

Prospectus dated 14 October 2014

Bank of Cyprus



# BANK OF CYPRUS PUBLIC COMPANY LIMITED

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

€4,000,000,000

## Euro Medium Term Note Programme

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

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

The Notes of each Series (as defined on page 46) in bearer form will be represented on issue by a temporary global note in bearer form, without interest coupons (each a “temporary Global Note”) or a permanent global note in bearer form, without interest coupons (each a “permanent Global Note” and, together with the temporary Global Notes, the “Global Notes”). Notes in registered form will be represented by registered certificates (each a “Certificate”), one Certificate being issued in respect of each Noteholder’s entire holding of Registered Notes (as defined below) of one Series and may be represented by a Global Certificate (as defined below). If the Global Notes are stated in the applicable Final Terms to be issued in new global note (“NGN”) form, the Global Notes will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the “Common Safekeeper”) for Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, *société anonyme* (“Clearstream, Luxembourg”). If a Global Certificate is held under the New Safekeeping Structure (the “NSS”), the Global Certificate will be delivered on or prior to the original issue date of the relevant Tranche to a Common Safekeeper for Euroclear and Clearstream, Luxembourg.

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

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

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

Tranches of Notes (as defined in “General Description of the Programme”) to be issued under the Programme may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the rating assigned to the Notes already issued. Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms. Whether or not a rating in relation to any Tranche of Notes will be treated as having been issued by a credit rating agency established in the European Union and registered under Regulation (EC) No 1060/2009 (as amended) on credit rating agencies (the “CRA Regulation”) will be disclosed in the relevant Final Terms. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms of each Tranche, based on then prevailing market conditions.

Arranger

BofA Merrill Lynch

Dealers

BofA Merrill Lynch

Barclays

Credit Suisse

Goldman Sachs International

ING

Natixis

Bank of Cyprus

Citigroup

Deutsche Bank

HSBC

J.P. Morgan

UBS Investment Bank

UniCredit Bank

*This Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC , as amended, to the extent that such amendments have been implemented in the relevant Member State of the European Economic Area (the “Prospectus Directive”) and for the purpose of giving information with regard to the Bank and its subsidiaries and affiliates taken as a whole (the “Group”) and the Notes which, according to the particular nature of the Bank and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Bank.*

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

*This Prospectus has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Prospectus as completed by final terms in relation to the offer of those Notes may only do so in circumstances in which no obligation arises for the Bank or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Bank nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Bank or any Dealer to publish or supplement a prospectus for such offer. The expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.*

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

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

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

The distribution of this Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Bank, the Dealers and the Arranger to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other

jurisdiction of the United States, and may include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered or sold or, in the case of bearer Notes, delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (“Regulation S”)).

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S and, in the case of Registered Notes, within the United States to “qualified institutional buyers” in reliance on Rule 144A under the Securities Act (“Rule 144A”). Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of Notes and distribution of this Prospectus see “Subscription and Sale” and “Transfer Restrictions”.

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

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

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

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

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

In this Prospectus, unless otherwise specified or the context otherwise requires, references to “euro” and “€” are to the single currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community as amended by the Treaty on the European Union and the Treaty of Amsterdam, references to “USD” or “U.S.\$” are to U.S. dollars, references to “GBP” or “sterling” are to pounds sterling and references to “RUB” are to Russian rubles.

## TABLE OF CONTENTS

	<i>Page</i>
PRESENTATION OF FINANCIAL AND OTHER INFORMATION .....	6
RISK FACTORS .....	9
DOCUMENTS INCORPORATED BY REFERENCE.....	44
GENERAL DESCRIPTION OF THE PROGRAMME .....	46
TERMS AND CONDITIONS OF THE NOTES .....	51
SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM .....	76
CLEARING AND SETTLEMENT .....	83
USE OF PROCEEDS .....	87
BUSINESS DESCRIPTION OF THE GROUP .....	88
MANAGEMENT AND CORPORATE GOVERNANCE.....	128
OPERATING AND FINANCIAL REVIEW AND PROSPECTS .....	144
SELECTED STATISTICAL AND OTHER INFORMATION .....	187
RISK MANAGEMENT .....	219
THE MACROECONOMIC ENVIRONMENT IN CYPRUS .....	231
THE BANKING SECTOR IN CYPRUS .....	239
RESTRUCTURING OF THE BANK AND LAIKI BANK.....	246
REGULATION AND SUPERVISION OF BANKS IN CYPRUS .....	254
TAXATION .....	282
SUBSCRIPTION AND SALE.....	296
TRANSFER RESTRICTIONS .....	300
FORM OF FINAL TERMS .....	303
GENERAL INFORMATION .....	313
GLOSSARY OF SELECTED TERMS .....	315

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### General

The Bank's audited consolidated financial statements as at and for the year ended 31 December 2013 (that includes comparative information for the year ended 31 December 2012) (the **2013 Audited Financial Statements**) included in this Prospectus were prepared in accordance with International Financial Reporting Standards (**IFRS**) as adopted by the EU and audited by the Bank's independent auditor, Ernst & Young Cyprus Limited. The Bank's unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2014 (which includes comparative information for the six months ended 30 June 2013 in respect of income statement and other comprehensive income items and 31 December 2013 in respect of balance sheet items) (the **June 2014 Unaudited Financial Statements**) were prepared in accordance with International Accounting Standard (**IAS**) 34 as adopted by the EU and the Group's external auditors have conducted a review in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity".

The auditor's audit opinion in relation to the 2013 Audited Financial Statements is qualified and contains an emphasis of matter with respect to going concern. The Bank when accounting for its recapitalisation was not able to measure the ordinary shares issued at their fair value as required by IFRS relating to extinguishment of financial liabilities due to specific conditions and uncertainties that existed at the time of the transaction. Furthermore, the Bank was not able to establish a reliable fair value of the ordinary shares issued to Cyprus Popular Bank Public Co Ltd (**Laiki Bank**) 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. The Group's equity and financial position for the 2013 financial year are not affected by the above accounting treatment. The auditor's report in relation to the June 2014 Unaudited Financial Statements is qualified and contains an emphasis of matter with respect to going concern. The unaudited interim condensed consolidated financial statements do not include comparative statements of consolidated income and comparative statements of consolidated comprehensive income for the comparable interim period for the immediately preceding financial year. For more information, see "*Risk Factors—Risks Relating to the Group's Business—The independent auditor's report in respect of the Bank's 2013 Audited Financial Statements and independent auditor's review report in respect of the June 2014 Unaudited Financial Statements are qualified and contain an emphasis of matter*".

Certain operational and statistical information relating to the Group's operations included herein is unaudited and has been derived from the Group's financial statements and/or accounting records and include statistical data reported in the forms prescribed by the CBC.

The Group prepares its financial statements in euro. The euro is the common legal currency of the Member States participating in the third stage of the European Economic and Monetary Union, including Cyprus. In this Prospectus, unless specified otherwise or the context otherwise requires, references to "\$", "USD", "US\$" and "U.S. dollar" are to the United States dollar and references to "€" or "euro" are to the euro.

The Group's financial year ends on 31 December of each year. References to any financial year refer to the year ended 31 December of the calendar year specified.

Certain monetary amounts and other figures included in this Prospectus have been subject to rounding adjustments. Accordingly, any discrepancies in any tables between the totals and the sums of the amounts listed are due to rounding.

Certain information contained in this Prospectus is derived from the Cyprus Statistical Service, the Ministry of Finance of the Republic of Cyprus, the Central Bank of Cyprus, Eurostat, the Cypriot Superintendent of

Insurance, the Insurance Association of Cyprus, the Cooperative Central Bank, the European Commission and the International Monetary Fund. The Bank confirms that this information has been accurately reproduced and as far as the Bank is aware and is able to ascertain from information published the Cyprus Statistical Service, the Ministry of Finance of the Republic of Cyprus, the Central Bank of Cyprus, Eurostat, the Cypriot Superintendent of Insurance, the Insurance Association of Cyprus, the Cooperative Central Bank, the European Commission and the International Monetary Fund, no facts have been omitted which would render the reproduced information inaccurate or misleading.

### **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. As a result, the Group's management believes that the financial results of the Group for periods prior to the year ended 31 December 2012 (as re-presented and restated in its 2013 financial statements) are not comparable to the financial condition and results of operations of the Group following the Recapitalisation, and accordingly no such prior periods are presented (See "*Operating And Financial Review And Prospects – Presentation and Comparability of Financial Information - Presentation of Financial Information*").

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.

The unaudited financial statements for the six months ended 30 June 2014 contain comparative balance sheet information as at 31 December 2013. Certain of the comparative balance sheet items have been restated to reflect the finalisation of the valuation and classification of assets and liabilities acquired from Laiki Bank. In this Prospectus, the 31 December 2013 balance sheet items presented include restated items rather than those contained in the 2013 annual report, which used provisional valuations and classifications in respect of Laiki Bank.

The June 2014 Unaudited Financial Statements contain comparative information for the year ended 31 December 2012. This comparative information 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 IAS 19 (Revised 2011) regarding the recognition of actuarial gains and losses arising from defined benefit plans. See note 3.35 to the Group's 2013 financial statements. Accordingly, this comparative information differs from the information previously released by the Group in its 2012 annual report.

## **PROSPECTUS SUPPLEMENT**

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

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

## **AVAILABLE INFORMATION**

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

## **FORWARD-LOOKING STATEMENTS**

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



## RISK FACTORS

*Investing in the Notes 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 Notes. 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 Notes. If any of these risks or uncertainties materialises, the Group's financial condition or results of operations could suffer. 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 Notes.*

### **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.**

As of 31 December 2013, 94.4 per cent. and 91.2 per cent. of the Bank's total assets and total liabilities, respectively, and 88.0 per cent. 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 per cent. and 91.7 per cent. of the Bank's total assets and total liabilities, respectively, and 90.5 per cent. 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 of the Republic of Cyprus' (**Government**) budget in the years to come.

The evolution of real gross domestic product (**GDP**) in Cyprus changed from growth of 1.3 per cent. in 2010 to a decline of 2.4 per cent. in 2012. The contraction in real GDP increased to 5.4 per cent. 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 per cent. by the International Monetary Fund (**IMF**) (World Economic Outlook, October 2014). In the labour market, unemployment remains high, with an average unemployment rate of 15.9 per cent. in 2013 and 15.4 per cent. in first half of 2014.

Although the recession for 2014 is expected to be less severe than originally anticipated (the IMF currently projects the decline in real GDP at 3.2 per cent., as compared to the European Commission's earlier projection of a 4.2 per cent. 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 by the European Commission, with growth projected at 0.4 per cent. in 2015 compared with an initial forecast of 0.9 per cent. 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 also "*The Group is significantly exposed to the financial performance and creditworthiness of companies and individuals in Cyprus*" below).

**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 an Economic Adjustment Programme (EAP) with the European Commission, the IMF and the European Central Bank (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 Memorandum of Understanding (as amended, **MoU**) prepared by the Troika and approved by the European Stability Mechanism (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 "*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, 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 "*Regulation and Supervision of Banks in Cyprus – 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, if the Troika concludes that the package of foreclosure law reforms passed by the Cypriot Parliament in September 2014 do not substantially meet the MoU's objectives for the reform of the foreclosure regime in Cyprus, the next tranche of funds from the ESM and IMF could be withheld or delayed.

The next meeting of the Eurogroup to discuss Cyprus' progress with the implementation of the MoU is scheduled for 13 October 2014 but the Supreme Court is expected to convene on 20 October 2014 to hear arguments on the constitutionality of the four supplementary foreclosure-related bills, passed by the Cypriot Parliament in September 2014 (also, see “ — *Regulatory and Legal Risks* — *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.

**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 per cent. of gross loans in the Cypriot banking system (based on the Central Bank of Cyprus (the **CBC**) data) and the Group's loans and advances to customers in Cyprus accounted for 89.2 per cent. of its total loans and advances to customers.

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 per cent. and 49.8 per cent. 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 “*Operating and Financial Review and Prospects—Presentation and Comparability of Financial Information—Non-Performing Loans*” and “*Selected Statistical and Other Information—Credit Risk—Non-performing loans*”, respectively. If the financial performance and creditworthiness of the Group's borrowers in Cyprus worsen or do 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.

**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 annual basis. The residential property price index maintained by the CBC recorded a 6.8 per cent. annual average decrease from 2012 to 2013, which was the largest decrease since the CBC's first publication of this index in 2006. In the first half of 2014, the residential property price index recorded a decrease of 9.4 per cent., compared with a decrease of 5.7 per cent. in the first half of 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.

**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 metres. 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.

**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.**

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 “—*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 March 2014, the Russian Ministry of Finance published a draft law which proposes to impose tax on the income of companies that are registered in offshore jurisdictions (such as Cyprus) and are owned by Russian ultimate beneficiaries. If this law is passed, 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.

**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 economy of Member States that have adopted the euro as their national currency (in accordance with the Treaty on EU signed at Maastricht on 7 February 1992) (the **Eurozone**) exited recession in the second quarter of 2013 following six quarters of negative economic activity. However, the ECB and the national central banks (together, 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.

**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 per cent. of income from continuing operations, 4.2 per cent. of total assets and 5.0 per cent. 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, in April 2014, sold its 9.99 per cent. equity stake in Banca Transilvania, a Romanian bank, 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 €35.2 million. The Bank also has significant intragroup funding exposures with respect to Uniastrum 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 may be required to provide additional funding or capital to Uniastrum if the Central Bank of the Russian Federation (the **CBR**) determines that Uniastrum requires additional capital as a result of its review of Uniastrum's loan portfolio which commenced on 31 July 2014.

Both Russia and Romania have been adversely affected by the global economic crisis. In 2013, Russia's GDP growth was 1.3 per cent. according to the IMF and is forecasted to grow by 0.2 per cent. 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 per cent. in 2013, this was preceded by GDP growth of 0.6 per cent. 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 per cent. 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 (the **EU**) 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.

## **Risks Relating to the Group's Business**

### **The ECB's comprehensive assessment prior to the inception of the Single Supervisory Mechanism for Eurozone banks and other credit institutions (SSM) may lead to further capital increases or loss of public confidence in the Bank.**

The Bank is participating in the ECB's Asset Quality Review (AQR), run as part of the ECB's comprehensive assessment prior to inception of the SSM (the **ECB Assessment**). As a result, it is also subject to the ECB's stress testing process. Even though the Bank has been successful in raising €1 billion through the Capital Raising (see "*Business Description of the Group—Capital Raising*"), there can still be no assurance that the AQR or the ECB's stress tests will not impose additional capital requirements on the Bank. The results of these exercises will be published prior to the ECB assuming its supervisory role in November 2014. If the results of these exercises determine that the capital requirements for the Bank should be increased, this could lead to increased costs for the Bank, limitations on the Bank's capacity to lend and further restructuring of the Group which could have a material adverse effect on the business, financial condition and results of operations of the Group. Moreover, if the Bank is not able to strengthen its capital adequacy by raising funds from its shareholders or the capital markets, or by implementing other capital enhancement measures, it may need to seek additional funding by means of state support, thereby increasing the likelihood that its shareholders will be subject to limitations on their rights, suffer significant dilution in their shareholding and/or incur significant losses in their investments.

Stress tests analysing the European banking sector have been, and the Bank anticipates that they will continue to be, published by national and supranational regulatory authorities. At present, it is not clear how the ECB's stress tests will be aligned with the requirements of the EAP. Loss of confidence in the banking sector following the announcement of stress tests regarding the Bank or the Cypriot banking system as a whole, or a market perception that any such tests are not rigorous enough, could also have a negative effect on the Group's cost of funding and may thus have a material adverse effect on its results of operations and financial condition.

### **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 per cent., Tier 1 ratio of 10.2 per cent. and total capital ratio of

12.2 per cent. As of 31 December 2013, the CBC increased the minimum Core Tier 1 capital ratio to 9 per cent. 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 per cent. as at 31 December 2013.

As from 1 January 2014, CRD IV and the CRR (each as defined in "*Regulation and Supervision of Banks in Cyprus*") became effective comprising the European regulatory package designed to transpose the new capital, liquidity and leverage standards of Basel III into the EU's legal framework. The CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by and is immediately binding on all 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 (**RWAs**) 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 "*Regulation and Supervision of the Banks in Cyprus—The Regulatory Framework*" and "*Regulation and Supervision of Banks in Cyprus—Guidelines for Capital Requirements*". As of 30 June 2014, the Bank's Common Equity Tier 1 (**CET 1**) ratio was 11.3 per cent.

