTING OF RELEVANT SHARES

The Bank expects to file with the CSE and ATHEX the application for admission to listing and trading on the CSE and ATHEX of the Relevant Shares, which are comprised of:

- 3,873,269,066 Ordinary Shares issued to bailed in holders of uninsured deposits and other products of the Bank in accordance with the Bail-in Decrees;
- 5,781,443 Ordinary Shares issued to bailed in holders of subordinated debt securities of the Bank in accordance with the Bail-in Decrees;
- 858,708,764 Ordinary Shares issued to Laiki Bank pursuant to the Laiki Transfer Decrees; and
- 4,166,666,667 Ordinary Shares issued pursuant to the Placing and Open Offer. The Placing and Open Offer constitute phases 1 and 2 of the Bank's Share Capital Increase which was approved at the EGM held on 28 August 2014.

It is expected that First Admission will become effective, and that dealings in the Relevant Shares will commence, on or about 16 December 2014, subsequent to the commencement of the subscription period of the Retail Offer which is scheduled to commence on 15 December 2014 (see Section 4.5 (*Expected Timetable for the Retail Offer and Admissions*) below). The exact date for First Admission will be announced to the CSE and ATHEX and will be published in the Cypriot and Greek presses and is expected to be within five business days from the date of approval of First Admission by the CSE and ATHEX.

It should be noted that the expected timetable is based on a number of factors and may be subject to change. Any such changes will be announced on the CSE and ATHEX and published in the Cypriot and Greek presses.

4.5 EXPECTED TIMETABLE FOR THE RETAIL OFFER AND ADMISSIONS

The expected timetable for the Retail Offer, the First Admission and the Second Admission is set out below. All dates given in this timetable, and as reproduced elsewhere in this Prospectus, are based on the Bank's current expectations and may be subject to change. If any of the times or dates given in this timetable change, the Bank will proceed with a relevant announcement to the CSE and ATHEX, and such announcement will be posted on the Bank's website (www.bankofcyprus.com), or will publish a supplement to the Prospectus (as applicable).

Record Date for the Retail Offer	3.00 p.m. on 21 November 2014
Approval of Prospectus by The Cyprus Securities and Exchange Commission	26 November 2014
Prospectus (including Application Form) published on the Bank's website	27 November 2014
Filing of Relevant Shares Applications with CSE and ATHEX	27 November 2014
Announcement of CSE and ATHEX approvals for First Admission	Until 9 December 2014
Subscription Period for Retail Offer	**9.00 a.m. on 15 December 2014 to 1.30 p.m. on 9 January 2015**
Date of First Admission and dealings in Relevant Shares commence on CSE and ATHEX	16 December 2014
Latest time and date for receipt of completed Application Forms and payments in full for Retail Offer	**1.30 p.m. on 9 January 2015**
Announcement of the Retail Offer results	13 January 2015
Issue Date for Retail Shares	14 January 2015
Filing of Retail Shares Application with CSE and ATHEX	14 January 2015
Announcement of CSE and ATHEX approvals for Second Admission	Until 26 January 2015
Date of Second Admission and dealings in Retail Shares commence on CSE and ATHEX	**28 January 2015**

The Bank will file all relevant documents relating to the listing and trading of the Retail Shares with both the CSE and the ATHEX within eight business days from the final date of the Subscription Period.

The date of Second Admission will be announced to the CSE and the ATHEX. The date of Second Admission is expected to be within five business days from the date of approval of Second Admission by the CSE and ATHEX.

It is noted that the timetable may be affected by other unforeseen circumstances and may be altered accordingly. Such amendments will be announced to the CSE and the ATHEX or through the Cypriot and Greek presses or with the publication of a supplementary prospectus (if applicable).

4.6 DILUTION

At the EGM held on 28 August 2014, the Bank's shareholders approved the disapplication of their pre-emption rights in relation to the Share Capital Increase. Accordingly, the Retail Offer is an offer to Qualifying Shareholders which is not based on their pro rata shareholding.

As Shareholders have been, and are being, given the opportunity to participate in all three phases of the Share Capital Increase for which they are eligible, the Bank is of the view that the disapplication of pre-emption rights has not unduly prejudiced its Shareholders. In particular, it is a term of the Retail Offer that:

- Shareholders who were allotted Ordinary Shares pursuant to the Placing are not eligible for the Retail Offer unless they were already Shareholders as at the record date for the Placing; and
- priority allotment will be given to valid applications for a total consideration per Qualifying Shareholder of less than or equal to €100,000.08.

As the Placing was only open to qualified investors (as defined in the Prospectus Directive) and investors who met the requirements of a qualified investor in their relevant jurisdiction and Shareholders could only participate in the Open Offer so long as the subscription was for a total consideration of at least €100,000 per Shareholder, the Bank has included the two terms mentioned above to provide a better opportunity for non-institutional Shareholders to participate in the Retail Offer.

However, assuming that 416,666,667 Retail Shares are issued pursuant to the Retail Offer, if a Qualifying Shareholder does not take up any of the Retail Shares, or if a Shareholder is not eligible to participate in the Retail Offer, the proportionate ownership and voting interests of that Shareholder will be diluted by 4.46% by the Retail Offer. The final dilution in voting rights will depend on the final total participation in the Retail Offer and the total number of Retail Shares issued.

4.7 INFORMATION ON THE BANK'S SHARES

4.7.1 Actions to be Taken by Shareholders prior to Admissions

The Relevant Shares as well as the Retail Shares that may be issued pursuant to the Retail Offer will be admitted to listing and trading on the CSE and ATHEX in two phases by way of First Admission and Second Admission.

The expected timetable for the Retail Offer, the First Admission and the Second Admission is set out in Section 4.5 (*Expected Timetable for the Retail Offer and Admissions*) of this Prospectus. All dates given in this timetable, and as reproduced elsewhere in this Prospectus, are based on the Bank's current expectations and may be subject to change. If any of the times or dates given in this timetable change, the Bank will proceed with a relevant announcement to the CSE and ATHEX, and such announcement will be posted on the Bank’s website (www.bankofcyprus.com), or will publish a supplement to the Prospectus (as applicable).

Shareholders are required to have an active Investor Share Code and Securities Account with the CSE or the DSS of the Hellenic Exchanges in order for the Ordinary Shares to be credited to their Securities Account so that they will be able to trade these Ordinary Shares on First Admission or Second Admission, as applicable. The Bank encourages all Shareholders that do not have an Investor Share Code and Securities Account with the CSE or the DSS of the Hellenic Exchanges to apply directly to an Operator in Cyprus or Greece in order to proceed with the opening of these accounts and provide the relevant details to the Shares & Loan Stock Department of the Bank (via fax no +35722336258/ +35722336261 or via email at shares@bankofcyprus.com).

It is important to note that, if a Shareholder does not have an Investor Share Code and Securities Account with the CSE or DSS or if the information regarding its Investor Share Code or Securities Account provided to the Bank's Shares & Loan Stock Department is incorrect or incomplete, the

Ordinary Shares held by the Shareholder will be credited in its name to an Investor Share Code and Securities Account with the CSE which will be inactive unless and until it takes appropriate action to activate this account and pay the relevant fees. The activation of this Securities Account with the CSE may be difficult and time consuming and will cause delays in a Shareholder's ability to trade the Ordinary Shares on the CSE and ATHEX after First Admission or Second Admission, as applicable.

4.7.2 Summary Information on the Ordinary Shares

The following table provides a summary of certain information relating to the Ordinary Shares (which includes the Retail Shares):

Securities category		Ordinary shares ranking pari passu with the existing issued shares of the Bank
Legislation according to which they have been created		In compliance with the provisions of the Companies Law.
Type of securities		Ordinary and dematerialised
Registry kept by		Central Depository/Registry of the CSE and the Dematerialized Securities System (DSS) of the Hellenic Exchanges.
Issue currency		Euro (€)
Trading currency		Euro (€)
ISIN		CY0104810110
Trading		CSE/ATHEX
Right to dividends		Yes
Voting rights		Yes (one vote per share)
Pre-emption rights for subscription of securities of the same class		Yes
Right to participate in the issuer's profits		See right to dividends
Right to any surplus in the event of liquidation		Yes
Resolutions, authorisations and approvals		According to the decision of the Board of Directors dated 28 July 2014 and decision of the Bank's EGM dated 28 August 2014
Restrictions on free transferability		None, except that the rules and procedures of the CSE and the ATHEX must be followed for the registration of transfers of Ordinary Shares.