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 per cent. 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 any additional capital requirements which may arise upon the finalisation of the AQR and the EU-wide stress test.

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.

**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 Ca, which is on review for upgrade, and a long-term issuer default rating from Fitch Ratings Ltd. (**Fitch**) of CC. These ratings reflect in part the sovereign ratings of Cyprus (Caa3 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 "*Regulation and Supervision of Banks in Cyprus—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 “—*Risks Relating to the Economic Crisis in Cyprus—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.

**The Bank is dependent on central bank (ECB and Emergency Liquidity Assistance (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 “*Operating and Financial Review and Prospects—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 per cent. and 41.1 per cent., 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. For more information on the Group’s funding from central banks, please see “*Operating and Financial Review and Prospects—Liquidity and Capital Resources—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 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 of the Bank (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 "*Risk Management—Liquidity and Funding Risk*" and "*Operating and Financial Review and Prospects—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.

**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 per cent. and 55.7 per cent., 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 "*—The Bank is dependent on central bank (ECB and Emergency Liquidity Assistance (ELA)) funding for liquidity and difficulties in securing traditional sources of liquidity may affect the Group's ability to meet its financial obligations*" above).

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 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, 16.2 per cent. 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 "*Regulation and Supervision of Banks in Cyprus—Capital Control Measures*".

**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 per cent. and 49.8 per cent. 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 (including loans and advances classified as held for sale) 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 per cent. and 30.7 per cent. 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 "*Risks Relating to the Economic Crisis in Cyprus—Exposure to the Cypriot residential real estate market makes the Group vulnerable to developments in this market*" above). 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.

**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 provision 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 "*Risk Management – Credit Risk – Provisioning*".

Any significant increase in provisions for loan losses or a significant change in the Group's estimate of the risk of loss inherent in its portfolio of non-impaired loans, as well as the occurrence of loan losses in excess of the related provisions, may have a material adverse effect on the Group's business, 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.**

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 half of 2014 averaged 15.4 per cent. on a seasonally adjusted basis, 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 allowance for loan losses.

**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 (MRO) 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.

**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 "*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*" above.

**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 Cyprus Popular Bank Public Co Ltd's (**Laiki Bank's**) tax losses transferred to the Bank in accordance with the Laiki Transfer Decrees (as defined in see "*Restructuring of the Bank and Laiki Bank*"). 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 per cent.). 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.

**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 June 2014 Unaudited Financial Statements 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. Further, the 2013 Audited Financial Statements contain 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 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 the "*Operating and Financial Review and Prospects*" section of, this Prospectus are limited in their ability to demonstrate the evolution of the Group's results of operations.

**The independent auditor's report in respect of the Bank's 2013 Audited Financial Statements and independent auditor's review report in respect of the June 2014 Unaudited Financial Statements are qualified and contain an emphasis of matter.**

The independent auditor's report in respect of the Bank's 2013 Audited Financial Statements is qualified with respect to (a) the inability of the Bank to apply the requirements of IFRS as a result of the bail-in of uninsured deposits, subordinated securities and other products of the Bank pursuant to the Recapitalisation in 2013 due to the specific conditions and uncertainties that existed at the time of the transaction and (b) for any adjustments that could have been determined to be necessary had the auditors been able to satisfy themselves as to the fair value of the ordinary shares issued as a result of the bail-in of uninsured deposits, subordinated securities and other products of the Bank pursuant to the Recapitalisation in 2013 and as the consideration for the acquisition of certain assets and liabilities of Laiki Bank. The Group's equity and financial position were not affected by the transactions giving rise to the above qualifications. For a discussion of the resolution of Laiki Bank and the Recapitalisation, see "*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 consideration paid (i.e., shares issued by the Bank), should have been recognised as a 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 in

compensation for its assets and liabilities transferred to 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 treatment, no profit or loss arises from these transactions.

The independent auditor’s report in respect of the Bank’s June 2014 Unaudited Financial Statements is qualified because the June 2014 Unaudited financial statements do not include comparative statements of consolidated income and consolidated comprehensive income for the comparable interim period for the immediately preceding financial year.

In addition, the independent auditor’s report in respect of the Bank’s 2013 Audited Financial Statements and independent auditor’s review report in respect of the Bank’s June 2014 Unaudited Financial Statements 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 “*Business Description of the Group—Strategy*” and see also “—*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*” above and “—*Regulatory and Legal Risks—The Restructuring Plan agreed with the CBC restricts certain actions of the Group*” below.
- The period over which the restrictive measures and capital controls are in place. See “—*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*” above.
- The continuing reliance on and availability of the central bank liquidity facilities. See “—*The Bank is dependent on central bank (ECB and Emergency Liquidity Assistance (ELA)) funding for liquidity and difficulties in securing traditional sources of liquidity may affect the Group’s ability to meet its financial obligations*” above.
- 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 “—*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*” below.
- The outcome of the ECB Assessment, which may reveal additional capital requirements for the Group. See “—*Risks Relating to the Group’s Business—The ECB’s comprehensive assessment prior to the inception of the Single Supervisory Mechanism for Eurozone banks and other credit institutions may lead to further capital increases or loss of public confidence in the Bank*”.

The emphasis of matter described above is not a qualification to the audit opinion contained in the independent auditor's report for the 2013 Audited Financial Statements or a review conclusion contained in the independent auditor's review report for the June 2014 Unaudited Financial Statements.

**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.

**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.

**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.

#### **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.

#### **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 "*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*" above). 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.

**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.

In addition, 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. Accordingly, the completion of the Capital Raising could result in further changes to the composition of the Board of Directors. In this connection, on 22 September 2014, in a letter to the Bank, the CBC requested that all members of the current Board of Directors resign (with the possibility of re-election) effective as of the date of the forthcoming annual general meeting (scheduled for 20 November 2014), in order to allow a new Board of directors to be chosen by shareholders, including new shareholders following the Capital Raising.

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).

**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.

**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.

**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, organisational 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 "*Business Description of the Group—Litigation and Related Matters, including Regulatory Proceedings—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.

**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 aims 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.

**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 minute-by-minute 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 computer 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 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 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.

#### **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 "*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 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 "*Risks Relating to the Global Financial Markets and the Group's Operations Outside Cyprus—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*" above). As of 30 June 2014, the Bank's total net exposure (net of the fair value adjustment on initial recognition and of impairments) to subsidiaries of Laiki Bank was €332.2 million. Any inability of these subsidiaries to repay the Bank could have a significant negative effect on the Group's liquidity, capital and funding positions.

#### **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 "*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.

**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 Euro life, 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.

**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 "*The Banking Sector in Cyprus—Key Operational Features of the Banking Sector in Cyprus*".

## **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.**

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 the 2007 Capital Securities, the 2008 Convertible Bonds, the 2009 Convertible Capital Securities and the 2011 EUR CECS (together, the **Euro 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 (the **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 “*Business Description of the Group—Litigation and Related Matters, including Regulatory Proceedings*”.

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.

**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.

**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 CBC, in its capacity as resolution authority (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 EU (each a **Member State**) 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 “*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.

**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 "*Business Description of the Group—Strategy*".

**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 "*—The Bank is subject to certain regulatory and legal constraints in originating new loans, managing existing loans and foreclosing on collateral*" below. 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 the CBC is also expected to issue a new governance code for Cypriot banks in the near future which 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. For more detail on these regulatory liquidity requirements, see "*Operating and Financial Review and Prospects—Liquidity and Capital Resources—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, insurance companies. 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 **Council**), the European Parliament and the European Commission for Directive 2014/59/EU of the European Parliament of 15 May 2014 and of the Council 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 on 15 April 2014 and 6 May 2014, respectively, and entered into force on 2 July 2014 (the 20<sup>th</sup> 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 “*Regulation and Supervision of Banks in Cyprus – 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. The exercise of any such power or any suggestion of such exercise could, therefore, materially adversely affect the value of any Notes subject to the BRRD and could lead to the holders of the Notes losing some or all of their value.

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 manage regulatory risks could have a material adverse effect on the Group’s business, financial condition and results of operations.

**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.

For more detail on these directives, see “*Regulation and Supervision of Banks in Cyprus—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. The impact of these supplementary bills, if enacted into law, is highly uncertain and could create further risks to the Bank both operationally as well as in terms of the adequacy of provisions for impairment of loans.

Four of the supplementary bills have been referred to the Supreme Court of Cyprus (the Supreme Court) by the Cypriot President for a ruling on their constitutionality. 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.

These supplementary bills, if enacted into law in their current form, could prevent the Foreclosure Law being implemented and/or result in amendments to the Foreclosure Law which could result in the Troika concluding that the Foreclosure Law does not substantively meet the MoU’s objectives for the reform of the foreclosure regime in Cyprus (see, “— *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*”). For additional information on the status of amendments to foreclosure legislation, see “*Regulation and Supervision of Banks in Cyprus – Laws relating to Foreclosures*”.

**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 per cent. For more detail on this law, see “*Regulation and Supervision of Banks in Cyprus – 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 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 “*Regulation and Supervision of Banks in Cyprus – Consumer Protection*”.

**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, 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.

**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 per cent. to 12.5 per cent., 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.

**The ordinary shares of the Bank are currently suspended from trading and the Bank may be adversely affected when trading in the ordinary shares resumes.**

As of the date of this Prospectus, 0.3 per cent. of the Bank's total issued share capital is admitted for listing on the main market of the Cyprus Stock Exchange (CSE) and the Athens Exchange (ATHEX) and the Bank's existing shares are currently suspended from trading on both stock exchanges. Accordingly, there is no liquid market for the ordinary shares. 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, constitute 43.4 per cent. 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.

Even if trading does resume, liquidity in the ordinary shares of the Bank may be limited and the share price may be subject to significant volatility. 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, pursuant to the provisions of the Laiki Transfer Decrees, Laiki Bank was granted ordinary shares representing 18.1 per cent. and 9.624 per cent. 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 maximising 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.

**Risk factors relating to the Notes**

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

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

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

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

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

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

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

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

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

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

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

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

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

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

***Fixed/Floating Rate Notes***

Fixed/floating rate Notes may bear interest at a rate that the Bank may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Bank's ability to convert the interest rate will affect

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

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

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

#### *Modification, waivers and substitution*

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally to obtain Written Resolutions on matters relating to the Notes from Noteholders without calling a meeting. A Written Resolution signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes of the relevant Series who for the time being are entitled to receive notice of a meeting in accordance with the provisions of the Trust Deed and whose Notes are outstanding shall, for all purposes, take effect as an Extraordinary Resolution.

In certain circumstances, where the Notes are held in global form in the clearing systems, the Bank and the Trustee (as the case may be) will be entitled to rely upon:

- (i) where the terms of the proposed resolution have been notified through the relevant clearing system(s), approval of a resolution proposed by the Bank or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing systems in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes of the relevant Series for the time being outstanding; and
- (ii) where electronic consent is not being sought, consent or instructions given in writing directly to the Bank and/or the Trustee (as the case may be) by accountholders in the clearing systems with entitlements to such Global Note or Global Certificate or, where the accountholders hold such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held (directly or via one or more intermediaries), provided that the Bank and the Trustee have obtained commercially reasonable evidence to ascertain the validity of such holding and taken reasonable steps to ensure such holding does not alter following the given of such consent/instruction and prior to effecting such resolution;

A Written Resolution or an electronic consent as described above may be effected in connection with any matter affecting the interests of Noteholders, including the modification of the Terms and Conditions, that would otherwise be required to be passed at a meeting of Noteholders satisfying the special quorum in accordance with the provisions of the Trust Deed, and shall for all purposes take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes, (ii) determine without the consent of the Noteholders that any Event of Default or

potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Notes in place of the Bank, in the circumstances described in Condition 11 of the Terms and Conditions of the Notes.

#### *European Monetary Union*

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

#### *EU Savings Directive*

Council Directive 2003/48/EC on the taxation of savings income (the **EU Savings Directive**) requires Member States to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual resident, or certain other types of entity established, in that other Member State, except that Austria and Luxembourg will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise. A number of third countries and territories including Switzerland, have adopted similar measures to the EU Savings Directive. The Luxembourg government has announced its intention to elect out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015.

On 24 March 2014, the Council adopted a directive amending the EU Savings Directive to extend its scope to cover additional types of income payable on securities. The directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the EU. Member States have until 1 January 2016 to adopt domestic legislation to give effect to these changes, which must be applied from 1 January 2017.

If a payment to an individual were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment pursuant to the EU Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to such Directive, neither the Bank nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Bank is required to maintain a Paying Agent with a specified office in a Member State that is not obliged to withhold or deduct tax pursuant to any law implementing the EU Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.



### *U.S. Foreign Account Tax Compliance Act Withholding*

Whilst the Notes are in global form and held within Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme* (together, the **ICSDs**), in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the ICSDs (see “*Taxation – United States Federal Income Considerations – FATCA Withholding*”). However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA), provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Bank’s obligations under the Notes are discharged once it has paid the common depositary or common safekeeper for the ICSDs (as bearer/registered holder of the Notes) and the Bank has therefore no responsibility for any amount thereafter transmitted through hands of the ICSDs and custodians or intermediaries.

### *Reliance on DTC, Euroclear and Clearstream, Luxembourg Procedures*

Notes issued under the Programme will be represented on issue by one or more Global Notes or Global Certificates that may be deposited with a custodian for DTC or a common depositary or common safekeeper for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in each Global Note or Global Certificate, investors will not be entitled to receive Notes in definitive form. Each of DTC, Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note or Global Certificate held through it. While the Notes are represented by a Global Note or a Global Certificate, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by Global Notes or Global Certificates, the Bank will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note or a Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Bank has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note or Global Certificate.

Holders of beneficial interests in a Global Note or a Global Certificate will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

### *The Notes may be subject to write-down or conversion into ordinary shares of the Bank*

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 will 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 (which could include the Notes) of a failing financial institution and/or to convert certain debt claims (which could include the Notes) into another security, including ordinary shares of the surviving Group entity, if any. The majority of measures set out in the BRRD will be implemented with

effect from 1 January 2015, with the bail-in power for eligible liabilities (such as the Notes) expected to be introduced by 1 January 2016 at the latest.

#### *Change of law*

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

#### *Bearer Notes where denominations involve integral multiples*

In relation to any issue of Notes in bearer form which have denominations consisting of a minimum Specified Denomination (as defined in the Terms and Conditions of the Notes) plus one or more higher integral multiples of another smaller amount, it is possible that the Notes may be traded in amounts that are not integral multiples of such minimum Specified Denominations. In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

#### ***Risk factors relating to the market generally***

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

##### *The secondary market generally*

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

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (**Securities Act**) or any other applicable securities laws and they are subject to certain restrictions on the resale and other transfer thereof as set forth under “Subscription and Sale” and “Transfer Restrictions” below.

##### *Lack of Liquidity in the Secondary Market May Adversely Affect the Market Value of the Notes*

Generally weak global credit market conditions could contribute to a lack of liquidity in the secondary market for instruments similar to the Notes.

A failure of the market for securities similar to the Notes to recover from these conditions could adversely affect the market value of the Notes.

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

The Bank will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the **Investor’s Currency**) other than the Specified Currency. Such risks include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or

revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's

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

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

#### *Interest rate risks*

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

#### *Credit ratings may not reflect all risks*

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

In general, European regulated investors are restricted under the Regulation (EC) No 1060/2009 (as amended) on credit rating agencies (the **CRA Regulation**) from using credit ratings for regulatory purposes unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Certain information with respect to the credit rating agencies and ratings if a Tranche of Notes is rated will be disclosed in the applicable Final Terms.

#### ***Legal investment considerations may restrict certain investments***

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

## DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with :

- (a) the audited consolidated annual financial statements of the Bank as at and for the financial year ended 31 December 2012 (the “**2012 Audited Financial Statements**”);
- (b) the audited consolidated annual financial statements of the Bank as at and for the financial year ended 2013 Audited Financial Statements (that includes comparative information for the financial year ended 31 December 2012) (the “**2013 Audited Financial Statements**”, and together with the 2012 Audited Financial Statements, the “**Audited Financial Statements**”),

together, in each case, with the audit report thereon;

- (c) the unaudited interim condensed consolidated financial statements of the Bank as at and for the six month period ended 30 June 2014 (that includes comparative information for the six month period ended 30 June 2013) (the “**June 2014 Unaudited Financial Statements**”) together with the review report thereon; and
- (d) the Terms and Conditions of the Notes contained in the previous Prospectus dated 17 May 2011, pages 29-54 (inclusive) prepared by the Bank in connection with the Programme.

Each of the above documents has been previously published or are published simultaneously with this Prospectus and has been filed with the CSSF. Such documents shall be incorporated by reference in and form part of this Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

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

The table below sets out the relevant page references for the 2013 and 2012 Audited Financial Statements as set out in the Group’s Annual Financial Report 2012 and the Group’s Annual Financial Report 2013 and June 2014 Unaudited Financial Statements. Any information not listed in the cross reference list but included in the documents incorporated by reference is given for information purposes only.

Any other information incorporated by reference that is not included in the cross-reference list above is considered to be additional information to be disclosed to investors rather than information required by the relevant Annexes of the Prospectus Regulation.

<i><b>Audited consolidated annual financial statements of the Bank</b></i>	<b>2013</b>	<b>2012</b>
Consolidated Income Statement.....	19	18
Consolidated Statement of Comprehensive Income .....	20	19
Consolidated Balance Sheet.....	21	20
Consolidated Statement of Changes in Equity.....	22-23	21-22
Consolidated Statement of Cash Flows.....	24	23
Notes to the Consolidated Financial Statements .....	25-190	23-172
Independent Auditor’s Report to the Members of the Bank.....	191-193	173

<b><i>Unaudited interim condensed consolidated financial statements of the Bank</i></b>	<b>30 June 2014</b>
Consolidated Income Statement.....	17
Consolidated Statement of Comprehensive Income .....	18
Consolidated Balance Sheet .....	19
Consolidated Statement of Changes in Equity .....	20-21
Consolidated Statement of Cash Flows .....	22
Notes to the Consolidated Financial Statements .....	23-104
Independent Auditor's Report to the Members of the Bank.....	105-106

## GENERAL DESCRIPTION OF THE PROGRAMME

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

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

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

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

**Issue Price**

Notes may be issued at their nominal amount or at a discount or premium to their nominal amount.

**Form of Notes**

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

**Clearing Systems**

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

**Initial Delivery of Notes**

On or before the issue date for each Tranche, if the relevant Global Note is a NGN, or the relevant Global Certificate is held under the NSS, the Global Note or Global Certificate will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche if the relevant Global Note is a CGN or the relevant Global Certificate is not held under the NSS, the Global Note representing Bearer Notes or Exchangeable Bearer Notes or the Global Certificate representing Registered Notes may (or, in the case of Notes listed on the Luxembourg Stock Exchange, shall) be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Global Notes or Global Certificates relating to Notes that are not listed on the Luxembourg Stock

	Exchange may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Bank, the Issuing and Paying Agent, the Trustee and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.
<b>Currencies</b>	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Bank and the relevant Dealers.
<b>Maturities</b>	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued with any maturity.
<b>Specified Denomination</b>	Definitive Notes will be in such denominations as may be specified in the relevant Final Terms save that in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in an EEA State in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).
<b>Fixed Rate Notes</b>	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms.
<b>Floating Rate Notes</b>	<p>Floating Rate Notes will bear interest determined separately for each Series as follows:</p> <ul style="list-style-type: none"> <li>(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or</li> <li>(ii) by reference to LIBOR or EURIBOR as adjusted for any applicable margin.</li> </ul> <p>Interest periods will be specified in the relevant Final Terms.</p>
<b>Zero Coupon Notes</b>	Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.
<b>Interest Periods and Interest Rates</b>	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms.
<b>Redemption</b>	The relevant Final Terms will specify the basis for calculating the redemption amounts payable.
<b>Redemption by Instalments</b>	The Final Terms issued in respect of each issue of Notes that



	are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.
<b>Optional Redemption</b>	The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Bank (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.
<b>Status of Notes</b>	Notes will constitute senior, unsubordinated and unsecured obligations of the Bank, as described in “Terms and Conditions of the Notes – Status”.
<b>Negative Pledge</b>	See “Terms and Conditions of the Notes – Negative Pledge”.
<b>Cross Default</b>	See “Terms and Conditions of the Notes – Events of Default”.
<b>Ratings</b>	Tranches of Notes (as defined in “General Description of the Programme”) may be rated or unrated. Where a Tranche of Notes is rated such rating will be specified in the relevant Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
<b>Early Redemption</b>	Except as provided in “Optional Redemption” above, Notes will be redeemable at the option of the Bank prior to maturity only for tax reasons. See “Terms and Conditions of the Notes – Redemption, Purchase and Options”.
<b>Withholding Tax</b>	All payments of principal and interest in respect of the Notes, the Receipts and the Coupons will be made free and clear of, and without withholding or deduction for, any taxes of the Republic of Cyprus or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Bank shall pay such additional amounts as shall result in the Noteholders and Couponholders receiving such amounts as they would have received in respect of the Notes had no such withholding or deduction been required subject to customary exceptions (including the ICMA Standard EU Exceptions), all as described in “Terms and Conditions of the Notes – Taxation”.
<b>Governing Law</b>	English
<b>Approval and Listing and Admission to Trading</b>	Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to list Notes issued under the Programme on the Official List and to admit them to trading on the Luxembourg Stock Exchange Regulated Market or as otherwise specified in the relevant Final Terms and references to listing shall be construed accordingly. As specified in the relevant Final Terms, a Series of Notes may be unlisted.
<b>Selling Restrictions</b>	The United States, the Public Offer Selling Restriction under

the Prospectus Directive (in respect of Notes having a specified denomination of less than €100,000 or its equivalent in any other currency as at the date of issue of the Notes), the United Kingdom, Cyprus, Greece, Japan and Switzerland. See “Subscription and Sale”.

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

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

#### **Transfer Restrictions**

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

## TERMS AND CONDITIONS OF THE NOTES

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

The Notes are constituted by an amended and restated Trust Deed (as further amended or supplemented as at the date of issue of the Notes (the “Issue Date”), the “Trust Deed”) dated 14 October 2014 between Bank of Cyprus Public Company Limited (the “Bank”) and Deutsche Trustee Company Limited (the “Trustee”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Receipts, Coupons and Talons referred to below. An amended and restated Agency Agreement (as further amended or supplemented as at the Issue Date, the “Agency Agreement”) dated 14 October 2014 has been entered into in relation to the Notes between the Bank, the Trustee, Deutsche Bank AG, London Branch as initial issuing and paying agent and the other agents named in it. The issuing and paying agent, the paying agents, the registrar, the transfer agents, the exchange agent and the calculation agent(s) for the time being (if any) are referred to below respectively as the “Issuing and Paying Agent”, the “Paying Agents” (which expression shall include the Issuing and Paying Agent), the “Registrar”, the “Transfer Agents” (which expression shall include the Registrar), the “Exchange Agent” and the “Calculation Agent(s)”. Copies of the Trust Deed and the Agency Agreement are available for inspection during usual business hours at the principal office of the Trustee (presently at Winchester House, 1 Great Winchester Street, London EC2N 2DB) and at the specified offices of the Paying Agents and the Transfer Agents.

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

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

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

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

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Instalment Note or a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

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

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

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

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

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

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

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

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

One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with

the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Bank), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Bank, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

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

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

*(d) Delivery of New Certificates*

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

*(e) Exchange Free of Charge*

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

*(f) Closed Periods*

No Noteholder may require the transfer of a Registered Note to be registered or an Exchangeable Bearer Note to be exchanged for one or more Registered Note(s) (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Bank at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days

ending on (and including) any Record Date. An Exchangeable Bearer Note called for redemption may, however, be exchanged for one or more Registered Note(s) in respect of which the Certificate is simultaneously surrendered not later than the relevant Record Date.

### 3 Status

The Notes, and the Receipts and Coupons relating to them, constitute (subject to Condition 4) unsecured obligations of the Bank and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Bank under the Notes, and the Receipts and Coupons relating to them, shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Bank, present and future.

### 4 Negative Pledge

#### (a) Restriction

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

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

"Excluded Subsidiary" means any Subsidiary of the Bank:

- (a) which is a single purpose company or limited liability undertaking whose principal assets and business are constituted by a securitisation or similar financing and
- (b) none of whose liabilities in respect of such financing are the subject of Security or a guarantee or underwriting or other similar form of assurance from the Bank or any other Subsidiary of the Bank

"Material Subsidiary" has the meaning given to it in Condition 10

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

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

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

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

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

## 5 Interest and other Calculations

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

- (i) Each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f).

### (b) *Interest on Floating Rate Notes*

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

#### (A) ISDA Determination

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), "ISDA Rate" for an Interest Accrual Period means a rate equal to the

Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

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

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

(B) Screen Rate Determination

- (x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:
  - (1) the offered quotation; or
  - (2) the arithmetic mean of the offered quotations, (expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.
- (y) if the Relevant Screen Page is not available or if, sub-paragraph (x)(1) applies and no such offered quotation appears on the Page at the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and
- (z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the



Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee and the Bank suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(C) *Linear Interpolation*

Where Linear Interpolation is specified hereon as applicable in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified hereon as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified hereon as applicable), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual Period provided however that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

“Applicable Maturity” means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate, and (b) in relation to ISDA Determination, the Designated Maturity.

(c) *Zero Coupon Notes*

Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal

of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

*(d) Accrual of Interest*

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

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

- (i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.
- (ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 of a percentage point being rounded up), (y) all figures shall be rounded to seven significant figures (provided that if the eighth significant figure is a 5 or greater, the seventh significant shall be rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with half a unit being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “unit” means the lowest amount of such currency that is available as legal tender in the countries of such currency.

*(f) Calculations*

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

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

The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional

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

*(h) Definitions*

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

“Business Day” means:

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

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

- (i) if “Actual/Actual” or “Actual/Actual-ISDA” is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365)

- (ii) if “Actual/365 (Sterling)” is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366
- (iii) if “Actual/365 (Fixed)” is specified hereon, the actual number of days in the Calculation Period divided by 365
- (iv) if “Actual/360” is specified hereon, the actual number of days in the Calculation Period divided by 360
- (v) if “30/360”, “360/360” or “Bond Basis” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

“Interest Amount” means:

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

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

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

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

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

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

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

“Reference Banks” means in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified hereon.

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

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

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

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

(i) *Calculation Agent*

The Bank shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If

the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Bank shall (with the prior approval of the Trustee) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

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

### *(a) Redemption by Instalments and Final Redemption*

- (i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.
- (ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

### *(b) Early Redemption*

#### *(i) Zero Coupon Notes:*

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

amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

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

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

(c) *Redemption for Taxation Reasons*

The Notes may be redeemed at the option of the Bank in whole, but not in part, on any Interest Payment Date (if this Note is a Floating Rate Note) or at any time (if this Note is not a Floating Rate Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption) if (i) the Bank satisfies the Trustee immediately before the giving of such notice that it has or will become obliged to pay additional amounts as described under Condition 8 as a result of any change in, or amendment to, the laws or regulations of the Republic of Cyprus or any authority therein or thereof having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date of the first Tranche of the Series to which the relevant Notes relate, and (ii) such obligation cannot be avoided by the Bank taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Bank would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Before the publication of any notice of redemption pursuant to this Condition 6(c), the Bank shall deliver to the Trustee a certificate signed by two Directors of the Bank stating that the obligation referred to in (i) above cannot be avoided by the Bank taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above in which event it shall be conclusive and binding on Noteholders and Couponholders.

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

If Call Option is specified hereon, the Bank may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount (which may be the Early Redemption Amount (as described in Condition 6(b) above)) together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

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

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



*(e) Redemption at the Option of Noteholders*

If Put Option is specified hereon, the Bank shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Bank (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount (which may be the Early Redemption Amount (as described in Condition 6(b) above)) together with interest accrued to the date fixed for redemption.

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

*(f) Purchases*

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

*(g) Cancellation*

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

## **7 Payments and Talons**

*(a) Bearer Notes*

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

*(b) Registered Notes*

- (i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
- (ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof or in the case of Registered Notes to be cleared through the Depository Trust Company (“DTC”), on the fifteenth DTC business day before the due date for payment thereof (each a “Record Date”). For the purpose of this Condition 7(b), “DTC business day” means any day on which DTC is open for business. Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.
- (iii) Registered Notes, if specified in the relevant Final Terms, will be issued in the form of one or more Restricted Global Certificates and may be registered in the name of, or in the name of a nominee for, DTC. Payments of principal and interest in respect of Registered Notes denominated in U.S. dollars will be made in accordance with Conditions 7(b)(i) and 7(b)(ii). Payments of principal and interest in respect of Registered Notes registered in the name of, or in the name of a nominee for, DTC and denominated in a Specified Currency other than U.S. dollars will be made or procured to be made by the Issuing and Paying Agent in the Specified Currency in accordance with the following provisions. The amounts in such Specified Currency payable by the Issuing and Paying Agent or its agent to DTC or DTC’s nominee with respect to Registered Notes held by DTC or DTC’s nominee will be received from the Bank by the Issuing and Paying Agent who will make payments in such Specified Currency by wire transfer of same day funds, in the case of Notes registered in the name of DTC’s nominee, to such nominee, or otherwise to the designated bank account in such Specified Currency of those DTC participants entitled to receive the relevant payment who have made an irrevocable election to DTC, in the case of interest payments, on or prior to the third DTC business day after the Record Date for the relevant payment of interest and, in the case of payments of principal, at least twelve DTC business days prior to the relevant payment date, to receive that payment in such Specified Currency. The Issuing and Paying Agent, after the Exchange Agent has converted amounts in such Specified Currency into U.S. dollars, will cause the Exchange Agent to deliver such U.S. dollar amount in same day funds to DTC’s nominee for payment through the DTC settlement system to those DTC participants entitled to receive the relevant payment who did not elect to receive such payment in such Specified Currency. The Agency Agreement sets out the manner in which such conversions are to be made.

*(c) Payments in the United States*

Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Bank shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of

such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Bank, any adverse tax consequence to the Bank.

*(d) Payments subject to Fiscal Laws*

Save as provided in Condition 8, all payments will be subject in all cases to any other applicable fiscal or other laws, regulations and directives in the place of payment or other laws and regulations to which the Bank agrees to be subject and the Bank will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreement. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments. In addition, all payments will be subject to any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code, or otherwise imposed pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law, rule or regulation implementing an intergovernmental approach thereto.

*(e) Appointment of Agents*

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

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

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

- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes, they should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

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

(g) *Talons*

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

(h) *Non-Business Days*

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

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

## 8 **Taxation**

All payments of principal and interest by or on behalf of the Bank in respect of the Notes, the Receipts and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties,

assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Republic of Cyprus or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Bank shall pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

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

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

Notwithstanding the foregoing provisions of this Condition 8 (*Taxation*), any payments by the Issuer will be paid net of any withholding or deduction imposed pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code, or otherwise imposed pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code, any regulations or agreements thereunder, any official interpretations thereof, or any fiscal or regulatory legislation, rules or practices adopted pursuant to an intergovernmental agreement entered in connection with the implementation of Sections 1471 through 1474 of the U.S. Internal Revenue Code, and no additional amounts will be required to be paid on account of any such deduction or withholding.

## 9 Prescription

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

## 10 Events of Default

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

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

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

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

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

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

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

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

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

### *(a) Meetings of Noteholders*

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being

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

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

*(b) Modification of the Trust Deed*

The Trustee may agree, without the consent of the Noteholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed that is of a formal, minor or technical nature or is made to correct a manifest or proven error or to comply with mandatory provisions of law, provided that in such case the Bank procures (at the Bank's expense) the delivery of a legal opinion or legal opinions addressed to the Trustee in form and content reasonably acceptable to the Trustee relating to such compliance with mandatory provisions of law from reputable and independent counsel reasonably acceptable to the Trustee, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable thereafter.

*(c) Substitution*

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders or the Couponholders, to the substitution of (i) the Bank's Successor in Business (ii) any Holding Company of the Bank or a Successor in Business of any Holding Company or (iii) or any Subsidiary (as defined in Condition 4) of the Bank or its Successor in Business in place of the Bank, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree,



without the consent of the Noteholders or the Couponholders, to a change of the law governing the Notes, the Receipts, the Coupons, the Talons and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

*(d) Entitlement of the Trustee*

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

## **12 Enforcement**

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

## **13 Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Bank and any entity related to the Bank without accounting for any profit. The Trustee may rely without liability to Noteholders on a certificate, report or opinion of the Auditors (as set out in the Trust Deed) whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise.