Retail Offer shareholders will be eligible to participate in any dividend payment with a dividend payment record date subsequent to the Issue Date of the Retail Shares, subject to the CBC's prohibition on the distribution of dividends by the Bank for the period of the Restructuring Plan.

4.7.2 Rights of Holders of Ordinary Shares

General Rights

Each Ordinary Share incorporates rights in proportion to the percentage of the share capital which such share represents. The shareholders' liability is limited to the unpaid amount (if any) of the Ordinary Shares they hold. Where an Ordinary Share is jointly owned by more than one person, the voting rights of the joint owners are exercised by the joint owner whose name first appears in the register of members of the Bank. The joint owners are jointly and severally liable for the fulfilment of the obligations emanating from their joint ownership of an Ordinary Share. No rights exist in favour of specific holders of Ordinary Shares.

Each Ordinary Share incorporates all the rights and obligations determined by Companies Law and the articles of association and in particular:

- the right to participate and vote in general meetings of the holders of Ordinary Shares;
- the right to receive dividends from the Bank's profits. Entitled to receive dividends are the persons registered in the register of members on the relevant record date;
- the right to receive out of the liquidation proceeds (if any) or capital returns, the amount corresponding to the Ordinary Shares owned, on a pro rata basis;
- pre-emptive rights in every share capital increase, including new Ordinary Shares or other securities which give the right to purchase shares or which may be converted into Ordinary Shares, unless such pre-emptive rights have been limited or repealed by a special resolution passed at the general meeting of the holders of Ordinary Shares;
- the right to receive copies of the financial statements and the reports of the independent auditors and the Board of Directors;
- the right to (i) put an item on the agenda of the annual general meeting, and (ii) table a draft resolution for inclusion in the agenda of a general meeting, subject in each case to certain conditions; and
- the right to ask questions related to items on the agenda for general meetings of the holders of Ordinary Shares and to have such questions answered by the Board of Directors of the Bank, subject to and in accordance with the provisions of the Companies Law.

Rights of Minority Shareholders

Under the Companies Law, a minority shareholder may apply to court for the winding up of a company on the ground that it is just and equitable that the company should be wound up.

Additionally, if the directors or certain of a company's shareholders conduct the affairs of the company in a manner oppressive to some of the shareholders, the aggrieved shareholders may file a court petition under Section 202 of the Companies Law. The court may make any such order as it thinks fit to bring the oppressive state of affairs to an end. Moreover, if there has been a fraud on the minority and the wrongdoers are in control of the company concerned, a minority member may, provided certain conditions are satisfied, bring a derivative action to enforce the company's rights on behalf of the company. Generally speaking, the following three requirements need to be satisfied for establishing fraud on the minority: (i) the majority must have obtained some benefit; (ii) the benefit must have been obtained at the company's expense, or some loss or detriment must have been caused to the company; and (iii) the majority used their controlling power to prevent an action being brought against them by the company.

4.8 OTHER KEY INFORMATION

4.8.1 Taxation

The following summary describes certain tax consequences of the purchase, ownership and disposition of the Ordinary Shares. This summary does not purport to be a comprehensive description of all the possible tax considerations that may be relevant to your decision to purchase, own or dispose of the Ordinary Shares. This summary is based on the laws in force and as applied in practice on the date of this Prospectus and is subject to changes to those laws and practices subsequent to the date of this Prospectus. You should consult your own advisers as to the tax consequences of the acquisition, ownership and disposition of the Ordinary Shares in light of your particular circumstances, including, in particular, the effect of any state, regional or local tax laws.

4.8.1.1 Cyprus Tax Considerations

Introduction

The following is a summary of certain Cyprus tax considerations that may be relevant to the acquisition, ownership and disposition of the Ordinary Shares. The summary does not purport to be nor should it be relied upon as a comprehensive description or analysis of all of the tax considerations which may be relevant to a decision to acquire, own and dispose of the Ordinary Shares. The summary is based on tax laws and regulations in effect in Cyprus on the date hereof, which may be subject to change without notice. Prospective purchasers or holders of the Ordinary Shares should consult their own tax advisers as to the Cyprus or other tax consequences arising from the acquisition, ownership and disposition of Ordinary Shares, having regard to their particular circumstances.

Taxation of Dividends

Cyprus Tax Residents

Dividends derived from Cyprus tax resident companies are unconditionally exempted from corporate income tax and are not subject to the Special Contribution under the Defence of the Republic Law (the "**Defence Tax**") if they are to be paid to another company resident in Cyprus, while they are subject to a 17% Defence Tax if paid to an individual resident in Cyprus.

The Defence Tax includes provisions for deemed distribution of profits. If a Cyprus tax resident company does not distribute within two years from the end of the relevant tax year at least 70% of its after tax accounting profits (subject to certain adjustments), there will be a deemed distribution of 70% of such profits. The amount of the deemed dividend is reduced by any actual dividend distributions made up to the deemed distribution date relating to the tax year for which the profits are subject to deemed distribution. The Defence Tax is withheld only on the portion of profits that are attributable to shareholders that are residents of Cyprus (individuals) as the deemed distribution rules do not apply to non-resident shareholders. The deemed dividend is subject to the Defence Tax at a rate of 17% and it is the responsibility of the company to withhold and remit the Defence Tax to the tax authorities. The Defence Tax is paid by the company on Account of the shareholders.

For the purposes of this section, a "resident" in Cyprus is defined as an individual who stays in Cyprus for a period or periods exceeding in aggregate 183 days in the year of assessment and, when applied to a company, means a company whose management and control is exercised in Cyprus.

Non-Cyprus Tax Residents

Dividends derived from Cyprus tax resident companies are unconditionally exempted from corporate income tax and are also exempted from the Defence Tax if they are to be paid to a non-Cyprus tax resident, provided that the non-Cyprus tax resident has submitted to the company the corresponding questionnaire confirming its status as a non-Cyprus resident for the relevant year. This questionnaire must be submitted to the company every year.

Gain on Disposals of Securities

Gains realized on the sale of securities, such as shares, bonds, debentures, founders' shares and other titles of companies or other legal persons, incorporated under a law in Cyprus or abroad, and options thereon, are exempt from corporate income tax in Cyprus. This exemption applies irrespective of the holding period, number of shares held or trading nature of the gain. Capital losses resulting from the sale of securities are not tax deductible.

Capital gains realised upon the sale of shares are subject to a capital gains tax if the issuer of the shares being transferred owns any immovable property situated in Cyprus, and such shares are not listed on a recognised stock market.

Special Duty on Stock Exchange Transactions

As of 1 January 2014, transactions executed on the CSE or announced to the CSE are no longer subject to special duty.

4.8.1.2 Greek Tax Considerations

Taxation of Dividends

Under Law 4172/2013, applicable from 1 January 2014 onwards, dividends are subject to withholding tax at a rate of 10% (subject to the provisions of the double taxation treaties). Such withholding tax discharges the tax liability of the beneficiary, if the beneficiary is either an individual who is a Greek tax resident or a legal person or legal entity ("*nomiko prosopo or nomiki ontotita*") which is neither a tax resident of Greece nor holds a permanent establishment in Greece. Dividend payment from a Greek legal entity to a legal person or legal entity may be exempted from the 10% withholding tax if all of the following conditions are met: (i) such legal person or entity holds at least a 10% participation interest in the company which declares and distributes the dividend, (ii) such participation interest is held for at least 24 months (a bank guarantee may be provided instead), and (iii) such legal person or entity should have one of the forms listed in Annex I part A of Directive 2011/96/EU, is a tax resident of an EU member state (including Greece) and is subject to one of the taxes referred to in such directive. Exemption from the Greek corporate income tax may apply to intragroup dividends from EU/Greek companies received by legal persons that are tax residents in Greece, provided that requirements similar to the aforementioned conditions apply. In case the aforementioned conditions are not met, tax withheld on dividends distributed by EU/Greek legal entities as well as the corresponding underlying corporate income tax can be credited against the overall tax liability of Greek legal persons and legal entities.

Capital Gains Tax

Shares Sold on or after 1 January 2014

The following transaction and capital gains taxes shall apply.

Transaction Tax

A transaction tax of 0.2% will apply on the sale of shares listed on ATHEX. Such tax is calculated on the shares' sale price and is borne by the seller, whether the seller is an individual, legal entity or association of persons or assets, irrespective of nationality, residence or location of corporate seat and irrespective of whether the seller is subject to any tax or duty exemption pursuant to provisions of other laws. Such tax is applicable both to market and OTC transactions, as well as transactions executed on a multilateral trading facility. The Hellenic Central Securities Depository (the "**HCSD**") charges such tax, daily upon settlement, on the investment firms and credit institutions acting as custodians settling share sale transactions on behalf of the sellers.

Capital Gains Tax

Capital gains resulting from the sale of shares listed will be added to the business income of the seller (if either a Greek legal person or a Greek legal entity) and will be taxed with the corporate income tax rate of 26%. Foreign legal persons or foreign legal entities, which have no permanent establishment in Greece and are tax residents in tax treaty countries, are exempt from Greek corporate income tax. In view of the lack of relevant guidance from the Ministry of Finance, it is deduced that since resident companies are taxed on capital gains at the corporate tax rate of 26% (i.e. capital gains are seen as business profits), non resident companies will also be subject to a 26% tax that would be applicable in principle if the foreign entity had a permanent establishment in Greece. If a non resident legal entity is the beneficiary of capital gains but does not maintain a permanent establishment in Greece, the latter should not be subject to Greek tax. This remains to be confirmed by the Ministry of Finance.

If the capital gains beneficiary is a Greek individual and such capital gains do not constitute income from business activity, such person will be subject to income tax at the rate of 15%. The above applies to capital gains from shares listed if the seller-individual holds at least a 0.5% participation in the share capital and had purchased the shares after 1 January 2009. If capital gains constitute income from business activity, then the beneficiary will be taxed at a tax rate of 26% for income up to €50,000 and 33% for income above €50,000. If losses result from the sale of listed shares, such losses can be carried forward in the following five fiscal years and be offset against future capital gains resulting from sale of listed or unlisted shares or parts (applicable only to individuals). If the capital gains beneficiary is an individual who is tax resident in a jurisdiction with which Greece has entered into a tax treaty, such beneficiary will be exempted from Greek income tax in respect of such capital gains, provided that the beneficiary will submit to the tax authorities the documents evidencing the beneficiary's tax residence.

For the calculation of the capital gains tax, the difference between the actual sale price and the price paid for the acquisition of the shares by the seller is taken into account. Such difference is determined by reference to the table issued by the investment firm or credit institution involved in the transaction, or as notified to the HCSD on the date for the settlement of the transaction.

Inheritance and Gift Taxes for ATHEX Listed Shares

According to the provisions of Articles 12, 29 and 44 of the Greek Code of Inheritance, Gift, Parental Donation and Gambling Tax, where shares listed on ATHEX are transferred on the basis of inheritance, gift, or parental donation, the market value of these shares as of the day preceding the date when the tax obligation becomes due, is subject to tax on a progressive system (tax scale) which depends on the degree of the relationship between the parties in accordance with Article 29.

Share-Lending Tax

Pursuant to the provisions of Article 4, paragraph 4 of Law 4038/2012, a 0.2% tax is applicable on the OTC lending of listed shares, such transactions, including the respective agreement or other relevant act, being exempt from stamp duty. The tax is borne by the lender (whether the lender is an individual or legal person or legal entity) and is calculated on the value of lent shares. The above provisions are applicable to share lending carried out on or after 2 February 2012.

4.8.1.3 Other Tax Considerations

Due to the nature of an investment in the Ordinary Shares, prospective investors who are subject to tax in other jurisdictions are strongly advised to consult an appropriate professional adviser to establish their particular tax consequences in relation to the Retail Offer.

CONSENTS

(i) The statutory independent auditors Ernst & Young Cyprus Ltd have given and have not withdrawn their written consent presented below relating to the references to their name in the form and context in which they appear in the Prospectus.

26 November 2014

Board of Directors
Bank of Cyprus Public Company Ltd
Nicosia

Prospectus dated 26 November 2014

Dear Sirs

We are the independent auditors of Bank of Cyprus Public Company Ltd for the years 2011-2014.

The financial statements of the Group as at and for the years ended 31 December 2011, 2012 and 2013 were audited by us in accordance with International Standards on Auditing.

Consolidated financial statements for the year ended 31 December 2013

Our report dated 27 March 2014 with respect to these financial statements is qualified and includes an emphasis of matter with respect to the following matters:

Qualified with respect to the non-application of the requirements of IFRS for the accounting of the recapitalisation through a bail-in of uninsured deposits and debt securities pursuant to the provisions of the relevant Decrees issued and enforced by the Resolution Authority and qualified as we were unable to obtain sufficient and appropriate audit evidence to conclude on the reliability of the measurement of the value of the shares issued with respect to a) conversion of uninsured deposits and debt securities pursuant to the provisions of the relevant Decrees issued and enforced by the Resolution Authority and b) the acquisition of certain assets and liabilities of Cyprus Popular Bank Public Company Ltd, pursuant to the provisions of the relevant Decree issued and enforced by the Resolution Authority, and on any adjustments to the Group's consolidated income statement that could have been determined to be necessary because of the adopted treatments.

Emphasis of matter with respect to the significant judgments, estimates and assumptions used in the preparation of the financial statements and the material uncertainties that may cast significant doubt about the ability of the Group to continue as a going concern, which are disclosed in note 4.1 to the consolidated financial statements of the Group for the year ended 31 December 2013.

Consolidated financial statements for the year ended 31 December 2012

In our report dated 10 October 2013 with respect to these financial statements we have expressed an unqualified opinion and included an emphasis of matter with respect to the significant judgments, estimates and assumptions used in the preparation of the financial statements and the material uncertainties that may cast significant doubt about the ability of the Group to continue as a going concern which are disclosed in note 3.1 to the consolidated financial statements of the Group for the year ended 31 December 2012.

Consolidated financial statements for the year ended 31 December 2011

In our report dated 24 April 2012 with respect to these financial statements we have expressed an unqualified opinion and included an emphasis of matter with respect to the significant judgments, estimates and assumptions used in the preparation of the financial statements on a going concern basis while not complying with minimum capital adequacy ratios, which are disclosed in notes 3.1 and 49 to the consolidated financial statements of the Group, for the year ended 31 December 2011.

Interim condensed consolidated financial statements for the six months ended 30 June 2014

The interim condensed consolidated financial statement of the Group for the six months ended 30 June 2014 were reviewed by us in accordance with the International Standard on Review Engagements 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. In our review report dated 29 August 2014 we have expressed a qualified conclusion and included an emphasis of matter. Qualified with respect to the lack of comparative statements of the consolidated income statement and the consolidated other comprehensive income for the comparable interim period of the immediately preceding financial year (i.e. from 1 April 2013 to 30 June 2013) in the interim condensed consolidated financial statements. Emphasis of matter included with respect to the significant judgments, estimates and assumptions used in the preparation of the interim condensed consolidated financial statements and the material uncertainties that may cast significant doubt about the ability of the Group to continue as a going concern, which are disclosed in note 6.1 to the interim condensed consolidated financial statements of the Group, for the six months ended 30 June 2014.

With this letter, we give and do not withdraw our consent for:

a) the inclusion of our reports, identified above, within the Prospectus dated 26 November 2014 in the form and format those are presented; and

b) for the references in our name in the form and context in which they appear in the Prospectus dated 26 November 2014, for which you as Directors are solely responsible.

Ernst & Young Cyprus Limited

Certified Public Accountants and Registered Auditors

(ii) The Lead Manager of the Retail Offer, The Cyprus Investment and Securities Corporation Ltd (CISCO), has given and has not withdrawn its written consent to the references to its name in the form and context in which it appears.

26 November 2014

Board of Directors
Bank of Cyprus Public Company Ltd
Nicosia

Dear Sirs,

With this letter, we give and do not withdraw our consent for the references to our name in the form and context in which it appears in the Prospectus of the Bank of Cyprus Public Company Ltd dated 26 November 2014 for which you, as Directors, are solely responsible.