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

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

## **15 Further Issues**

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

## **16 Notices**

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

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

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

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

## **18 Governing Law and Jurisdiction**

### *(a) Governing Law*

The Trust Deed, the Notes, the Receipts, the Coupons and the Talons and any non-contractual obligation arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

### *(b) Jurisdiction*

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

*(c) Service of Process*

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

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

### **Initial Issue of Notes**

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

Global notes which are issued in CGN form and Global Certificates which are not held under the NSS may be delivered on or prior to the original issue date of the Tranche to a Common Depositary.

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

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

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

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

## **Exchange**

### *Temporary Global Notes*

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

- (i) if the relevant Final Terms indicate that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see “General Description of the Programme – Selling Restrictions”), in whole, but not in part, for the Definitive Notes defined and described below; and
- (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Final Terms, for Definitive Notes.

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

### *Permanent Global Notes*

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

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

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

### *Unrestricted Global Certificates*

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

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

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

- (ii) with the consent of the Bank,

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

#### *Restricted Global Certificates*

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

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

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

- (iii) with the consent of the Bank,

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

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

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions for Registered Notes if the permanent Global Note is an Exchangeable Bearer Note and the part submitted for exchange is to be exchanged for Registered Notes.

#### *Delivery of Notes*

If the Global Note is a CGN, on or after any due date for exchange, the holder of a Global Note may, in the case of an exchange in whole, surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Bank will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes or Registered Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes and/or Certificates, as the case may be or if the Global Note is a NGN, the Bank will procure

that details of such exchange be entered *pro rata* in the records of the relevant clearing system. Global Notes and Definitive Notes will be delivered outside the United States and its possessions. In this Prospectus, “Definitive Notes” means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed and Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each permanent Global Note, the Bank will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

#### *Exchange Date*

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

#### *Amendment to Conditions*

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

#### *Payments*

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

All payments in respect of the Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where “Clearing System Business Day” means Monday to Friday inclusive except 1 January and 25 December.

### *Prescription*

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

### *Meetings*

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

### *Cancellation*

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

### *Purchase*

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

### *Bank's Option*

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

### *Noteholders' Options*

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



#### *NGN nominal amount*

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

#### *Trustee's Powers*

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

#### *Notices*

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

#### *Electronic Consent and Written Resolution*

While any Global Note is held on behalf of, or any Global Certificate is registered in the name of any nominee for, a clearing system, then:

- (a) approval of a resolution proposed by the Bank or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding (an "Electronic Consent" as defined in the Trust Deed) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which the Special Quorum was satisfied), take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held, and shall be binding on all Noteholders and holders of Coupons, Talons and Receipts whether or not they participated in such Electronic Consent; and
- (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Bank and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Bank and/or the Trustee, as the case may be, by accountholders in the relevant clearing system(s) with entitlements to such Global Note or Global Certificate or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and provided that, in each case, the Bank and the Trustee have obtained commercially reasonable evidence to ascertain the validity of such holding and have taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and

prior to the effecting of such amendment. Any resolution passed in such manner shall be binding on all Noteholders and Couponholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, “**commercially reasonable evidence**” includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any other relevant clearing system, and/or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Notes. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear’s EUCLID or Clearstream, Luxembourg’s CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. Neither the Bank nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

## CLEARING AND SETTLEMENT

### Book-Entry Ownership

#### *Bearer Notes*

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

#### *Registered Notes*

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

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

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

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

All Registered Notes will initially be in the form of an Unrestricted Global Certificate and/or a Restricted Global Certificate. Individual Certificates will only be available, in the case of Notes initially represented by an Unrestricted Global Certificate, in amounts specified in the applicable Final Terms, and, in the case of Notes initially represented by a Restricted Global Certificate, in amounts of U.S.\$100,000 (or its equivalent rounded upwards as agreed between the Bank and the relevant Dealer(s)), or higher integral multiples of U.S.\$1,000, in certain limited circumstances described below.

#### *Transfers of Registered Notes*

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

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

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

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

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Global Certificates will be effected through the Issuing and Paying Agent, the Custodian, the Registrar and any applicable Transfer Agent receiving instructions (and where appropriate certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. Transfers will be effected on the later of (i) three business days after the trade date for the disposal of the interest in the relevant Global Certificate resulting in such transfer and (ii) two business days after receipt by the Issuing and Paying Agent or the Registrar, as the case may be, of the necessary certification or information to effect such transfer. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

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

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

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

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

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

### *Individual Certificates*

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

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

### *Pre-issue Trades Settlement*

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

## **USE OF PROCEEDS**

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

## BUSINESS DESCRIPTION OF THE GROUP

### 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 Cyprus Companies Law, Cap. 113, 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 by 27(I) of 2013. Since 19 March 2013, the Existing Shares of the Bank 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. In addition, the Group is in the process of closing its South Africa representative office, which is expected to be completed in October 2014. At 30 June 2014, gross loans and advances to customers in Cyprus before fair value adjustments on initial recognition accounted for 89.2 per cent. 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 "*—International Operations—Ukraine*"). As of 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.

### Competitive Strengths

The Bank believes that its key strengths include the following:

#### **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 per cent. and a market share (based on CBC data) in Cyprus in deposits of 25.5 per cent. 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 "*The Macroeconomic Environment in Cyprus*".

### **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 United Kingdom 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 "*Management and Corporate Governance*".

### **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.

### **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 "*— Recent Developments — Capital Raising*"). The proceeds from the Capital Raising have been applied to repay approximately €900 million of ELA funding (see "*— Capital Raising*"). As of 30 June 2014, the Bank's CET 1 ratio was 11.3 per cent. 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/CRR1 – transitional basis) to 15.6 per cent. and its CET 1 ratio (CRD IV/CRR – fully loaded basis) to 15.1 per cent., 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, facilitating the Bank's access to 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.

## **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:

### **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.

### **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 per cent. 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 as at 30 June 2014 were €3.3 billion. See "*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.

### **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 per cent. of its funding as 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 €2,800 million of central bank funding since April 2013, including €950 million with the proceeds from the repayment of a Cyprus sovereign bond held by it. The Bank currently has €7,680 million of ELA funding and €920 million of ECB funding. It has 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.

## **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 International Banking Services 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.

## **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 Ltd (**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 per cent. interest in Uniastrum in Russia.

In June 2010, the Group completed the sale of 100 per cent. 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 per cent. 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 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 recapitalisation and restructuring of the Group during this period, see *“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 on 26 November 2013.

In January 2014, the Bank released the six-month time deposits that comprised part of the New Deposits (as defined in *“Restructuring of the Bank and Laiki Bank—Recapitalisation of the Bank—Holders of deposits and other products of the Bank as of 26 March 2013”*) issued by the Bank pursuant to the Recapitalisation, and which had been subject to restrictive measures pursuant to the Capital Controls Decree (as defined in *“Regulation and Supervision of Banks in Cyprus—Capital Control Measures”*). 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 per cent. 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 per cent. 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 realised 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.

## 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. Each of Fitch and Moody's is established in the EU and is registered under Regulation (EC) No. 1060/2009 (as amended).

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 "*Capital Raising*" below).

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 maturing and 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.

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 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 per cent. 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 17 September 2014, the Bank entered into an agreement to sell 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 sale and transfer of the UK Loan Portfolio is expected to be completed by 31 October 2014. The transaction will enhance the Group's liquidity and will have a small positive impact on the Group's CET1 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 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 “– *Capital Raising*”, below.

On 22 September 2014, in a letter to the Bank, the CBC requested that all members of the current Board of Directors resign (with the possibility of re-election) effective as of the date of the forthcoming annual general meeting, in order to allow a new Board of Directors to be chosen by shareholders, including new shareholders following the Capital Raising. It also requested that the current Board of Directors refrain from taking any major strategic decisions before the new Board is elected at an annual general meeting of the Bank's shareholders (the AGM). On 23 September 2014, the Bank published a notice announcing that the AGM will be held on 20 November 2014.

## **Capital Raising**

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**) (for a total of €1,000 million) to (i) certain institutional investors in the European Union who are “qualified investors” (as defined in 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**).
- (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 per cent. of the total number of Placing Shares rounded down to the nearest whole ordinary share) at the price per share of €0.24 (for a total of €200.0 million). 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 (for a total of €103.9 million).
- (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 (for a total of €100.0 million), 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 subscription price for the ordinary shares is the same for all phases (€0.24 per share) and for both new investors and existing shareholders of the Bank. The Placing and the Open Offer are together referred to as the **Capital Raising** in this Prospectus and have raised a total gross proceeds of €1 billion for the Bank.

On 28 August 2014, at an extraordinary general meeting of the shareholders of the Bank (the **EGM**), 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 related reduction of the nominal value of each of ordinary shares of the Bank from €1.00 to €0.10 (the **Nominal Value Reduction**);
- (c) approved the Retail Offer;
- (d) approved the disapplication of the existing shareholders’ pre-emption rights; and
- (e) approved the removal of the age limit for directors of the Board.

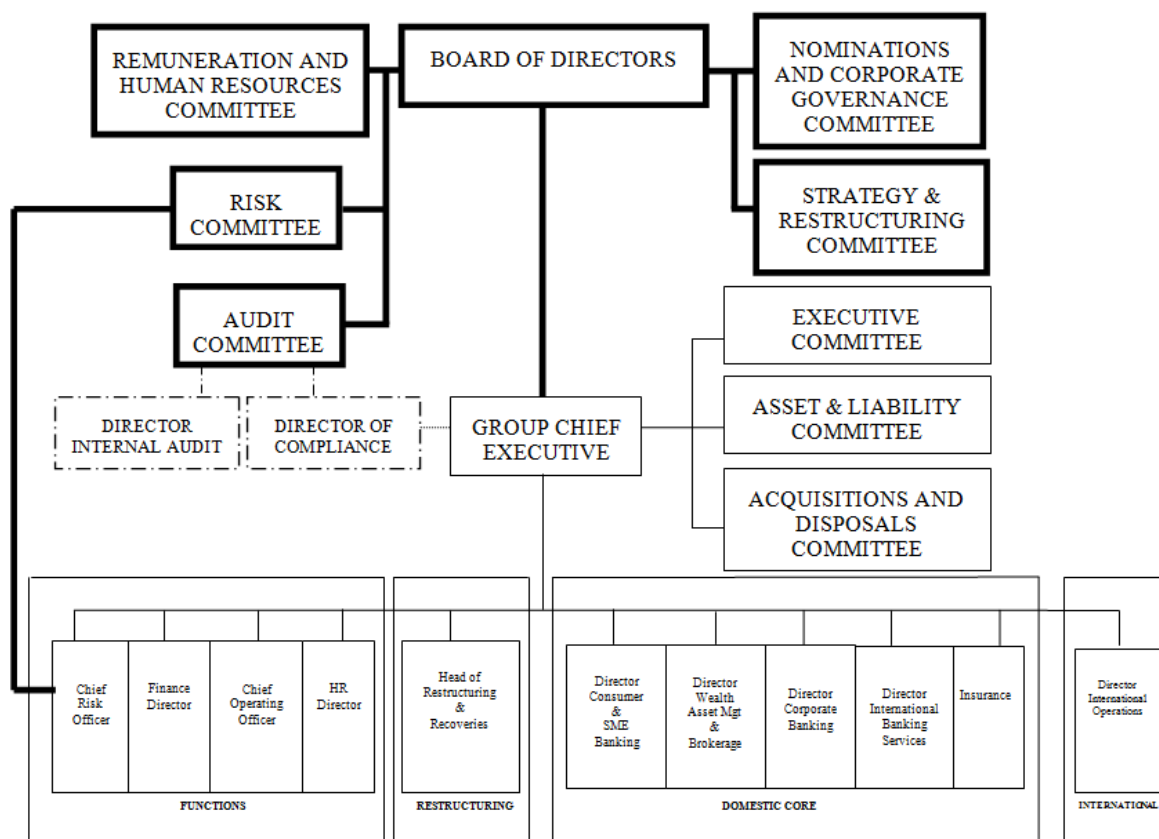
On 29 August 2014, the District Court of Nicosia issued an order approving the Nominal Value Reduction, which was filed with the Department of the Registrar of Companies and Official Receiver on 1 September 2014.

Following the satisfaction of the conditions precedent to the Placing and Open Offer, the Placing and the Open Offer was completed on 18 September 2014 with the issue of 4,166,666,667 new ordinary shares to Allocated Parties and the receipt of €896,069,736 in cleared funds by the Bank in payment for the Placing

Shares (the Bank was already in receipt of subscription monies of €103,930,264 in total with respect to the Open Offer Shares).

## 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 “*Management and Corporate Governance*” for further information on the role of the Board of Directors and the committees of the Board of Directors.

## 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. Laiki Bank, Renova Group, TD Asset Management Inc. and the European Bank of Reconstruction and Development (**EBRD**), each hold, directly or indirectly, 9.624 per cent., 5.455 per cent., 5.232 per cent. and 5.021 per cent., respectively, of the issued share capital of the Bank. Other than Laiki Bank, Renova Group, TD Asset Management Inc. and EBRD, the Bank is not aware of any other shareholders holding, directly or indirectly, more than 5 per cent. of the issued share capital of the Bank. The Bank does not have any shares in issue which carry special control rights.



## Legal Organisational Structure

The following table indicates the main companies and branches included within the Group as of 30 June 2014:

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

	Kingdom	products and life insurance	
Misthosis Funding Plc	United Kingdom	Special purpose entity	—
Misthosis Funding (Holding) Ltd	United Kingdom	Special purpose entity	—
Bank of Cyprus (Channel Islands) Ltd	Bailiwick of Guernsey	Commercial bank	100
Tefkros Investments (CI) Ltd	Bailiwick of Guernsey	Investment fund	100
Bank of Cyprus Romania (branch of the Bank)	Romania	Commercial bank	N/A
Cyprus Leasing Romania IFN SA	Romania	Leasing	100
CB Uniastrum Bank LLC	Russia	Commercial bank	80
Leasing Company Uniastrum Leasing	Russia	Leasing	80
MC Investment Assets Management LLC	Russia	Special purpose entity	—
KyprouFinance (NL) B.V.	Netherlands	Financing services	100

In addition to the above companies, as at 30 June 2014, the Bank had 100 per cent. 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, Ligsimo 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, Threelfield 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, Natakou 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, Mendes 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, Etoric 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 and Salecom 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 at 30 June 2014, the Bank had 100 per cent. 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 and Frozenport 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 30 June 2014 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.

<b>Name</b>	<b>Country of incorporation</b>	<b>Interest held by Group (%)</b>	<b>Reported book value (€000)</b>
CNP Cyprus Insurance Holdings Ltd .....	Cyprus	49.9	104,538
		90.0	
		approximately of	
		the units of the	
Marfin Diversified Strategy Fund plc.....	Isle of Man	fund	94,014
Byron Capital Partners Ltd.....	United Kingdom	70.0	5,322
Interfund Investments Plc .....	Cyprus	23.1	2,987
Aris Capital Management LLC .....	United States	30.0	2,078
Rosequeens Properties SRL.....	Romania	33.3	—
Grand Hotel Enterprises Society Ltd .....	Romania	35.3	—

### CNP Cyprus Insurance Holdings Ltd (CNP)

As part of the acquisition of certain operations of Laiki Bank pursuant to the Laiki Transfer Decrees, 49.9 per cent. 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 per cent. 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 per cent. was transferred to the Group following the acquisition of certain operations of Laiki Bank.

### Rosequeens Properties SRL

The Group owns 33.3 per cent. 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.

### **Grand Hotel Enterprises Society Ltd**

On 1 April 2010, the Group acquired, through an investment in S.C. ONT Carpati S.A., 35.3 per cent. of the share capital of **GHES**, which owns a hotel in Romania. S.C. ONT Carpati S.A. was liquidated during 2013 and Unknownplan Properties Ltd (a subsidiary of the Bank) acquired from S.C. ONT Carpati S.A. for a value of €13.9 million the subordinated loan agreement from GHES and the 35.3 per cent. shareholding in GHES previously owned by S.C. ONT Carpati S.A. The Group had granted a senior loan to GHES in 2007 of €97.7 million, which was secured amongst others by a mortgage on the hotel owned by GHES. In addition, GHES owed an amount of €2.0 million to the Bank's Romanian branch pursuant to a facility agreement.

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 per cent. shareholding in GHES and (iii) the subordinated loan agreement from GHES. The sale consideration was €95.0 million.

### **Marfin Diversified Strategy Fund plc and Byron Capital Partners Ltd**

The Group's investments in joint ventures comprise Byron Capital Partners Ltd and Marfin Diversified Strategy Fund plc, 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.