The Cyprus Investment and Securities Corporation Limited (CISCO)

(iii) The solicitors Messrs Chryssafinis & Polyviou have given and have not withdrawn their written consent.

26 November 2014

Board of Directors
Bank of Cyprus Public Company Limited
Nicosia

Dear Sirs,

The undersigned Chryssafinis & Polyviou, lawyers in Nicosia, hereby confirm the following regarding the Prospectus of the Bank of Cyprus Public Company Ltd dated 26 November 2014:

The aforementioned company is incorporated and operates in accordance with the Cyprus Companies Law, Cap. 113 and has the power to issue securities to the public.

The information in the Prospectus under Section 3.13 (*Share Capital*), Section 3.22.1 (*Extracts from the Articles*) and Section 3.22.2 (*Other Statutory Information*) is in accordance with the details and documents to be found in the records of the Bank as these are kept in the Companies Registry at the Department of the Registrar of Companies and Official Receiver.

We authorise the Cyprus Securities and Exchange Commission to publicise, at its discretion, any of the information which appears in the present confirmation to the public or any other party, if it deems this necessary.

With this letter, we give and do not withdraw our consent for the inclusion of our Confirmation within the Prospectus dated 26 November 2014 in the form and format those are presented as well as for the references to our name in the form and context in which they appear in the Prospectus dated 26 November 2014 for which you, as Directors, are solely responsible.

Chryssafinis & Polyviou

GLOSSARY OF SELECTED TERMS

€ and euro	The common legal currency of the EU Member States participating in the third stage of the European Economic and Monetary Union, including Cyprus
$, USD, US$ and U.S. dollar	The lawful currency of the United States of America
2007 Capital Securities	Capital Securities 12/2007 (ISIN: CY0140670114) issued by the Bank in December 2007 of which the outstanding principal amount as of 29 March 2013 was €22,169,560
2008 Convertible Bonds	Convertible Bonds 2013/2018 (ISIN: CY0140740115) issued by the Bank in July 2008 of which the outstanding principal amount as of 29 March 2013 was €27,283,632
2009 Convertible Capital Securities	Convertible Capital Securities (ISIN: CY0141000212) issued by the Bank in May 2009 of which the outstanding principal amount as of 29 March 2013 was €73,088,145
2010 PD Amending Directive	Directive 2010/73/EU
2011 EUR CECS	Convertible Enhanced Capital Securities (ISIN: CY0141890114) issued in euro by the Bank in May 2011 of which the outstanding principal amount as of 29 March 2013 was €428,521,983
2011 USD CECS	Convertible Enhanced Capital Securities (ISIN: CY0141890117) issued in U.S. dollars by the Bank in May 2011 of which the outstanding principal amount as of 29 March 2013 was $39,711,653
90+DPD	Loans with a specific provision (impaired loans) and loans past due for more than 90 days but not impaired
90+DPD Ratio	The ratio of loans that were 90+DPD to gross loans for any period
Affected Deposits	Has the meaning prescribed to such term in Section 3.3.2.3 (*Holders of deposits and other products of the Bank as of 26 March 2013*) of this Prospectus
Agreements	The Distribution Agreement and the Shareholding Agreement
ALCO	The Assets and Liabilities Committee of the Group
AML/CTF	Anti-money laundering and counter-terrorism financing
AML Review	A comprehensive review commissioned by the Government and the Troika of the effectiveness of Cyprus's anti-money laundering regime

Allocated Parties	The investors and existing shareholders who were allocated ordinary shares in the Placing and Open Offer
Allocated Shareholder	Each Qualifying Shareholder allocated Retail Shares in the Retail Offer
Allocation Letter	An allocation letter sent by the Bank to each Qualifying Shareholder indicating the number of Retail Shares allocated to him/her and the Issue Date
Aphrodite	The Cyprus block 12 prospect
Applicant	The person lodging the Application Form with payment
Application Form	The application form on which Qualifying Shareholders may apply for Retail Shares under the Retail Offer that is found at the end of this document at page A-1
AQR	The ECB's asset quality review, run as part of the ECB's comprehensive assessment prior to inception of the SSM
Arrears Management Directive	The consolidated Directives on Arrears Management of 2013 and 2014 issued by the CBC
Articles	The articles of association of the Bank
Assessment and Collection of Taxes Law	The Assessment and Collection of Taxes Law of 4/1978 (as amended)
ATHEX	The Athens Exchange
ATM	Automated teller machine
Bail-in Decrees	The Bail-in of Bank of Cyprus Public Company Limited Decree of 2013 issued on 29 March 2013, the Bail-in of Bank of Cyprus Public Company Limited Amended Decree of 2013 issued on 21 April 2013 and the Bail-in of Bank of Cyprus Public Company Limited Amended (No. 2 and 3) Decrees of 2013 issued on 30 July 2013 by the CBC in its capacity as Resolution Authority
Bail-in Shares	Ordinary Shares issued to bailed in holders of uninsured conventional cash deposits, capital guaranteed structured deposit products, investment products and *schuldschein* loans
Bank	Bank of Cyprus Public Company Limited
Banking Law	The Cypriot Banking Law of 1997
Basel II	The revised capital adequacy framework and final proposals on capital standards issued by the Basel Committee in June 2004

Basel III	The final proposals pertaining to the reform of capital and liquidity requirements issued by the Basel Committee on 12 September 2010 and revised in June 2011
Basel Committee	The Basel Committee for Banking Supervision
Board of Directors or the Board	The board of directors of the Bank, which is also the Group's main board of directors
BOC CI	Bank of Cyprus (Channel Islands) Ltd
BOC UK	Bank of Cyprus UK Ltd
Bonus Share	The grant, by the Bank to the holder, of one additional fully paid Ordinary Share, for each Ordinary Share acquired through the exercise of Rights
Branch Officer	An officer or manager at a branch of the Bank in Cyprus
BRRD	Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012
Business Day	Any day (other than a Saturday or Sunday) on which banks generally are open for business in Cyprus
Capital Controls Decree	Each Enforcement of Restrictive Measures on Transactions in case of Emergency Law of 2013 Decree issued by the Ministry of Finance of Cyprus
Capital Raising	The Placing and the Open Offer
Capital Securities	The 2007 Capital Securities, the 2008 Convertible Bonds, the 2009 Convertible Capital Securities and the CECS
CBC	The Central Bank of Cyprus
CBC Directives	The Directives to Banks for the Calculation of the Capital Requirements and Large Exposures of 2006 issued by the CBC
CBR	The Central Bank of the Russian Federation
CCI	Cooperative credit institutions in Cyprus
CCP	Central counterparties as defined by EMIR

CECS	The 2011 EUR CECS and the 2011 USD CECS
CET 1	Common Equity Tier 1
CISCO	The Cyprus Investment and Securities Corporation Limited
CIWUD	Directive 2001/24/EC on the reorganisation and winding up of credit institutions
CNP	CNP Cyprus Insurance Holdings Ltd
CNP France	CNP Assurances S.A.
Companies Law	The Cyprus Companies Law, Cap. 113, as amended, modified or re-enacted from time to time
Comprehensive Assessment	An asset quality review and an EU-wide stress test conducted by the ECB
Corporate Governance Code	The CSE's Fourth Edition (Amended) Code of Corporate Governance issued in April 2014
Council	The Council of the European Union
CPC	The Cypriot Commission for the Protection of Competition
CRA	The Credit Risk Assessment department of the Group's RMD
CRD I	EU Directives 2006/48 and 2006/49
CRD IV	Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC
CRD IV/CRR	CRD IV and the CRR
Credit Institutions Law	The Business of Credit Institutions Law of 1997
Credit Rating Agencies	DBRS, S&P, Moody's and Fitch
CRP	The Credit Risk Policy department of the Group's RMD
CRR	Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC

CRR&C	The Credit Risk Reporting & Control department of the Group's RMD
CRSA	The Credit Risk Systems & Analytics department of the Group's RMD
CSE	The Cyprus Stock Exchange
CYPEF	The Cyprus Entrepreneurship Fund
CySEC	The Cyprus Securities and Exchange Commission
DBRS	Dominion Bond Rating Service
Decrees	The decrees issued following the adoption of the Resolution Law in March 2013
Defence Tax	The 17% Special Contribution under the Cyprus Defence of the Republic Law
Deposit A	Has the meaning prescribed to such term in Section 3.3.2.3 (*Holders of deposits and other products of the Bank as of 26 March 2013*) of this Prospectus
Deposit B	Has the meaning prescribed to such term in Section 3.3.2.3 (*Holders of deposits and other products of the Bank as of 26 March 2013*) of this Prospectus
Deposit Protection Scheme	The Deposit Protection and Resolution of Credit and Other Institutions Scheme 2013
Distribution Agreement	A distribution agreement between CNP and Laiki Bank
District Courts	The district courts of Cyprus
DSS	Dematerialised Securities System of the Hellenic Exchanges
Diluted Shares	Diluted Existing Shares and Ordinary Shares issued to bailed in holders of Capital Securities
Directors	The members of the Board of Directors
EAP	The Economic Adjustment Programme agreed between the Government and the Troika on 2 April 2013
EBA	The European Banking Authority
EBITDA	Earnings before interest, taxes, depreciation, and amortization
EBRD	The European Bank of Reconstruction and Development

ECB	The European Central Bank
ECB Regulation	Regulation (EU) No 1024/2013
ECP	Euro Commercial Paper
EEA or European Economic Area	The member states of the EU, Iceland, Norway and Liechtenstein
EGM or Extraordinary General Meeting	The extraordinary general meeting of shareholders of the Bank held on 28 August 2014
EIB	The European Investment Bank
EIF	The European Investment Fund
ELA	Emergency Liquidity Assistance
EMIR	The European Market Infrastructure Regulation (Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012)
EMTN	Euro Medium Term Note
ESM	The European Stability Mechanism
EU	The European Union
Euro Capital Securities	The 2007 Capital Securities, the 2008 Convertible Bonds, the 2009 Convertible Capital Securities and the 2011 EUR CECS
Eurogroup	The main forum for the management of the single currency area, consisting of the finance ministers of the countries whose currency is the euro
Eurogroup Statement on Cyprus	The agreement reached by the Government and the Eurogroup on 25 March 2013 on the key elements and principles necessary for a future macroeconomic adjustment programme
Eurolife	EuroLife Ltd
Eurosystem	The ECB and the national central banks, together
Eurozone	The member states of the EU that have adopted the euro as their national currency in accordance with the Treaty on EU signed at Maastricht on 7 February 1992
Exchange Offer	The voluntary exchange of CECS of up to €600 million of Ordinary Shares in November 2011

Excluded Shareholders	Subject to certain exceptions, Shareholders who have registered addresses in, who are incorporated in, registered in or otherwise resident or located in any Excluded Territory
Excluded Territories	Australia, Canada, Japan, the Republic of South Africa and the United States and any jurisdiction where the extension or availability of the Retail Offer (and any other transaction contemplated thereby) would breach any applicable laws or regulations, and Excluded Territory shall mean any of them
Existing Shares	The Ordinary Shares of the Bank in issue as of 29 March 2013
FATCA	The U.S. Foreign Account Tax Compliance Act (Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986)
FATF	The Financial Action Task Force
FCs	Financial counterparties
FFIs	A "foreign financial institution" as such term is defined pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 and any regulations thereunder or official interpretations thereof
First Admission	Admission of the Relevant Shares to listing and trading on the main market of the CSE and ATHEX
Fitch	Fitch Ratings Ltd.
Foreclosure Law	The Transfer and Mortgage of Immovable Property Law (Amending) (No 4) Law of 2014
Framework Agreement	The framework agreement between the Bank and EBRD, pursuant to which the Bank has agreed that the Capital Raising will be carried out in accordance with and the Bank will apply, certain environmental and social policies of EBRD
FTT	The Financial Transactions Tax, a legislative proposal published by the European Commission on 14 February 2013
FTT participating member states	Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia
Fund	The Cypriot Investor Compensation Fund for Clients of Banks which was established pursuant to the Investment Firms Law of 2002 and the Establishment and Operation of an Investor Compensation Fund for Customers of Banks Regulations of 2004 (Regulations 530/2004)
GCD	The Group Compliance Division

GCEO	The Group Chief Executive Officer
GCRO	The Group Chief Risk Officer
GDP	Gross domestic product of Cyprus
GHES	Grand Hotel Enterprises Society Ltd
GIC	General Insurance of Cyprus Ltd
GIIN	Global Intermediary Identification Number
Governance Directive	The Directive on Governance and Management Arrangements in Credit Institutions issued by the CBC
Government	The government of the Republic of Cyprus
Greek Operations Decree	The Sale of the Greek operations of Bank of Cyprus Public Company Ltd Decree of 2013 issued by the Resolution Authority
Group	The Bank and its consolidated subsidiaries
GVA	Gross value added
HCMC	The Hellenic Capital Markets Commission
HCSD	The Hellenic Central Securities Depository
IAS	International Accounting Standards
IBS	The International Banking Services division of the Group
ICB	The International Corporate Banking unit of the Group
IFRS	International Financial Reporting Standards as adopted for use by the EU
IGAs	Intergovernmental agreements
IMF	The International Monetary Fund
Information Memorandum	The information memorandum dated 4 July 2014 issued by the Bank in connection with to the Placing
Introducers	The corporate service providers of the Bank
IO division	The International Operations division of the Group

IRS	The U.S. Internal Revenue Service
Issue Date	The date on which the Retail Shares are issued by the Bank through the registration of the relevant number of Retail Shares in the name of each Allocated Shareholder (or its custodian, nominee, trustee or agent as indicated in the relevant Application Form) in the register of members of the Bank
JCC	JCC Payment Systems Limited
KPIs	Key performance indicators
Laiki Bank	Cyprus Popular Bank Public Co Ltd
Laiki Shares	Ordinary Shares issued to Laiki Bank in compensation for the assets and liabilities of Laiki Bank transferred to the Bank pursuant to the Laiki Transfer Decrees
Laiki Transfer Decrees	The Sale of Certain Operations of Cyprus Popular Bank Public Co Ltd Decrees of 2013, the Sale of Certain Operations of Cyprus Popular Bank Public Co Ltd (Supplementary) Decree of 2013, the Bank of Cyprus Share Capital Issue for Compensation of Cyprus Popular Bank Public Co Ltd Decree of 2013 and the Sale of certain operations in the United Kingdom of Cyprus Popular Bank Public Co Ltd Decree of 2013 issued by the Resolution Authority
LCR	Liquidity coverage ratio
Lead Manager	CISCO
LFS	Laiki Financial Services Ltd
Listed Shares	17,951,405 Ordinary Shares with a listing on the main market of the CSE and ATHEX which are currently suspended from trading on both exchanges
Loan Origination Directive	The Directive on Loan Origination Processes and Processes of Reviewing Existing Loans issued by the CBC
Loan Provisioning Directive	The Directive on Loan Impairment and Provisioning Procedures of 2014 issued by the CBC
Majority Applications	Has the meaning prescribed to such term in Section 4.3.2 (Terms of the Retail Offer) of this Prospectus
Marfin Bank Romania	Marfin Bank (Romania) SA
Member State	A member state of the EU

MiFID	Directive 2004/39 on markets in financial instruments (as supplemented by Directive 2006/73 and Commission Regulation 1287/2006)
MiFID II	The forthcoming European Union Directive that will amend MiFID
MiFIR	The forthcoming European Union Regulation that will amend MiFID
Minority Applications	Has the meaning prescribed to such term in Section 4.3.2 (*Terms of the Retail Offer*) of this Prospectus
MLF rate	Marginal lending facility rate
Mokas	The Cypriot Unit for Combating Money Laundering
Money Laundering Activities Laws	Council Directives 2005/60/EC and 2006/70/EC, the International Convention for the Suppression of the Financing of Terrorism with the Prevention and Suppression of Money Laundering Activities Law 2007 to 2013 and the Fourth CBC Directive on the Prevention of Money Laundering and Terrorism Financing
Moody's	Moody's Investors Service
MoU	The Memorandum of Understanding (as amended) prepared by Troika and approved by the ESM on 24 April 2013, which specifies the conditions to be met for the first and subsequent disbursements of ESM financial assistance
MR	The Market Risk department of the RMD
MRO	Main refinancing operations
NCA	National competent authority
New Deposits	Has the meaning prescribed to such term in Section 3.3.2.3 (*Holders of deposits and other products of the Bank as of 26 March 2013*) of this Prospectus
Nine Month Financials	The Bank's financial statements for the nine months ended 30 September 2014
Nominal Value Reduction	The reduction of the nominal value each Ordinary Share to €0.10
NPLs	Non-performing loan as defined pursuant to the NPL Directive
NPL Directive	The Directive on the Definitions of Non-Performing and Restructured Credit Facilities of 2013 issued by the CBC
Offer Price	€0.24 per Open Offer Share