## **Banking and financial services**

### **Overview**

The majority of the Group's revenue is derived from banking and financial services, which accounted for 94.5 per cent. and 91.9 per cent. of total revenue from continuing operations for the years ended 31 December 2013 and 2012, respectively, and 96.7 per cent. 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 per cent. and 90.4 per cent. of the Group's total assets as at 31 December 2013 and 2012, respectively, and 87.1 per cent. 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 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 per cent. 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 per cent. 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 per cent. as at 31 December 2012 to 145.4 per cent. as at 31 December 2013 and 145.4 per cent. as at 30 June 2014. The 90+DPD Ratio increased from 27.4 per cent. as at 31 December 2012 to 48.6 per cent. and 49.8 per cent. 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
	<u>26.7</u>	<u>100.0</u>	<u>12.6</u>	<u>50.6</u>
Restructuring and recovery <sup>(1)</sup>				
of which:				
- Corporate	—	—	5.8	23.5
- SME	—	—	1.5	6.0
- Recoveries	—	—	4.1	16.3
Total restructuring and recovery	<u>—</u>	<u>—</u>	<u>11.4</u>	<u>45.8</u>
International banking services	—	—	0.8	3.3
Wealth management	—	—	0.1	0.3
<b>Total</b> .....	<u><u>26.7</u></u>	<u><u>100.0</u></u>	<u><u>24.9</u></u>	<u><u>100.0</u></u>

(1) During the second quarter of 2014, a significant proportion of the Group's credit portfolio was transferred to the RRD (see "— Restructuring and Recoveries Division"). For a discussion of the Group's loans and advances to customer by type of customer, please see "Operating and Financial Review and Prospects — Balance Sheet Items — 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
	<u>23.0</u>	<u>100.0</u>	<u>9.9</u>	<u>44.6</u>
Restructuring and recovery <sup>(1)</sup>				
of which:				
- Corporate	—	—	5.8	26.3
- SME	—	—	1.5	6.8
- Recoveries	—	—	4.1	18.3
Total restructuring and recovery	<u>—</u>	<u>—</u>	<u>11.4</u>	<u>51.4</u>
International banking services	—	—	0.8	3.6

	31 December 2013		30 June 2014	
	€ billion	% of total	€ billion	% of total
Wealth management	—	—	0.1	0.4
<b>Total</b> .....	<u>23.0</u>	<u>100.00</u>	<u>22.2</u>	<u>100.0</u>

Note:

- (1) During the second quarter of 2014, a significant proportion of the Group's credit portfolio was transferred to the RRD (see “—Restructuring and Recoveries Division”). For a discussion of the Group's loans and advances to customer by type of customer, please see “Operating and Financial Review and Prospects—Balance Sheet Items—Loans and Advances to Customers—Customer Analysis”.

The 90+DPD Ratio for retail loans in Cyprus was 29.5 per cent. and 17.9 per cent., for SME loans in Cyprus was 59.4 per cent. and 51.4 per cent. and for corporate loans in Cyprus was 61.3 per cent. and 53.2 per cent., as at 31 December 2013 and 30 June 2014, respectively. As of 30 June 2014, 87.7 per cent. of the Group's credit portfolio was funded and 12.3 per cent. was unfunded (87.0 per cent. and 13.0 per cent. 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 per cent. and 54.9 per cent., respectively, of the Group's total deposits in Cyprus and 70.5 per cent. and 65.6 per cent., 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.

### 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 “*Operating and Financial Review and Prospects—Balance Sheet Items—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 information technology 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.

### **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 "*The Banking Sector in Cyprus—Cyprus Banking Sector Structure—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 per cent. and 30.0 per cent. 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.

## 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;
- 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.

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 “—*Restructuring and Recoveries Division—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 “*The Banking Sector in Cyprus—Cyprus Banking Sector Structure--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 per cent. of the Group’s total loan portfolio in Cyprus was concentrated in the real estate and construction sectors (see “*Risk Factors—Risks Relating to the Group’s Business—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 “—Restructuring and Recoveries Division” below.
- *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.

### **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. In addition, IBS is in the process of closing its South Africa representative office, which is expected to be completed in October 2014. 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 per cent. and 26.0 per cent., 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 and trained 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 30 June 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.

### **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 advisers. 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 advisers, including both the transfer of clients in and out of RRD and the criteria around these transfers.

### ***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.

### ***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.

### ***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.

## **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 per cent. and 4.1 per cent., 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 per cent. and 2.9 per cent., 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 per cent. and 1.8 per cent., 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.

### **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 customised 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.

### **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.

### **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 centralised 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.



## **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.

## **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 per cent. in 2013 (2012: 23.0 per cent.).

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.

## **Laiki Financial Services Ltd**

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

## **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.

In accordance with the Restructuring Plan, the operations of LFS are expected to be consolidated with the operations of CISCO during the fourth quarter of 2014.

## **Insurance Services**

Insurance services accounted for 5.6 per cent. and 6.8 per cent. of the Group's total revenue in Cyprus for the year ended 31 December 2013 and 2012, respectively, and 3.1 per cent. and 8.4 per cent. 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 GIC, both wholly-owned subsidiaries of the Bank.

### **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 per cent. share of premium income of the Cypriot life assurance market for the year ended 31 December 2013 and a 23.6 per cent. share of premium income of the Cypriot life assurance market for the three months ended 31 March 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 per cent. and 82.0 per cent., respectively, of EuroLife's new business was exclusively attributable to its agency network and that referrals from the Bank accounted for approximately 13.7 per cent. and 18.0 per cent., 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.

### **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 per cent. and 40.4 per cent., respectively, and GIC's combined ratio in Cyprus was 89.7 per cent. for both years. For the six months ended 30 June 2013 and 2014, GIC's net claims ratio in Cyprus was 44.2 per cent. and 36.3 per cent., respectively, and GIC's combined ratio in Cyprus was 89.8 per cent. and 74.3 per cent., 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 per cent., 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 three months ended 31 March 2014, GIC ranked second in terms of premiums generated in the general insurance market in Cyprus, with a market share of 9.52 per cent.

GIC offers its products through the Bank's branch network (53.9 per cent.), by direct channels (23.2 per cent.) and through agents (22.9 per cent.). GIC has 164 agents and brokers who are paid 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, liability for ships, general liability, land vehicles, goods in transit, miscellaneous financial loss, fire and natural forces, 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 per cent. of gross premium income (47.6 per cent. during the year ended 31 December 2012) and during the three months ended 31 March 2014 accounted for approximately 51.5 per cent. of gross premium income (49.3 per cent. during the three months ended 31 March 2013). As of 31 March 2014, GIC had an approximately 18.9 per cent. 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 per cent. of GIC's fire policies as of 30 June 2014 fall within its retention level. The remaining business is principally 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.

## **CNP**

As part of the acquisition of the ex-Laiki Bank operations under the Laiki Transfer Decrees, 49.9 per cent. of CNP, the parent company of a group of insurance companies in Cyprus and Greece, was acquired by the Group. As 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 31 March 2014, according to the preliminary statistical information of the Insurance Association of Cyprus, CNP ranked first in terms of premiums generated in the general insurance market in Cyprus with a market share of 12.1 per cent. and ranked third in terms of premiums generated in the life insurance market in Cyprus with a market share of 20.0 per cent. CNP Assurances S.A. (**CNP France**), a French insurance company, owns the other 50.1 per cent. of CNP.

CNP France has recently instituted arbitration proceedings in relation to CNP against the Bank in London. For more information, see “—*Litigation and Related Matters, including Regulatory Proceedings—CNP – Arbitration*”.

## **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 the Bank's international subsidiaries.

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.

## 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 131 branches, including 85 regional offices in 48 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 52 outlets and retired approximately 1,197 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 the first eight months of 2014:

- recruited a new chief executive officer, a new chief operating officer, a new chief financial officer and a new head of compliance;
- revised Uniastrum's organisational 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 is also examining the adequacy of its current provisioning levels under Russian accounting standards. Based on the results of this exercise, Uniastrum is proceeding with immediate capital strengthening actions, including the sale 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 per cent. and 5.2 per cent., 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 may be required to provide additional funding or capital to Uniastrum, in particular, if the CBR determines that Uniastrum requires additional capital as a result of its review of Uniastrum's loan portfolio which commenced on 31 July 2014.

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 “Risk Factors – Risks Relating to the Group’s Business – The Group is exposed to operational risk” and “Risk Factors – Risks Relating to the Group’s Business – 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 per cent. and 27.7 per cent., 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 per cent. and 18.8 per cent., 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 per cent. and 53.5 per cent., respectively, of the Group’s total Russian loan portfolio.

## **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 authorised 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 per cent. and 2.9 per cent., 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.

### ***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. These advances will continue to be administered by the United Kingdom branch of Laiki Bank under a service level agreement with the Bank. As of 31 December 2013 and 30 June 2014, customer loans and advances 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 17 September 2014, the Bank entered into an agreement to sell the UK Loan Portfolio. The nominal value of the UK Loan Portfolio, as at the cut-off date for the transaction, was £289 million and the sale and transfer of the UK Loan Portfolio is expected to be completed by 31 October 2014.

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.

### **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.

### **Greece**

The Group exited Greece, a market in which it has operated for the last 22 years, through the disposal of loans, fixed assets and deposits of its banking and leasing operations in Greece to Piraeus Bank pursuant to the Greek Operations Decree. 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 repossessed properties 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 "*—Property*" below for more detail on the Group's real estate in Greece.

### **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 per cent. 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 Group's Romanian branch, (ii) the Group's 35.3 per cent. shareholding in GHES and (iii) the subordinated loan agreement from GHES. The sale consideration was €95.0 million.

### **Ukraine**

In April 2014, the Bank completed the sale of its Ukrainian business, consisting of its holding of 99.8 per cent. 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.

### **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.

### **Property**

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. In addition, 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 (see "*International Operations – Romania*" above); 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 €485.2 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 "*Risk Factors—Risks Relating to the Economic Crisis in Cyprus—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.

### **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 “*Risk Factors—Risks Relating to the Group’s Business—The Group is exposed to the risk of fraud and illegal activities*” and “*Regulation and Supervision of Banks in Cyprus—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; and
- MiFID obligations on personal transactions.

The following policies are in process of being finalised:

- Regulatory Governance Compliance policy;
- Fit and Probity policy;
- Conflict of Interest policy; and
- Corporate Governance Compliance policy.

## **Material Contracts**

Set out below is a summary of all material contracts that are not entered into in the ordinary course of the Bank's business, which could result in any Group member being under an obligation or entitlement that is material to the Bank's ability to meet its obligation to Noteholders in respect of the Notes being issued.

## **EBRD Framework Agreement**

The 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, 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.

## **Litigation and Related Matters, including Regulatory Proceedings**

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 Resolution Decrees (the **Resolution Decrees** or 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.

### **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 advisers 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.

### **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.

### **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 European Banking Authority (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 and management of the Bank. The Bank has filed a recourse before the Supreme Court regarding one decision of CySEC and the fine imposed upon it, and intends to file another recourse before the Supreme Court regarding the second decision.

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. The Bank intends to file a recourse before the Supreme Court in respect of the reprimand administered to it.

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 goodwill impairment of Uniastrum.
- 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.

## **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 19 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 18 of these interim orders, whilst a court hearing regarding the one remaining interim order is scheduled for September 2014. The Bank believes that all interim orders issued in depositors' cases will be discharged and 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***

There are also 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 is 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 is appearing 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 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 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.

#### **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 per cent. 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.

The competition cases are still at an early stage.

A fine, if any, could be imposed as a percentage of the turnover of the Bank.

#### **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 per cent. of the shares and Laiki Bank held 49.9 per cent. 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 per cent. 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.

### **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 relating to the discontinued operations in Greece a provision of €38.3 million 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, thus bringing to an end this long and complex case.

#### ***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.

## MANAGEMENT AND CORPORATE GOVERNANCE

### Overview

In April 2014, the CSE issued an updated Corporate Governance Code. As a company listed on 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 is currently comprised of 13 non-executive directors, 11 of whom are independent, and one executive director. As required by the Governance Directive, the Bank has informed the CBC of its non-compliance with the foregoing provision and has provided the CBC with a timetable for compliance within the statutory time period of one year. The Bank currently expects to be in compliance with the Governance Directive following the AGM to be held on 20 November 2014.

On 22 September 2014, in a letter to the Bank, the CBC requested that all members of the current Board of Directors resign (with the possibility of re-election) effective as of the date of the forthcoming AGM to be held on 20 November 2014, in order to allow a new Board to be chosen by shareholders, including new shareholders following the Capital Raising. It also requested that the current Board refrain from taking any major strategic decisions before the new Board is elected at the AGM.

### 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.

The Board of Directors is currently comprised of 13 non-executive directors, 11 of whom are independent, and one executive director. 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.

## **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 six 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 their 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 six 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 four non-executive directors, two of which 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 comprises six non-executive directors, all of which 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.

- *Strategy and Restructuring Committee* – The strategy and restructuring committee as of the date of this Prospectus comprises nine non-executive directors, the majority being independent. The strategy and restructuring committee monitors the restructuring of the Group. After its establishment on 10 September 2013, the strategy and restructuring committee held five meetings during 2013. While the establishment of a strategy and restructuring committee is not a requirement of the Corporate Governance Code, this committee was established to assist the Board of Directors in matters relating to the Bank's strategy and the Restructuring Plan.

## Directors

The Board of Directors, which is also the Group's main board of directors, currently has 13 non-executive directors, 11 of whom are independent, and one executive director. The business address of each of the directors in their capacity as directors of the Bank is 51 Stassinou Street, Ay. Paraskevi, Strovolos, 2002 Nicosia, Cyprus and their respective positions and date appointed to the Board of Directors are as follows:

Name	Position	Committee Membership	Date Appointed to Board of Directors
Christis Hassapis	Chairman and Independent Director	Nominations and Corporate Governance Committee	10 September 2013
Vladimir Strzhalkovskiy	Vice-Chairman and Independent Director	Risk Committee	10 September 2013
John Patrick Hourican	Chief Executive Officer and Executive Director		26 November 2013
Anjelica Anshakova	Independent Director	Audit, Risk, Strategy and Restructuring Committees	10 September 2013
Dmitry Chichikashvili	Independent Director	Risk, Strategy and Restructuring Committees	10 September 2013
Marinos Gialeli	Independent Director	Audit, Remuneration and Human Resources, Risk, Strategy and Restructuring Committees	10 September 2013
Marios Kalochoritis	Independent Director	Remuneration and Human Resources, Nominations and Corporate Governance, Strategy and Restructuring Committees	10 September 2013
Konstantinos Katsaros	Independent Director	Audit, Remuneration and Human Resources, Strategy and Restructuring Committees	10 September 2013
Eriskhan Kurazov	Independent Director		10 September 2013
Anton Smetanin	Independent Director		10 September 2013
Xanthos Vrachas	Independent Director	Audit, Risk, Remuneration and Human Resources, Strategy and Restructuring	10 September 2013

		Committees	
Ioannis Zographakis	Independent Director	Audit, Risk, Strategy and Restructuring Committees	10 September 2013
Adonis Papaconstantinou	Non-Executive Non-Independent Director	Remuneration and Human Resources, Nominations, Corporate Governance, Strategy and Restructuring Committees	10 September 2013
Andreas Yiasemides	Non-Executive Non-Independent Director	Audit, Nominations and Corporate Governance, Remuneration and Human Resources, Strategy and Restructuring Committees	10 September 2013

**Christis Hassapis.** *Chairman and Independent Director.* Mr. Hassapis was born in 1959. He has a Bachelor's degree in mechanical engineering from the George Washington University and a Master's and a Ph.D. degree in economics from Boston College. He has been a professor at the Department of Economics, School of Economics and Management of the University of Cyprus, since 1993. He has participated in more than 25 international conferences on finance and economics and co-organised several international conferences. He has served, among others, as an elected member of the board of the University of Cyprus, as a member of the University of Cyprus Senate, as vice dean for the School of Economics and Management, as a member of the academic council of the Economics Research Centre, as a member of the Research Centre for Banking and Finance, as the chairman of the board of UCy Voice Radio Station, as a member of the Cyprus Council for the Recognition of Higher Education Qualifications for Economics, as a member of the board of Diogenis Business Incubator and as a member of numerous board committees, such as the internal audit committee, the finance and tenders committee, the development planning committee and many others.

**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 Leningrad Institute of Electronic Engineering. 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.