Open Offer	The offer to Existing Shareholders to apply, over a period of 15 business days for the proportion of the total number of Placing Shares indicated in the Contract Letter at the Placing Price for a total consideration of at least €100,000 per Existing Shareholder, pursuant to certain terms and conditions
Open Offer Shares	The 433,042,768 new Ordinary Shares that were clawed back from the Placing pursuant to the Open Offer
Operator	A brokerage firm or custodian in Cyprus or Greece
Order or UK Financial Promotion Order	The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended)
Ordinary Shares	The ordinary shares, with a nominal value of €0.10 each, in the share capital of the Bank (including, if the context requires, the Retail Shares)
OTC	Over-the-counter
Overseas Shareholders	Shareholders who are resident in, ordinarily resident in, or citizens of, countries other than Cyprus and Greece
Participating Member States	EU Member States that participate in the SSM together with the Member States of the Eurozone
Piraeus Bank	Piraeus Bank S.A.
Placing	The placing by the Bank of the Placing Shares at the Placing Price to eligible investors, subject to clawback pursuant to the Open Offer
Placing Price	€0.24 per Ordinary Shares
Placing Shares	The 4,166,666,667 new Ordinary Shares issued by the Bank pursuant to the Placing
Prospectus	This prospectus dated 26 November 2014
Prospectus Directive	Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State)
Prospectus Supplement	A supplement to the Prospectus incorporating by reference the Nine Month Financials, to be published prior to the commencement of the Retail Offer
PSD	Directive 2007/64/EC on payment services (as amended)
PSD2	The proposal for a new payment services directive to incorporate and repeal the PSD published by the European Commission on 24 July 2013

Public Offer and Prospectus Law	The Public Offer and Prospectus Law of 2005 (as amended)
Qualifying Shareholders	Holders of Ordinary Shares on the share register of the Bank as of the Record Date with the exclusion of (i) Excluded Shareholders and (ii) Shareholders who were allotted Ordinary Shares pursuant to the Placing unless they were already Shareholders as at the record date for the Placing
RBS	The Royal Bank of Scotland Group
Recapitalisation	The recapitalisation of the Bank effected by the Resolution Authority through the issue of the Bail-in Decrees
Record Date	3.00 p.m. on 21 November 2014.
Regulation 809/2004	Commission Regulation (EC) No 809/2004 (as amended) of the European Union
Regulation S	Regulation S under the Securities Act
Relevant Member State	Any member state of the European Economic Area which has implemented the Prospectus Directive
Relevant Persons	Has the meaning prescribed to such term in Section 4.3.9 (Overseas Shareholders) of this Prospectus
Relevant Shares	The Ordinary Shares issued pursuant to the Recapitalisation, the Laiki Transfer Decrees and the Placing and the Open Offer
Relevant Shares Applications	The applications for admission to listing and trading on the main market of the CSE and Athex of the Ordinary Shares issued pursuant to the Recapitalisation, the Laiki Transfer Decrees and the Placing and Open Offer
Resolution Authority	The CBC in its capacity as resolution authority pursuant to the Resolution Law
Resolution Law	The Resolution of Credit and Other Institutions Law of 2013
Restructuring Plan	The Group's comprehensive restructuring plan covering the period from 2013 through 2017, which was approved by the CBC in November 2013
Retail Offer	The public offer to Qualifying Shareholders of up to 416,666,667 new Ordinary Shares at the subscription price of €0.24 per new Ordinary Share approved at the extraordinary general meeting of shareholders of the Bank held on 28 August 2014

Retail Shares	Up to 416,666,667 new Ordinary Shares which may be issued by the Bank pursuant to the Retail Offer
Retail Shares Application	The application for admission to listing and trading on the main market of the CSE and Athex of the Retail Shares issued
Rights	The rights issued pursuant to the Rights Offering
Rights Offering	The Group’s €397.0 million pre-emptive rights offering in November 2011
RMD	The Risk Management Division of the Group
Romanian Operations Decree	The sale of certain operations in Romania of Bank of Cyprus Public Company Ltd Decree of 2013
RRD	The Restructuring and Recoveries Division of the Group
RUB and Rouble	The lawful currency of the Russian Federation
Russian QIs	Has the meaning prescribed to such term in Section 4.3.9 (Overseas Shareholders) of this Prospectus
Second Admission	Admission of the Retail Shares to listing and trading on the main market of the CSE and ATHEX
Securities Act	The U.S. Securities Act of 1933, as amended
SEK	The lawful currency of the Kingdom of Sweden
SEPA	Single euro payments area
SEPA Regulation	Regulation (EU) No 260/2012
Senior Manager	The Chief Risk Officer
Share Capital Increase	The Placing, Open Offer and Retail Offer collectively
Shareholder	An owner of a share or shares in the Bank
Shareholding Agreement	A shareholding agreement between CNP and Laiki Bank
SMEs	Small and medium-sized enterprises
Solvency II	Directive 2009/138/EC of 25 November 2009
SRB	The single resolution board

SRF	The Single Bank Resolution Fund
SRM	The Single Resolution Mechanism
SRM Regulation	The regulation for the SRM published in the Official Journal of the European Union on 30 July 2014
SSM	The ECB's single supervisory mechanism for Eurozone banks and other credit institutions
Standard & Poor's	Standard & Poor's Credit Market Services
Subscription Period	The subscription period which commences at 9.00 a.m. on 15 December 2014 and will remain open until 1.30 p.m. on 9 January 2015
Subscription Price	€0.24 per Retail Share
Supreme Court	The Supreme Court of Cyprus
Terms and Conditions	The terms and conditions of the Retail Offer as set out in section 4.3 of this Prospectus
Themis	Themis Constructions
Title A	Has the meaning prescribed to such term in Section 3.3.2.3 (*Holders of deposits and other products of the Bank as of 26 March 2013*) of this Prospectus
Title B	Has the meaning prescribed to such term in Section 3.3.2.3 (*Holders of deposits and other products of the Bank as of 26 March 2013*) of this Prospectus
Troika	The European Commission, the ECB and the IMF
UK	The United Kingdom
UK Loan Portfolio	A UK loan portfolio owned by the Group and largely composed of residential and commercial real estate-backed facilities sold pursuant to the UK Loan Portfolio Agreement
UK Loan Portfolio Agreement	A purchase agreement entered into by the Bank on 17 September 2014 relating to the sale of the UK Loan Portfolio
Uniastrum	CB Uniastrum Bank LLC
United States or US	The United States of America, including any state of the United States, the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction

Union	The Cyprus Union of Bank Employees
VRS	Voluntary retirement scheme
Withdrawal Rights	The withdrawal rights under Articles 14(1)(6) and 14(1)(7) of the Public Offer and Prospectus Law of 2005 (as amended)

DIRECTORS' DECLARATIONS

This Prospectus of the Bank of Cyprus Public Company Limited dated 26 November 2014 has been signed by the Directors of the Bank. The Bank and the Directors signing this Prospectus declare that having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of their knowledge, in accordance with the facts and that it contains no omission likely to affect its import:

Dr. Josef Ackermann	Chairman and Independent Director
Wilbur L. Ross	Vice-Chairman and Independent Director
Vladimir Strzhalkovskiy	Vice-Chairman and Independent Director
John Patrick Hourican	Chief Executive Officer and Executive Director
Dr. Christodoulos Patsalides	Finance Director and Executive Director
Arne Berggren	Non-Executive and Independent Director
Maksim Goldman	Non-Executive and Non-Independent Director
Marios Kalochoritis	Non-Executive and Independent Director
Michael Spanos	Non-Executive and Independent Director
Ioannis Zographakis	Non-Executive and Independent Director

LEAD MANAGER'S DECLARATION

This Prospectus of the Bank of Cyprus Public Company Limited dated 26 November 2014 has been signed by the Lead Manager of the Retail Offer The Cyprus Investment and Securities Corporation Limited (CISCO) which declares that, having taken all responsible care to ensure that such is the case the information contained in this Prospectus is to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

The Cyprus Investment and Securities Corporation Limited (CISCO)

ANNEX A

Bank of Cyprus Group

BANK OF CYPRUS PUBLIC COMPANY LIMITED

RETAIL OFFER TO QUALIFYING SHAREHOLDERS OF 416, 666,667 RETAIL SHARES AT A SUBSCRIPTION PRICE OF €0.24 PER RETAIL SHARE

APPLICATION FORM

THIS APPLICATION FORM MAY NOT BE ASSIGNED OR TRANSFERRED OR SPLIT. IT IS NOT A NEGOTIABLE DOCUMENT AND CANNOT BE TRADED.