**Anjelica Anshakova.** *Independent Director.* Ms. Anshakova was born in 1970. She graduated from Kiev State University of Economics with a major in banking. She is a member of the Association of Chartered Certified Accountants since 1998. She obtained certification from the Chartered Institute of Management

Accountants in 2002. She worked in the Kiev and Moscow offices of international consulting company Arthur Andersen for eight years. After the merger of Arthur Andersen with Ernst & Young, Ms. Anshakova continued in the subdivision responsible for bank audit and consulting. In 2003 she worked for the PromSvyazCapital group in various positions, including executive director. She then joined a leading printing and publishing house in Moscow before becoming a director of JSC Link Capital in 2006. She is a member of the board of directors and the head of the audit committee of JSC BINBANK.

**Dmitry Chichikashvili.** *Independent Director.* Mr. Chichikashvili was born in 1966. He graduated from the Department of Banking and Insurance at the Financial Academy in Moscow with a major in economics in banking and insurance business and from Tbilisi State Medical University with a major in medicine. Mr. Chichikashvili served at GUTA BANK in Moscow as first deputy chairman from May 1993 to July 1996 and then at INKOR BANK in Moscow as chairman from July 1996 to May 1997. He is currently serving as chairman of the Inigma group of companies, which are primarily involved in the construction and development of real estate.

**Marinos Gialeli.** *Independent Director.* Mr. Gialeli was born in 1968. He holds a B.A. in management (finance) from the East Strassbourg University and an MBA from the Fairleigh Dickinson University. He has worked for Lieber and Weissman Securities, CLR Financial Services Ltd and Harvest Financial Services Ltd. in various capacities. Mr. Gialeli has worked for the Hotel Employees Provident Fund since 2004 and he is responsible for the general management of the fund and participates and coordinates the meetings of the management committee.

**Marios Kalochoritis.** *Independent Director.* Mr. Kalochoritis was born in 1973. He holds an MBA from Harvard Business School and a B.Sc. in Finance from Louisiana State University. Since August 2013, he lives in Dubai and works as an investment professional with regional high net worth individuals providing consulting services in connection with the establishment of family offices. 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 is the non-executive chairman of the Kermia group, the Bank's real estate development and hotel management subsidiary.

**Konstantinos Katsaros.** *Independent Director.* Mr. Katsaros was born in 1977. He graduated from the Law School of Aristotle University of Thessaloniki in 1999. He completed his postgraduate studies in history, philosophy and sociology of law (LL.M.) at the Aristotle University of Thessaloniki and is currently a Ph.D. candidate in the Law School of the Aristotle University. He has worked as an investment broker / advisor in Guardian Trust Securities S.A. and Vorioelladiki Securities S.A. He obtained a licence as a certified consultant from ADEX in May 2001. He was a co-founding partner of the advertising company Friktoria Ltd from 2000 to 2007, which created major innovative marketing tools in the fields of classified marketing. Since 2009, he has been the legal advisor of the Holy Archbishopric of Cyprus and head of the legal activities of its legal entities (Archbishopric, parishes, partnerships, companies, foundations and other financial entities). He has been a member of the Nicosia Bar Association since 2012. From February 2012 until September 2013 he has been the non-executive Chairman of the board of directors of LOGOS Information and Cultural LLP. He is the secretary of Tarseion Foundation, and partner and director of A. & E. Emilianides,

C. Katsaros & Associates L.L.C. He is also teaches as a visiting professor at the Department of Law of the University of Nicosia in the fields of commercial and company law.

**Eriskhan Kurazov.** *Independent Director.* Mr. Kurazov was born in 1977. In 2001 he obtained a masters of economics from the Russian University of People's Friendship and at the same University he became a specialist in law in 2005 and a lawyer in 2007. He has served as a deputy head of division at B&N Bank from 2003 to 2004 and from 2004 to 2007 as a financial director at CJSC Association Grand. From 2008 Mr. Kurazov has progressed from deputy general director to general director at the CJSC Smart Finance group to his current position as a general manager at the CJSC SP Eurasia M4. He is also a member of the board of directors of CJSC Service Reestr and is a member of the audit committee of B&N Bank Joint-Stock Company. In addition, Mr. Kurazov serves as an executive director of CJSC SP Eurasia M4, Tomilino Logistic LLC CJSC "STIK" and LLC "MLP" (and its subsidiaries MLP-Podolsk, MLP-SHUSHARY, MLP-CAD, MLP-Sibir, MLP-Saratov, and MLP Property management), head of branch of Indwell Limited, head of branch of Seicento Limited and head of branch of Megalead Limited.

**Anton Smetanin.** *Independent Director.* Mr. Smetanin was born in 1984. In 2007 he graduated from the Law Faculty of Lomonosov Moscow State University with a diploma in law. From 2007 to 2011 he worked as a lawyer at GSL Law and Consulting LLC, in Moscow. From 2011 to 2012 he served as a member of the board of directors at Bank of Moscow. From 2011 to date he is self-employed, practising in private law.

**Xanthos Vrachas.** *Independent Director.* Mr. Vrachas was born in 1979. He holds an MBA from Harvard Business School, a B.Sc. from Georgetown University, and is a Certified Public Accountant. He is the chief financial officer and chief investment officer of Universal Life, a life and health insurance group. Prior to assuming his current position, he worked as an investment banker at Merrill Lynch in London. Previously, he was an auditor with Deloitte & Touche in the United States.

**Ioannis Zographakis.** *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.

**Adonis Papaconstantinou.** *Non-Executive Non-Independent Director.* Mr. Papaconstantinou was born in 1953. He graduated with honours in 1977 from London University (Queen Mary College) where he studied computer science. He is also a graduate (1996) of Columbia University's senior executive programme. From 1977 until 2003 he was employed by NCR Corporation. During his tenure with NCR Corporation he assumed a number of management positions culminating to the position of vice president and area managing director for NCR Corporation's Middle East and Africa region, an organisation with Headquarters in Nicosia, Cyprus. He also was the chairman of the board for NCR (Cyprus) Ltd, NCR (IRI) Ltd, NCR (North Africa) Ltd as well as chairman of the NCR (Cyprus) Ltd Provident Fund Committee. In 2003 he co-founded Bartercard

(Cyprus) Ltd, the Cyprus licensee of Bartercard International, an Australian trade exchange organisation. He is the managing director of Bartercard (Cyprus) Ltd. He holds the following professional qualifications: Fellow of the British Computer Society since 1988, Chartered Engineer at the Engineering Council since 1993, Chartered Fellow of the British Computer Society since 2004 and member of the Cyprus Computer Society since inception. Mr. Papaconstantinou is the chairman of the Laiki Bank Depositors Association.

**Andreas Yiasemides.** *Non-Executive Non-Independent Director.* Mr. Yiasemides was born in 1976. He graduated from the University of Manchester in 1999 with a B.A. in economics. He worked with PricewaterhouseCoopers in Nicosia in the financial services audit department as a senior associate between 1999 and 2003. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a holder of an audit practising certificate. From 2003 to March 2013, he was employed with the Group. He held various positions including those of head of Cyprus leasing for Attica region in Greece, head of corporate unit in Bank of Cyprus Romania, member of the credit review team of the Group internal audit department and officer of the Group credit risk policy department. He was also the head of custody and trust department of the Bank. Since March 2013, he is principal in Fiduserve Fund Services, a company providing registration and administration of funds of various countries, including Cyprus, Malta, Luxembourg and other jurisdictions. He is a founding member of Cyprus Investment Fund Association.

## Executive Committee

The executive committee consists of the following members:

Name	Position
John Patrick Hourican	Chief Executive Officer
Costas Argyrides	Director Wealth, Brokerage and Asset Management
Michalis Athanasiou	Chief Risk Officer
Stelios Christodoulou	General Manager General Insurance
Euan Hamilton	Head of Restructuring and Recoveries
Eliza Livadiotou	Chief Financial Officer
Solonas Matsias	Human Resources Director
Miltiades Michaelas	Director International Operations
Artemis Pantelidou	General Manager EuroLife
Christodoulos Patsalides	Finance Director
Louis Pochanis	Director International Banking Services
Charis Pouangare	Director Consumer and SME Banking
Nicolas Sparsis	Director Corporate Banking
Aristos Stylianou	Chief Operating Officer

## Related Party Transactions

	31 December		As at and for the year ended 31 December		As at and for the six months ended 30 June	
	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>
	(number of directors)		(€'000)			
<b>Loans and advances to members of the Board of Directors and connected persons</b>						
- more than 1% of the Group's net assets per director.....	1	-	9,893	-	-	-
- less than 1% of the Group's net assets per director.....	16	15	23,356	302	3,273	316
	17	15	33,249	302	3,273	316
<b>Loans and advances to other key management personnel and connected persons</b>						
			832	3,448	-	4,093
Total loans and advances.....			34,081	3,750	3,273	4,409
Loans and advances:						
- members of the Board of Directors and other key management personnel.....			5,028	3,224	1,526	3,702
- connected persons .....			29,053	526	1,747	707
			34,081	3,750	3,273	4,409
Interest income for the year/period.....			9,511	929	22	71
<b>Deposits:</b>						
- members of the Board of Directors and other key management personnel.....			19,260	1,881	533	2,862
- connected persons .....			21,948	36,536	687	30,524
			41,208	38,417	1,220	33,386
Interest expense on deposits for the year/period .....			3,452	1,115	34	245
<b>Debt securities in issue, subordinated loan stock and CECS:</b>						
- members of the Board of Directors and other key management personnel.....			56	-	-	-
- connected persons .....			2	-	-	-
			58	-	-	-

Note:

- (1) 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 the current 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 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 €16,124 thousand and €231 thousand as at 31 December 2012 and 2013, respectively, and €1,809 thousand and €121 thousand as at 30 June 2013 and 2014, respectively. As of 31 December 2013 and 30 June 2014 there were no directors and their connected persons, whose total loans and advances exceeded 1 per cent. of the net assets of the Group per director (2012: €13,813 thousand). There were also contingent liabilities and commitments to other key management personnel and their connected persons amounting to €77 thousand and €743 thousand as at 31 December 2012 and 2013, respectively, and nil and €702 thousand as at 30 June 2013 and 2014, respectively. 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) as at 31 December 2012 and 2013 and 30 June 2013 and 2014 amounted to €4,191 thousand, €1,439 thousand, €2,797 thousand and €1,616 thousand, respectively.

*Transactions with connected persons of the current members of the Board of Directors.* Mr. Xanthos Vrachas, who was appointed on the Board of Directors on 10 September 2013, 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) 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) 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) 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) 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) 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 per cent. 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.

## **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:

	<b>Year ended 31 December</b>		<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2013</b>	<b>2013</b>	<b>2014</b>
	<i>(€'000)</i>			
<b>Director emoluments</b>				
<i>Executive directors</i>				
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
	<u>1,402</u>	<u>594</u>	<u>384</u>	<u>500</u>
<i>Non-Executive directors</i>				
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.....	<u>2,131</u>	<u>1,046</u>	<u>552</u>	<u>728</u>
<b>Other key management personnel emoluments</b>				
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.....	<u>693</u>	<u>1,811</u>	<u>449</u>	<u>1,271</u>
<b>Total.....</b>	<u>2,824</u>	<u>2,857</u>	<u>1,001</u>	<u>1,999</u>

The salaries and other short-term benefits of the executive directors are analysed as follows:

	<b>Year ended 31 December</b>	
	<b>2012</b>	<b>2013</b>
	<i>(€'000)</i>	
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
	<u>1,191</u>	<u>452</u>

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:

	<b>Year ended 31 December</b>	
	<b>2012</b>	<b>2013</b>
	<i>(€'000)</i>	
Andreas Artemis.....	75	20
Evdokimos Xenophontos.....	39	15
Theodoros Aristodemou .....	82	—
Vassilis G. Rologis .....	32	8
Costas Z. Severis.....	40	10
Christakis G. Christofides .....	20	5
Anna Diogenous .....	31	5
George M. Georgiades .....	42	2
Andreas J. Jacovides .....	20	—
Christos Mouskis .....	39	—
Manthos Mavrommatis .....	29	—

	Year ended 31 December	
	2012	2013
	(€'000)	
Costas Hadjipapas .....	26	12
Nikolas P. Tsakos .....	23	1
Stavros J. Constantinides .....	32	2
Irene Karamanou .....	25	6
Elias Neocleous .....	15	4
Symeon Matsis .....	8	4
Sophocles Michaelides .....	—	25
Erol Riza .....	—	19
Constantinos Dantsas .....	—	9
Takis Taousianis .....	—	11
Lenia Georgiadou .....	—	11
Philippos Mannaris .....	—	9
Lambros Papadopoulos .....	—	8
Andreas Persianis .....	—	6
Andreas Poetis .....	—	8
Panikos Pourous .....	—	15
Savvakis Savvides .....	—	8
Georgios Theocharides .....	—	9
Michalis Zannetides .....	—	7
Takis Arapoglou .....	—	6
Christis Hassapis .....	—	21
Vladimir Strzhalkovskiy .....	—	16
Anjelica Anshakova .....	—	6
Dmitry Chichikashvili .....	—	5
Marinos Gialeli .....	—	6
Marios Kalochoritis .....	—	6
Konstantinos Katsaros .....	—	7
Eriskhan Kurazov .....	—	4
Adonis Papaconstantinou .....	—	6
Anton Smetanin .....	—	4
Xanthos Vrachas .....	—	6
Marios Yiannas .....	—	6
Andreas Yiasemides .....	—	7
Ioannis Zographakis .....	—	7

Year ended 31 December	
2012	2013
578	352

The fees of the non-executive directors include fees as members of the Board of Directors 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.

### 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 this Prospectus:

	Number of Shares			Percentage of Issued Share Capital (%)
	Direct Shareholding	Indirect Shareholding	Total	
Hassapis Christis.....	455,583	0	455,583	0.005
Strzhalkovskiy Vladimir.....	0	224,982,745	224,982,745	2.522
Vrachas Xanthos.....	70	378	448	0.000
Yiasemides Andreas.....	0	2	2	0.000
Zographakis Ioannis.....	0	32	32	0.000
Katsaros Konstantinos.....	5	0	5	0.000
Papaconstantinou Adonis.....	58	0	58	0.000
Chichikashvili Dmitry.....	0	11,650,205	11,650,205	0.131
Kurazov Eriskhan.....	0	123,841	123,841	0.001
Smetanin Anton.....	1,000	18,757	19,757	0.000

## 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
<b>Total</b> .....	<b>10,772</b>	<b>7,752</b>	<b>9,822</b>	<b>6,747</b>

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
<b>Total</b> .....	<b>10,772</b>	<b>7,752</b>	<b>9,822</b>	<b>6,747</b>

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.

## Cyprus

The main retirement plan for the Group's permanent employees in Cyprus (52 per cent. of total Group employees) is a defined contribution plan with effect from 1 January 2012. This plan provides for employer contributions of 14 per cent. and employee contributions of 3 per cent. to 10 per cent. 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.

### **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.

### **United Kingdom**

The Group's employees in the United Kingdom (2 per cent. 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 2003 to new members and was closed in December 2008 to future accrual of benefits for active members.

### **Other countries**

The Group does not operate any retirement benefit plans in Romania and Russia.

### **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 per cent.), the risk free interest rate (4.2 per cent.), the duration of the share options and the expected volatility of the share price (31.3 per cent. 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 per cent.), the risk free interest rate (2.7 per cent.), the duration of the share

options and the expected volatility of the share price (23.6 per cent. 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.

## 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 Group's Audited Financial Statements and the Group's Unaudited Financial Statements are incorporated by reference in this Prospectus.*

### Overview

The Group is the leading bank and financial services group in Cyprus, with total assets of €28.6 billion as 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. In addition, the Group is in the process of closing its South Africa representative office, which is expected to be completed in October 2014. 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 per cent. 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.

### Presentation and Comparability of Financial Information

#### Presentation of Financial Information

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

The June 2014 Unaudited Financial Statements contain comparative information for the six months ended 30 June 2013 in respect of income statement and other comprehensive income items and 31 December 2013 in respect of balance sheet items. This comparative information has been re-presented to reflect the reclassification of the Group's operations in Ukraine sold during 2014 from continuing to discontinued operations. It has also been restated to reflect final adjustments on the acquisition date fair values related to



the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd. and Marfin Diversified Strategy Fund Plc. See notes 4.2 and 35.1 to the June 2014 Unaudited Financial Statements. Accordingly, this comparative information differs from the information previously released by the Group in the June 2014 Unaudited Financial Statements and from the information previously released by the Group in its 2013 annual report.

The June 2014 Unaudited Financial Statements do not contain 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). The review report of Ernst & Young Cyprus Ltd with respect to the June 2014 Unaudited Financial Statements also contained an emphasis of matter as to the Bank's conclusion with respect to going concern, as set forth in Note 6.1 of the June 2014 Unaudited Financial Statements.