This Application Form represents an invitation to subscribe for Retail Shares pursuant to the Retail Offer and must be completed and signed if you wish to apply for Retail Shares under the Retail Offer. Information on the Bank of Cyprus Public Company Limited (the "**Bank**") and the Terms and Conditions of the Retail Offer are set out in the Bank's prospectus dated 26 November 2014 (as may be supplemented, amended or restated, the "**Prospectus**") which should be read carefully before any action is taken. A copy of the Prospectus is available on the Bank's website at www.bankofcyprus.com (select the "Investor Relations/Capital Increase 2014/Phase 3 – Prospectus" options). Unless the context otherwise requires, terms defined in the Prospectus have the same meanings in this Application Form.

The attention of Overseas Shareholders is drawn to Section 4.3.9 (*Overseas Shareholders*) of the Prospectus.

If you are in any doubt about the action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker or other appropriately authorised independent financial adviser.

DETAILS OF THE APPLICANT(S) – PLEASE COMPLETE BELOW

SURNAME/ COMPANY NAME	**NAME**
TYPE AND IDENTIFICATION NUMBER (Identity Card / Passport / Registration Certificate**)**	**DATE OF BIRTH** (for minors)
CONTACT TELEPHONE NUMBERS	**FAX:**
RESIDENTIAL / REGISTERED OFFICE ADDRESS (for legal entities) **– Street, City, Postcode, Country**	
MAILING ADDRESS – Street, City, Postcode, Country (if different from above)	

Joint Applicant Details (in case of joint ownership)

SURNAME	**SURNAME**
NAME	**NAME**
TYPE AND IDENTIFICATION NUMBER	**TYPE AND IDENTIFICATION NUMBER**

Investor Share Code		**Operator's Code**	
Securities A/C No.		**Operator's Name**	
Name of Investor Share Code holder			

Please see Note (1) at the end of this Application Form as to why this information is required. If you have chosen to have the Retail Shares registered in the name of your custodian, nominee trustee or agent, please insert above the Securities Account details for your custodian, nominee, trustee or agent, as applicable

Box 1

NUMBER OF OFFER SHARES

………………………………… *(number)*……………………………………………………………..…………………………………*(in writing)*

Box 2

TOTAL AMOUNT PAYABLE

€……………………………… *(number)*……………………………………………………………………………………………. *(in writing)*

(Number of Retail Shares x Subscription Price (€0.24 per Retail Share))

To: the Board of Directors of the Bank

1. I/We hereby apply to subscribe for the number of Retail Shares inserted in Box 1 above and agree to accept the same or less on the Terms and Conditions set out in Section 4.3 of the Prospectus, this Application Form and subject to the Articles of Association of the Bank (as amended from time to time). If no number is inserted in Box 1 or if a number is inserted in Box 1 which is inconsistent with the amount of the remittance accompanying this Application Form, if applicable, and/or the amount shown in Box 2, I/we agree that I/we shall be deemed to have applied for the lesser of: (i) the number of Retail Shares shown in Box 1; or (ii) such number of Retail Shares at €0.24 per Retail Share as is covered by the remittance which accompanies this Application Form, if applicable.

2. In consideration of your agreeing to deal with this application to subscribe for the aggregate number of Retail Shares stated in Box 1 above and subject to the Terms and Conditions set out in Section 4.3 of the Prospectus and the Bank's Articles of Association, I/we undertake that this application shall be irrevocable and agree that the completion and return of this Application Form with its accompanying remittance (if applicable) shall constitute a contract between me/us and the Bank, which shall become binding upon receipt by a Branch Officer of this Application Form and the accompanying remittance (if applicable). I/We acknowledge that you reserve the right to treat any application not strictly complying with the terms and conditions of this Application Form and the Terms and Conditions set out in Section 4.3 of the Prospectus as nevertheless valid.

3. I/We represent and warrant that I/we have not received from or sent copies of this Application Form into or within any Excluded Territories, unless the Bank has expressly agreed otherwise. In particular, by completing and delivering this Application Form, I/we hereby provide the acknowledgements, agreements, representations, warranties and confirmations set out in Section 4.3.3(e) (*Effect of application*) and Section 4.3.10 (*Representations and warranties relating to overseas territories*) of the Prospectus.

4. I/We hereby confirm that I/we have the necessary knowledge and skills to assess my/our investment in shares of the Bank and accept the Terms and Conditions and acknowledge the risk at an investment in the Retail Shares as they are described in the Prospectus. Furthermore, I/we hereby confirm that no investment advice or recommendation regarding the Retail Shares has been provided to me/us by the Bank, The Cyprus Investment and Securities Corporation Ltd (CISCO) or by any of its officers, representatives or employees.

5. I/We:

   (*please tick the appropriate box below and, if applicable, fill in where indicated*)

   ☐ enclose a cheque or banker's draft payable to "Bank of Cyprus Public Company Limited" and crossed "A/C Payee Only" for the sum inserted in Box 2 above, being the total amount payable in full on application for the Retail Shares.

   ☐ hereby authorise the debit of my/our bank account held with the Bank for the sum inserted in Box 2 above, being the amount payable in full on application for the Retail Shares, with the following details:

   Name of Account holder: ....

   Account No: ....

   ☐ hereby undertake to transfer an amount equal to the sum inserted in Box 2 above, being the total amount payable in full on application for the Retail Shares, to the following bank account on or before **1.30 p.m. on 9 January 2015**:

   Name of Account: Bank of Cyprus Public Company Ltd
   Bank: Bank of Cyprus Public Company Ltd
   BIC Code: BCYPCY2N
   Account Number: 357018676058
   IBAN: CY20 0020 0195 0000 3570 1867 6058

6. I/We request and authorise the Bank or its agents to send to me/us by post at my/our own risk an Allocation Letter for the number of Retail Shares allocated to me/us, to the registered address as it appears on the Bank's Register of Members.

7. In the event that I/we cannot be allocated all or any number of the Retail Shares I/we have applied for in accordance with the Terms and Conditions, I/we authorise the Bank or its agents to return the relevant amount of application monies without payment of interest to me/us by:

(please tick the appropriate box below and, if applicable, fill in where indicated)

☐ cheque posted at my/our own risk to the address as it appears on the Bank's Register of Members.

☐ credit to my/our bank account held with the Bank with the following details:

Name of account holder: ....

Account No: ....

SIGNATURE BLOCKS – PLEASE SIGN BELOW

Applicant(s) Signature(s) (see Note (2) below)	**Authorised Signature(s) of bank account holder(s)** (see Note (3) below)	**Date**
……………………………………………	…………………………………………………………………………………………	
……………………………………………	…………………………………………………………………………………………	……………….
……………………………………………	…………………………………………………………………………………………	

Authorised Signature(s) of Investors Share Code holder(s) (see Note (4) below)	**Date**
…………………………………………………………………………………………	
…………………………………………………………………………………………	……………….
…………………………………………………………………………………………	

NOTES:

(1) Your Investor Share Code, Securities Account Number, Operator's Code and Operator's Name with the Cyprus Stock Exchange (CSE) or the Dematerialised Securities System (DSS) of the Hellenic Exchanges must be specified in this Application Form in order for the Bank to credit the Retail Shares to your Investor Share Code. If you have chosen to have the Retail Shares to be registered in the name of your custodian, nominee, trustee or agent in paragraph 6 above, please complete the Investor Share Code, Securities Account Number, Operator's Code and Operator's Name for your custodian, nominee, trustee or agent (as applicable) here.

Shareholders who will acquire Retail Shares and do not specify an Operator's Code in the Application Form will have their Retail Shares credited to the Special Account of their Investor Share Code whose Operator is the CSE or the DSS at the Hellenic Exchanges and will not be able to trade these Retail Shares unless and until they take the appropriate actions to transfer these Retail Shares to their Operator's Account.

(2) If this Application Form is signed by someone else on the Qualifying Shareholder's behalf, the original of the relevant power of attorney (or a complete copy certified by a certifying officer or authority) must be enclosed with this Application Form together with full identity documents for the person so signing.

(3) This must be the authorised signatures for the bank account to be debited and/or credited as specified in paragraphs 5 and 7 above of this Application Form.

(4) This must be the authorised signatures for the Investor Share Code to be credited with the Retail Shares. If you have chosen to have the Retail Shares to be registered in the name of your custodian, nominee, trustee or agent, this must be the authorised signatures for the Investor Share Code of the custodian, nominee, trustee or agent, as applicable.

(5) Once completed and signed, this Application Form should be submitted by hand (during working office hours) to an officer or manager at a branch of the Bank in Cyprus (a "**Branch Officer**") so as to be received by such Branch Officer by no later than 1.30 p.m. on 9 January 2015, after which time Application Forms will not be valid. Qualifying Shareholders should note that applications, once made, are irrevocable.

(6) All enquiries in connection with the Application Forms should be addressed to the Branch Officer. Alternatively, enquiries in connection with the Application Forms can be made to CISCO on telephone number +357 22121700. Lines are open from 8.30 a.m. to 5.30 p.m., Monday to Friday and will remain open until 1.30 p.m. on 9 January 2015. Please note that neither the Bank nor CISCO can provide financial advice on the merits of the Retail Offer.

INDEX TO AUDITOR'S REPORTS

Building a better
working world

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Report to the Board of Directors of Bank of Cyprus Public Company Ltd on the Review of the Interim Condensed Consolidated Financial Statements

Introduction

We have reviewed the interim condensed consolidated financial statements of Bank of Cyprus Public Company Ltd (the 'Company') and its subsidiaries (together with the Company the 'Group') on pages 17 to 104, which comprise the interim consolidated balance sheet as at 30 June 2014, the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, the interim consolidated statements of income and comprehensive income for the three-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance International Financial Reporting Standards applicable to interim financial reporting, IAS 34 Interim Financial Reporting ("IAS 34") as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

These interim condensed consolidated financial statements do not include comparative statements of the consolidated income statement and the consolidated other comprehensive income for the comparable interim period of the immediately preceding financial year (i.e. from 1 April 2013 to 30 June 2013).

Qualified Conclusion

Based on our review, except for the matter described under the "Basis for qualified conclusion" paragraph, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 'Interim Financial Reporting'.

Emphasis of matter

We draw your attention to note 6.1 'Going concern' to the interim condensed consolidated financial statements which indicates the significant judgments, estimates and assumptions used in the preparation of the interim condensed consolidated financial statements and describes the material uncertainties that may cast significant doubt about the ability of the Group to continue as a going concern. Our conclusion is not qualified in respect of this matter.

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia
29 August 2014

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Independent Auditor's Report to the members of Bank of Cyprus Public Company Ltd

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of Bank of Cyprus Public Company Ltd (the "Company") and its subsidiaries (together with the Company, the "Group") on pages 17 to 190, which comprise the consolidated balance sheet as at 31 December 2013, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Company's Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for qualified opinion

As discussed in note 3.2.2 to the consolidated financial statements, in consideration of a bail-in of uninsured deposits and debt securities pursuant to the provisions of the relevant Decrees issued and enforced by the Resolution Authority, the Company when accounting for its recapitalisation was not able to measure the shares issued at their fair value as required by International Financial Reporting Standards ('IFRS') relating to extinguishment of financial liabilities due to the specific conditions and uncertainties that existed at the time of the transaction. Had the Company been able to apply the requirements of IFRS and measure the shares issued at their fair value it would recognise any difference with the carrying amount of the liabilities extinguished in profit or loss.

Furthermore, as described in note 54.2 to the consolidated financial statements relating to the acquisition of certain assets and liabilities of Cyprus Popular Bank Public Company Ltd ('Laiki Bank'), pursuant to the provisions of the relevant Decree issued and enforced by the Resolution Authority, the Company was not able to establish a reliable fair value of the shares issued and has therefore determined the value of the consideration transferred by reference to the fair value of the individually identifiable assets and liabilities acquired, for which a reliable fair value could be established.

Due to the nature of the above mentioned transactions and the circumstances that existed at the date these transactions took place, we were unable to obtain sufficient and appropriate audit evidence to conclude on the reliability of the measurement of the value of the shares issued at the time of these transactions and on any adjustments to the Group's consolidated income statement that could have been determined to be necessary because of the adopted treatments. The Group's equity and financial position are not affected by the above accounting treatments.

Qualified opinion

In our opinion, except for the matter described in the first paragraph under the "Basis for qualified opinion" above and any adjustments that could have been determined to be necessary had we been able to satisfy ourselves as to the fair value of the shares issued for the Group's recapitalisation through a bail-in of uninsured deposits and debt securities and for the consideration transferred for the Laiki Bank acquisition, the financial statements give a true and fair view of the financial position of the Group as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap 113.

Emphasis of matter

We draw your attention to note 4.1 'Going concern' to the consolidated financial statements which indicates the significant judgments, estimates and assumptions used in the preparation of the consolidated financial statements and describes the material uncertainties that may cast significant doubt about the ability of the Group to continue as a going concern. Our opinion is not qualified in respect of this matter.

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Report on Other Legal Requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 3 to 16 is consistent with the consolidated financial statements.

Pursuant to the requirements of Directive DI190-2007-04 of the Cyprus Securities and Exchange Commission, we report that a corporate governance statement has been made for the information relating to paragraphs (a), (b), (c), (f) and (g) of article 5 of Directive DI190-2007-04, which forms a specific part of the Directors' Report.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Savvas Pentaris
Certified Public Accountant and Registered Auditor
for and on behalf of

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia
27 March 2014

Building a better working world

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Independent auditor's report to the members of Bank of Cyprus Public Company Ltd

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of Bank of Cyprus Public Company Ltd (the 'Company') and its subsidiaries (together with the Company, the 'Group') on pages 16 to 172, which comprise the consolidated balance sheet as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Company's Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Emphasis of matter

We draw your attention to note 3.1 ‘Going concern’ to the consolidated financial statements which indicates the significant judgments, estimates and assumptions used in the preparation of the consolidated financial statements and describes the material uncertainties that may cast significant doubt about the ability of the Group to continue as a going concern. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of the Cyprus Companies Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the Directors’ Report on pages 3 to 15 is consistent with the consolidated financial statements.

Pursuant to the requirements of Directive DI190-2007-04 of the Cyprus Securities and Exchange Commission, we report that a corporate governance statement has been made for the information relating to paragraphs (a), (b), (c), (f) and (g) of article 5 of Directive DI190-2007-04, which forms a specific part of the Directors’ Report.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Andreas Demetriou
Certified Public Accountant and Registered Auditor
for and on behalf of

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia
10 October 2013

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Independent auditor's report to the members of
Bank of Cyprus Public Company Ltd

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of Bank of Cyprus Public Company Ltd (the 'Company') and its subsidiaries (together with the Company, the 'Group') on pages 11 to 141, which comprise the consolidated balance sheet as at 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Company's Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Emphasis of matter

Without qualifying our opinion, we draw your attention to note 3.1 'Going concern' and note 49 'Capital management' to the consolidated financial statements which indicate the significant judgments, estimates and assumptions used in the preparation of the financial statements on a going concern basis while not complying with minimum capital adequacy ratios as at 31 December 2011.

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of the Cyprus Companies Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the Directors' Report on pages 3 to 10 is consistent with the consolidated financial statements.

Pursuant to the requirements of Directive DI190-2007-04 of the Cyprus Securities and Exchange Commission, we report that a corporate governance statement has been made for the information relating to paragraphs (a), (b), (c), (f) and (g) of article 5 of Directive DI190-2007-04, which forms a specific part of the Directors' Report.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Andreas Demetriou
Certified Public Accountant and Registered Auditor
for and on behalf of

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia
24 April 2012