The 2013 Audited Financial Statements contain comparative information for the year ended 31 December 2012. This comparative information 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 IAS 19 (Revised 2011) regarding the recognition of actuarial gains and losses arising from defined benefit plans. See notes 3.2.3 and 3.35 to the 2013 Audited Financial Statements. Accordingly, this comparative information differs from the information previously released by the Group in its 2012 Audited Financial Statements.

The independent auditor's report in respect of the Group's 2013 Audited Financial Statements is qualified with respect to (a) the inability of the Bank to apply the requirements of IFRS in consideration of the bail-in of uninsured deposits and debt securities 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 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 Laiki Bank acquisition. The Group's equity and financial position were not affected by the transactions giving rise to these qualifications and the Bank does not expect this qualification to be repeated in 2014. See notes 3.2.2 and 54.2 to the 2013 Audited Financial Statements. The opinion of Ernst & Young Cyprus Ltd 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 2013 Audited Financial Statements.

### **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 2013, 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 “*Selected Statistical and Other Information – Credit Risk – 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 per cent. of the loan amount, the loan remains as an NPL until its maturity. For a further discussion of the Group’s NPLs, see “*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.

### **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.

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 “*Restructuring of the Bank and Laiki Bank – 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 “*Business Description of the Group-Litigation and Related Matters, including Regulatory Proceedings-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 per cent. of the total share capital of the Bank (prior to the Capital Raising). Because of the suspension of trading of the Bank’s Existing Shares (as defined in “*Restructuring of the Bank and Laiki Bank – Recapitalisation of the Bank – Holders of ordinary shares of the Bank as of 29 March 2013*”) 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 carrying amount of the liabilities derecognised.

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.

<b>Fair values recognised on acquisition</b>	<b>(€'000)</b>
<b>Assets</b>	
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

<b>Fair values recognised on acquisition</b>	<b>(€'000)</b>
Other assets .....	374,083
<b>Total assets</b> .....	<b>15,101,028</b>
 <b>Liabilities</b>	
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
<b>Total liabilities</b> .....	<b>14,645,817</b>
Non-controlling interests .....	5,324
<b>Total identifiable net assets at fair value</b> .....	<b>449,887</b>
<b>Fair value of consideration transferred (comprising 858,709 thousand shares of nominal value €1.00 each)</b> .....	<b>449,887</b>

On 1 April 2013 the Group also acquired the customer deposits of the United Kingdom 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 "*Selected Statistical and Other Information – Credit Risk – 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 per cent. 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 per cent. 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 per cent. 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 17 September 2014, the Bank entered into an agreement to sell a UK loan portfolio owned by the Group and largely composed of residential and commercial real estate-backed facilities (the Loan Portfolio) 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 sale and transfer of the Loan Portfolio is expected to be completed by 31 October 2014. The transaction will enhance the Group's liquidity and will have a small positive impact on the Group's CET1 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 (BOC UK), but is part of the wider UK loan portfolio transferred to the Group pursuant to the Laiki Transfer Decrees.

## **Factors Affecting Results of Operations**

### **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 per cent. in the year following a contraction of 2.4 per cent. the year before. The average unemployment rate rose to 15.9 per cent. and consumer prices declined by 0.4 per cent.

The Troika agreed the EAP with the 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 improved 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 per cent. to 4.2 per cent. in the fourth Troika review of Cyprus' EAP, and the IMF's World Economic Outlook, October 2014 projects the decline in real GDP at 3.2 per cent. However, unemployment remains high, although signs of stabilisation are emerging. Growth in 2015 is projected at 0.4 per cent. (IMF World Economic Outlook, October 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 Cyprus' 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 "*The Macroeconomic Environment in Cyprus*".

### **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 31 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 and 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 per cent. 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.

## **Recent Developments**

### ***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 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 CET1 ratio.

### ***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 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 a retail offer of up to €100 million of new ordinary shares following the 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). See "*Business Description of the Group—Recent Developments—Capital Raising*"

## **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.

### **Going Concern**

The Board of Directors has made an assessment of the Bank's and Group's ability to continue as a going concern. 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 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, the Board of Directors considers that material uncertainties remain 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 June 2014 Unaudited Financial Statements and note 4.1 to the 2013 Audited Financial Statements. See *“Risk Factors—Risks Relating to the Group's Business—The independent auditor's report in respect of the Bank's 2013 Audited Financial Statements and independent auditor's review report in respect of the June 2014 Unaudited Financial Statements are qualified and contain an emphasis of matter.”*

### **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.

### **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 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 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.

### **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.

### **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 per cent. 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.

### **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.

### **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 IAS 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 June 2014 Unaudited Financial Statements and note 20 to the Group's 2013 Audited Financial Statements 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 June 2014 Unaudited Financial Statements and note 4 to the Group's 2013 Audited Financial Statements.

## Results of Operations

### Consolidated Income Statement Data

	Year ended 31 December		Six months ended 30 June	
	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>
			(€'000)	
<b>Continuing operations</b>				
Turnover.....	1,859,797	1,966,621	1,174,199	969,243
Interest income .....	1,415,611	1,660,461	834,675	786,044
Interest expense.....	(713,835)	(661,030)	(416,011)	(240,076)
Net interest income.....	701,776	999,431	418,664	545,968
Fee and commission income .....	191,566	193,458	93,869	93,304
Fee and commission expense.....	(18,881)	(24,639)	(10,231)	(5,526)
Net foreign exchange gains/(losses).....	24,948	(5,148)	(16,699)	(2,379)
Net (losses)/gains on financial instrument transactions and disposal of subsidiaries.....	(27,899)	10,589	(9,307)	160,523
Insurance income net of claims and commissions .....	62,972	64,956	38,864	25,048
Other (expense)/income.....	(15,099)	(64,282)	(28,118)	7,602

	Year ended 31 December		Six months ended 30 June	
	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>
		(€'000)		
<b>Total income</b> .....	919,383	1,174,365	487,042	824,540
Staff costs.....	(293,556)	(442,797)	(192,322)	(135,398)
Other operating expenses .....	(260,553)	(277,196)	(120,226)	(130,769)
<b>Profit before impairment of loans and advances to customers and goodwill and intangible assets</b> .....	365,274	454,372	174,494	558,373
Provisions for impairment of loans and advances to customers.....	(1,339,269)	(1,067,345)	(532,496)	(329,120)
Impairment of goodwill and intangible assets .....	(359,746)	—	—	—
<b>(Loss)/profit before share of profit from associates and joint ventures</b> .....	(1,333,741)	(612,973)	(358,002)	229,253
Share of profit from associates and joint ventures .....	222	1,885	353	4,111
<b>(Loss)/profit before tax</b> .....	(1,333,519)	(611,088)	(357,649)	233,364
Tax.....	43,463	5,184	2,489	(9,591)
<b>(Loss)/profit after tax</b> .....	(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)
<b>(Loss)/profit for the year/period</b> .....	(2,222,346)	(2,061,508)	(1,811,964)	73,558
<b>Attributable to:</b>				
Owners of the Bank - continuing operations.....	(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)
<b>Total (loss)/profit attributable to the owners of the Bank</b> .....	(2,213,115)	(2,049,502)	(1,806,622)	81,424
Non-controlling interests - continuing operations.....	(9,231)	(12,006)	(5,342)	(7,827)
Non-controlling interests - discontinued operations.....	—	—	—	(39)
<b>(Loss)/profit for the year/period</b> .....	(2,222,346)	(2,061,508)	(1,811,964)	73,558

Note:

- (1) The financial information presented for the six month periods ended 30 June 2013 and 2014 is unaudited. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations and restated to reflect the adoption of IAS 19 (Revised 2011). The consolidated income statements for the six months ended 30 June 2013 and 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 consolidated income statement for the six month period ended 30 June 2013 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

acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd. and Marfin Diversified Strategy Fund Plc.

### **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 increased by €255.0 million or 27.7 per cent. to €1,174.4 million in the year ended 31 December 2013 compared to €919.4 million in the year ended 31 December 2012. Total income for the six months ended 30 June 2014 was €824.5 million, an increase of €337.5 million or 69.3 per cent. over the six months ended 30 June 2013 driven by an increase in net interest income and the net gains on financial instrument 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 per cent. of total income in the year ended 31 December 2012, 85.1 per cent. in the year ended 31 December 2013, 86.0 per cent. in the six months ended 30 June 2013 and 66.2 per cent. 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 increased by €297.7 million or 42.4 per cent. to €999.4 million in the year ended 31 December 2013 compared to €701.8 million in the year ended 31 December 2012, reflecting a 17.3 per cent. increase in interest income and a 7.4 per cent. decline in interest expense.

Net interest income in 2013 includes nine months of net interest income of the assets and liabilities acquired from Laiki Bank. 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.

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 per cent., as the decline in interest expense outpaced the decline in interest income. 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 six months ended 30 June 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 cost.

Net interest margin was 2.94 per cent. in the year ended 31 December 2012, 3.54 per cent. in the year ended 31 December 2013, 3.10 per cent. in the six months ended 30 June 2013 and 4.12 per cent. in the six months ended 30 June 2014.

#### ***Net fee and commission income***

Net fee and commission income decreased by €3.9 million or 2.2 per cent. 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 per cent., 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 €24.9 million in the year ended 31 December 2012, 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 (losses)/gains on financial instrument transactions and disposal of subsidiaries***

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.

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 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 government guaranteed 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 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.

#### ***Insurance income net of claims and commissions***

Insurance income net of claims and commissions increased by €2.0 million or 3.2 per cent. 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***

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.

### **Expenses**

#### ***Staff costs***

Staff costs increased by €149.2 million or 50.8 per cent. 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 per cent., 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 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 litigations or claims, advisory or other restructuring costs and impairment of assets held for sale. Other operating expenses increased by €16.6 million or 6.4 per cent. 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 litigations 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.

## **Impairment**

### ***Provisions for impairment of loans and advances***

Provisions for impairment of loans and advances decreased by €271.9 million or 20.3 per cent. 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 PJSB 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 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 per cent. of the value of the existing bonds and the issue of new bonds with a nominal value of 31.5 per cent. of the exchanged bonds. This, together with the change in fair value of related hedging instruments, resulted in an impairment charge of €143.6 million in 2012 which is included 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.

### **Share of profit of associates and joint ventures**

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 per cent. of CNP Cyprus Insurance Holdings Ltd (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.

### **Loss/profit before tax**

As a result of the foregoing factors, loss before tax decreased by €722.4 million or 54.2 per cent. 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.

### **Tax**

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 asset in Russia, compared to a tax credit of €2.5 million in the first half of 2013.

### **Loss after tax from discontinued operations**

Loss after tax from discontinued operations increased by €523.3 million or 56.1 per cent. 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.

### **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.

<b>Income statement</b>	<b>Cyprus</b>	<b>Russia</b>	<b>Other countries</b>	<b>Total continuing operations</b>	<b>Discontinued operations</b>
			<i>(€'000)</i>		
<b>Six months ended 30 June 2014<sup>(1)</sup></b>					
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
	<u>746,431</u>	<u>46,093</u>	<u>32,016</u>	<u>824,540</u>	<u>6,003</u>
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)	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
<b>Profit before impairment of loans and advances to customers.....</b>	<b>539,771</b>	<b>9,202</b>	<b>9,400</b>	<b>558,373</b>	<b>1,887</b>
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	–
	<u>271,516</u>	<u>(17,600)</u>	<u>(20,552)</u>	<u>233,364</u>	<u>(150,869)</u>
<b>Profit/(loss) before tax.....</b>	<b>271,516</b>	<b>(17,600)</b>	<b>(20,552)</b>	<b>233,364</b>	<b>(150,869)</b>
Tax.....	(2,327)	(5,083)	(2,181)	(9,591)	654
	<u>269,189</u>	<u>(22,683)</u>	<u>(22,733)</u>	<u>223,773</u>	<u>(150,215)</u>
<b>Profit/(loss) after tax.....</b>	<b>269,189</b>	<b>(22,683)</b>	<b>(22,733)</b>	<b>223,773</b>	<b>(150,215)</b>
Non-controlling interests (profit)/loss ...	(183)	8,010	–	7,827	39
	<u>269,006</u>	<u>(14,673)</u>	<u>(22,733)</u>	<u>231,600</u>	<u>(150,176)</u>
<b>Profit/(loss) after tax attributable to the owners of the Bank.....</b>	<b>269,006</b>	<b>(14,673)</b>	<b>(22,733)</b>	<b>231,600</b>	<b>(150,176)</b>

<b>Income statement</b>	<b>Cyprus</b>	<b>Russia</b>	<b>Other countries</b>	<b>Total continuing operations</b>	<b>Discontinued operations</b>
			<i>(€'000)</i>		
<b>Six months ended 30 June 2013<sup>(1)</sup></b>					
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)
	<b>408,679</b>	<b>69,739</b>	<b>8,624</b>	<b>487,042</b>	<b>59,002</b>
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)	–
<b>Profit before impairment of loans and advances to customers.....</b>	<b>169,289</b>	<b>17,225</b>	<b>(12,020)</b>	<b>17,494</b>	<b>(26,080)</b>
Provisions for impairment of loans and advances .....	(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	–
<b>Loss before tax.....</b>	<b>(286,671)</b>	<b>(18,187)</b>	<b>(52,791)</b>	<b>(357,649)</b>	<b>(1,456,685)</b>
Tax.....	4,762	4,104	(6,377)	2,489	(119)
<b>Loss after tax.....</b>	<b>(281,909)</b>	<b>(14,083)</b>	<b>(59,168)</b>	<b>(355,160)</b>	<b>(1,456,804)</b>
Non-controlling interests (profit)/loss ...	1,448	3,894	–	5,342	–
<b>Loss after tax attributable to the owners of the Bank.....</b>	<b>(280,461)</b>	<b>(10,189)</b>	<b>(59,168)</b>	<b>(349,818)</b>	<b>(1,456,804)</b>

Note:

- (1) The financial information presented for the six month periods ended 30 June 2013 and 2014 is unaudited. The consolidated income statement for the six month period ended 30 June 2013 has been re-presented to reflect the reclassification of the Group's operations in Ukraine as discounted operations and restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd. and Marfin Diversified Strategy Fund Plc.

<b>Income statement</b>	<b>Cyprus</b>	<b>Russia</b>	<b>Other countries</b>	<b>Total continuing operations</b>	<b>Discontinued operations</b>
			<i>(€'000)</i>		
<b>Year ended 31 December 2013<sup>(1)</sup></b>					
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)	—
<b>Profit/(loss) before impairment of loans and advances .....</b>	<b>482,657</b>	<b>27,034</b>	<b>(55,319)</b>	<b>454,372</b>	<b>(31,072)</b>
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	—
<b>Loss before tax .....</b>	<b>(371,647)</b>	<b>(51,761)</b>	<b>(187,680)</b>	<b>(611,088)</b>	<b>(1,455,604)</b>
Tax .....	3,360	7,019	(5,195)	5,184	—
<b>Loss after tax .....</b>	<b>(368,287)</b>	<b>(44,742)</b>	<b>(192,875)</b>	<b>(605,904)</b>	<b>(1,455,604)</b>
Non-controlling interests - loss .....	924	11,047	35	12,006	—
<b>Loss after tax attributable to the owners of the Bank .....</b>	<b>(367,363)</b>	<b>(33,695)</b>	<b>(192,840)</b>	<b>(593,898)</b>	<b>(1,455,604)</b>

Note:

- (1) The consolidated income statements for the six months ended 30 June 2013 and 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.

<b>Total Revenue</b>	<b>Cyprus</b>	<b>Russia</b>	<b>Other countries</b>	<b>Total continuing operations</b>	<b>Discontinued operations</b>
			<i>(€'000)</i>		
<b>Six months ended 30 June 2014<sup>(1)</sup></b>					
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)
<b>Total revenue .....</b>	<b>572,464</b>	<b>46,093</b>	<b>205,983</b>	<b>824,540</b>	<b>6,003</b>
<b>Six months ended 30 June 2013<sup>(1)</sup></b>					
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)
<b>Total revenue .....</b>	<b>408,679</b>	<b>69,739</b>	<b>8,624</b>	<b>487,042</b>	<b>59,002</b>
<b>Year ended 31 December 2013</b>					
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)
<b>Total revenue .....</b>	<b>1,033,699</b>	<b>128,386</b>	<b>12,280</b>	<b>1,174,365</b>	<b>46,170</b>

Note:

- (1) The financial information presented for the six month periods ended 30 June 2013 and 2014 is unaudited. The consolidated income statement for the six month period ended 30 June 2013 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 acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd. and Marfin Diversified Strategy Fund Plc. The consolidated income statements for the six months ended 30 June 2013 and 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.

## Balance Sheet Items

### Assets

	31 December		30 June
	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>
		(€'000)	
<b>Assets</b>			
Cash and balances with central banks .....	1,272,424	1,240,043	859,438
Placements with banks .....	1,768,836	1,290,102	1,114,448
Investments .....	1,135,333	2,759,855	2,866,059
Investments pledged as collateral .....	734,747	672,809	671,984
Derivative financial assets .....	26,794	28,765	5,949
Loans and advances to customers .....	24,374,531	21,764,338	20,063,034
Life insurance business assets attributable to policyholders .....	495,756	443,579	460,366
Property and equipment .....	483,193	414,404	366,385
Intangible assets .....	123,555	130,580	135,107
Assets held for sale .....	—	—	391,783
Other assets .....	613,760	1,401,833	1,414,672
Investments in associates and joint ventures .....	3,107	203,131	208,939
<b>Total assets .....</b>	<b>31,032,036</b>	<b>30,349,439</b>	<b>28,558,164</b>

Note:

- (1) Balance sheet information as at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

### Total Assets

Total assets decreased by €682.6 million or 2.2 per cent., to €30,349.4 million as at 31 December 2013, and by a further €1,791.3 million or 5.9 per cent. 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 78.5 per cent. as at 31 December 2012, 71.7 per cent. as at 31 December 2013 and 70.3 per cent. as at 30 June 2014.

### Investments

Total investments (both unencumbered investments and investments pledged as collateral) 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 five 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 CET1 ratio.

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
	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>
		(€'000)	
<b>Investments</b>			
Investments at fair value through profit or loss .....	21,818	25,160	30,087
Investments available-for-sale .....	402,547	161,258	78,615
Investments classified as loans and receivables .....	710,968	2,573,437	2,757,357
<b>Total</b> .....	<b>1,135,333</b>	<b>2,759,855</b>	<b>2,866,059</b>

Note:

- (1) Balance sheet information as at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

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
	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>
		(€'000)	
<b>Investments pledged as collateral under repos with banks</b>			
Investments available-for-sale .....	694,287	672,809	671,984
Investments classified as loans and receivables .....	40,460	—	—
<b>Total</b> .....	<b>734,747</b>	<b>672,809</b>	<b>671,984</b>

Note:

- (1) Balance sheet information as at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

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<sup>(1)</sup>**

Debt securities .....	42	17,243	17,285
Equity securities .....	4,046	–	4,046
Mutual funds .....	8,756	–	8,756
	<b>12,844</b>	<b>17,243</b>	<b>30,087</b>

Cyprus Government .....	–	17,235	17,235
Banks and other corporations .....	42	8	50
	<b>42</b>	<b>17,243</b>	<b>17,285</b>

**31 December 2013<sup>(1)</sup>**

Debt securities .....	103	15,549	15,652
Equity securities .....	2,953	–	2,953
Mutual funds .....	6,555	–	6,555
	<b>9,611</b>	<b>15,549</b>	<b>25,160</b>

Cyprus Government .....	–	15,413	15,413
Banks and other corporations .....	103	136	239
	<b>103</b>	<b>15,549</b>	<b>15,652</b>

**31 December 2012<sup>(1)</sup>**

Debt securities .....	96	13,955	14,051
Equity securities .....	2,557	–	2,557
Mutual funds .....	5,210	–	5,210
	<b>7,863</b>	<b>13,955</b>	<b>21,818</b>

Cyprus Government .....	–	13,042	13,042
Banks and other corporations .....	96	913	1,009
	<b>96</b>	<b>13,955</b>	<b>14,051</b>

Note:

- (1) Balance sheet information as at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

The table below analyses investments available-for-sale:

	31 December		30 June
	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>
		(€'000)	
<b>Investments available-for-sale</b>			
Debt securities .....	1,032,302	733,658	729,755
Equity securities .....	64,532	98,606	19,561
Mutual funds .....	–	1,803	1,283
	<b>1,096,834</b>	<b>834,067</b>	<b>750,599</b>

*Geographical distribution by country of issuer*

Cyprus .....	2,119	7,571	3,642
United Kingdom .....	9,867	6,365	6,193
France .....	509,745	476,818	491,358
Germany .....	59,688	58,258	59,142



	<b>31 December</b>		<b>30 June</b>
	<b>2012<sup>(1)</sup></b>	<b>2013<sup>(1)</sup></b>	<b>2014<sup>(1)</sup></b>
		(€'000)	
Ukraine .....	3	1	1
Italy.....	51,536	52,211	53,308
Other European countries .....	102,572	106,175	89,529
Other countries .....	2,197	2,052	1,997
European Financial Stability Facility and European Investment Fund.....	284,787	14,617	14,590
Supranational organisations .....	9,788	9,590	9,995
	<b>1,032,302</b>	<b>733,658</b>	<b>729,755</b>

Note:

- (1) Balance sheet information as at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

The table below analyses investments classified as loans and receivables:

	<b>31 December</b>		<b>30 June</b>
	<b>2012<sup>(1)</sup></b>	<b>2013<sup>(1)</sup></b>	<b>2014<sup>(1)</sup></b>
		(€'000)	
<b>Investments classified as loans and receivables</b>			
Debt securities .....	751,428	2,573,437	2,757,357
Cyprus government .....	749,981	2,572,940	2,756,854
Banks and other corporations .....	1,275	300	306
Local authorities .....	172	197	197
	<b>751,428</b>	<b>2,573,437</b>	<b>2,757,357</b>
<i>Geographical distribution by country of issuer</i>			
Cyprus .....	<b>751,428</b>	<b>2,573,437</b>	<b>2,757,357</b>

Note:

- (1) Balance sheet information as at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

### ***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.

### 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.

	<b>31 December</b>		<b>30 June</b>
	<b>2012<sup>(1)</sup></b>	<b>2013<sup>(1)</sup></b>	<b>2014<sup>(1)</sup></b>
		(€'000)	
<b>Net loans and advances to customers</b>			
Gross loans and advances to customers before fair value adjustment on initial recognition .....	28,050,587	26,743,319	23,284,579
Fair value adjustment on initial recognition .....	–	(1,902,711)	–
<b>Loans and advances to customers after fair value adjustment on initial recognition .....</b>	<b>28,050,587</b>	<b>24,840,608</b>	<b>23,284,579</b>
Provisions for impairment of loans and advances to customers .....	(3,676,056)	(3,076,270)	(3,221,545)
<b>Total .....</b>	<b>24,374,531</b>	<b>21,764,338</b>	<b>20,063,034</b>

Note:

- (1) Balance sheet information as at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

Loans and advances to customers decreased by €2,610.2 million or 10.7 per cent., to €21,764.3 million as at 31 December 2013, and by a further €1,701.3 million or 7.8 per cent. to €20,063.0 million at 30 June 2014. The decrease in 2013 was driven principally by the sale of the Group's operations in Greece, notwithstanding the acquisition of loans from Laiki Bank. 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.

	<b>31 December</b>		<b>30 June</b>
	<b>2012<sup>(1)</sup></b>	<b>2013<sup>(1)</sup></b>	<b>2014<sup>(1)</sup></b>
	<i>(€'000)</i>		
<b>Gross loans and advances to customers</b>			
Corporate .....	12,770,764	12,241,613	4,067,037
SMEs .....	5,938,350	6,115,702	2,597,637
Retail			
- Housing .....	5,507,210	5,374,666	3,939,881
- Credit cards .....	379,358	272,588	229,681
- Consumer and other .....	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
<b>Total</b> .....	<b>28,050,587</b>	<b>26,743,319</b>	<b>24,880,890</b>

Note:

- (1) Balance sheet information as at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

Corporate customers are the largest category of borrower, representing 45.5 per cent. of gross loans and advances to customers (including those classified as held for sale) as at 31 December 2012, 45.8 per cent. as at 31 December 2013 and 40.2 per cent. as 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 19.6 per cent. as at 31 December 2012, 20.1 per cent. as at 31 December 2013 and 15.6 per cent. as at 30 June 2014. SME loans (including those classified as held for sale) fluctuated marginally, from 21.2 per cent. as at 31 December 2012 to 22.9 per cent. as at 31 December 2013 before falling to 16.7 per cent. as at 30 June 2014 (including SME customers in the Restructuring and Recoveries Division).

### 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
	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>
	(€'000)		
<b>Gross loans and advances to customers</b>			
Trade .....	3,462,621	2,833,112	2,736,282
Manufacturing .....	1,952,021	999,057	964,597
Hotels and catering .....	2,276,944	1,887,832	1,692,719
Construction.....	3,609,851	4,248,650	4,127,122
Real estate .....	3,351,249	4,201,181	3,405,126
Private individuals .....	8,631,837	8,539,115	8,052,130
Professional and other services .....	2,776,244	2,306,763	2,372,044
Other sectors.....	1,989,820	1,727,609	1,530,870
<b>Total.....</b>	<b>28,050,587</b>	<b>26,743,319</b>	<b>24,880,890</b>

Note:

- (1) Balance sheet information as at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

Private individuals are the largest economic sector, representing 30.8 per cent. of total loans and advances (including those classified as held for sale) as at 31 December 2012, 31.9 per cent. as at 31 December 2013 and 31.8 per cent. at 30 June 2014. The construction sector represented 12.9 per cent., 15.9 per cent. and 16.3 per cent. of gross loans and advances, respectively. Real estate was 11.9 per cent. as at 31 December 2012, 15.7 per cent. as at 31 December 2013 and 14.3 per cent. as 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
	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>
	(€'000)		
<b>Gross loans and advances to customers</b>			
Cyprus.....	14,872,936	22,964,204	22,184,858
Greece .....	9,437,677	172,007	172,736
Russia.....	2,024,524	1,429,161	1,303,758
United Kingdom.....	834,006	1,283,749	848,623
Romania.....	550,154	492,983	370,915
Ukraine .....	331,290	401,215	—
<b>Total.....</b>	<b>28,050,587</b>	<b>26,743,319</b>	<b>24,880,890</b>

Note:

- (1) Balance sheet information as at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

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:

	<b>30 June 2014</b>
	(€'000)
Corporate .....	270,088
Small and medium-sized enterprises .....	136,069
Retail	
– housing .....	1,263
– consumer and other .....	11,238
<b>Total</b> .....	<b>418,658</b>
<b>By economic activity</b>	
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
<b>Total</b> .....	<b>418,658</b>

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.

Advances extended in Cyprus remain the core of the Group's business, representing 53.0 per cent., 85.9 per cent. and 87.7 per cent. of the Group's gross loans and advances to customers (including those classified as held for sale) as at 31 December 2012, 31 December 2013 and 30 June 2014, respectively. However, the geographical distribution of the Group's loan portfolio has been significantly impacted by the disposal of the Group's Greek operations.

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 €9.4 billion (33.6 per cent. of total loans and advances to customers) as at 31 December 2012 to €172.0 million (0.6 per cent.) as 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 per cent.) at 30 June 2014.

The Group's gross loans and advances to customers in Russia experienced a decline during each of the periods under review, partly due to exchange rate fluctuations. Loans declined from €2,024.5 million as at 31 December 2012 to €1,429.2 million as 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 declined from 7.2 per cent. as at 31 December 2012 to 5.3 per cent. as at 31 December 2013 and 5.2 per cent. at 30 June 2014.

The Group's gross loans and advances to customers in the United Kingdom increased by €449.7 million or 53.9 per cent. 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 United Kingdom grew from 3.0 per cent. as at 31 December 2012 to 4.8 per cent. as at 31 December 2013. However, the United Kingdom loans and advances (including those classified as held for sale) reduced by €112.1 million or 8.7 per cent. in the first half of 2014, mainly reflecting loan repayments. In April 2014, the Group announced that it is considering the disposal of a UK loan portfolio largely composed of residential and commercial real estate backed facilities, acquired from Laiki Bank. These loans are 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 financial statements for the period ending 30 June 2014.

### Other Assets

The table below sets out other assets of the Group as at the dates indicated:

	31 December		30 June
	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>
		(€'000)	
<b>Other assets</b>			
Debtors.....	26,400	22,956	25,814
Stock of property held for sale .....	11,624	14,110	13,134
Investment properties.....	316,378	495,658	451,823
Taxes refundable.....	41,459	48,544	51,534
Deferred tax asset.....	50,829	479,060	472,227
Retirement benefit plan assets .....	1,610	1,319	1,674
Reinsurers' share of insurance contract liabilities.....	65,927	68,387	75,983
Prepaid expenses.....	5,004	2,840	4,166
Receivable relating to acquisitions and disposals of operations.....	—	90,219	190,219
Other assets.....	94,529	178,740	128,098
<b>Total.....</b>	<b>613,760</b>	<b>1,401,833</b>	<b>1,414,672</b>

Note:

- (1) Balance sheet information as at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

Investment properties principally consist of properties pledged as collateral for loans that were acquired upon foreclosure of the loan. As at 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 per cent. 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.

## Liabilities

	31 December		30 June
	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>
	(€'000)		
<b>Liabilities</b>			
Amounts due to banks.....	341,044	196,422	219,186
Funding from central banks .....	—	10,956,277	10,184,574
Repurchase agreements.....	607,773	594,004	582,646
Derivative financial liabilities .....	183,826	83,894	82,496
Customer deposits.....	28,442,152	14,971,167	13,802,750
Insurance liabilities .....	604,170	551,829	574,966
Debt securities in issue.....	44,775	1,515	4,919
Other liabilities .....	339,727	251,979	287,984
Subordinated loan stock.....	133,294	4,676	4,718
<b>Total liabilities .....</b>	<b>30,696,761</b>	<b>27,611,763</b>	<b>25,744,239</b>

Note:

- (1) Balance sheet information as at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

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 €3,085.0 million or 10.0 per cent. from 31 December 2012 to 31 December 2013, and by a further €1,867.5 million or 6.8 per cent. to €25,744.2 million as at 30 June 2014.

## 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.

### 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 30 June
2012	2013	2014

	(%)		
<b>Liquidity ratio</b>			
At period end .....	8.79	12.28	12.52
Average ratio during the period .....	14.99	11.16	12.85
Highest ratio during the period .....	23.93	14.42	14.24
Lowest ratio during the period .....	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 per cent.. 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 per cent.. As at 30 June 2014, the euro liquidity ratio and liquidity ratio for foreign currencies were 6.4 per cent. and 7.2 per cent., 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 per cent. for the seven-day period and minus 25 per cent. for the 30-day period. As at 30 June 2014, the mismatch ratios were minus 32.0 per cent. for the seven-day period and minus 43.7 per cent. 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 "*Risk Factors –Regulatory and Legal Risks–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 30 June
	2012	2013	2014
		(%)	
<b>Net loan to deposit ratio</b>			
At period end .....	85.70	145.38	147.95
Average ratio during the period .....	91.65	128.84	148.10
Highest ratio during the period .....	93.85	145.95	150.96
Lowest ratio during the period .....	85.70	85.70	145.38

#### 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
	2012	2013	2014
		(€'000)	
<b>Encumbered assets</b>			
Cash and other liquid assets .....	707,749	367,080	246,483
Other investments .....	853,617	3,289,810	3,475,516



	<b>31 December</b>		<b>30 June</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>
		(€'000)	
Loans and advances to customers .....	1,830,000	15,136,002	14,135,929
Loans and advances held for sale .....	–	–	239,850
Property .....	–	90,181	88,933
	<b>3,391,366</b>	<b>18,883,073</b>	<b>18,186,711</b>

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 as at 31 December 2013 and €18,186.7 million as at 30 June 2014. These primarily consist of loans and advances to customers, investments in debt securities (primarily Government bonds) and property. 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 as at 31 December 2012, €221.3 million as at 31 December 2013 and €150.4 million as 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.

As 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.

As at 31 December 2013 and 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 as at 31 December 2013:

Encumbered and unencumbered assets	Encumbered	Unencumbered		Total
	Pledged as collateral	Available to be pledged	Not readily available to be pledged	
	(€'000)			
<b>30 June 2014</b>				
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 .....	88,993	616,364	72,535	777,832
<b>Total assets</b> .....	<b>18,186,711</b>	<b>4,272,846</b>	<b>4,251,161</b>	<b>26,710,718</b>
Bonds guaranteed by the Cyprus government .....	1,000,000	–	–	1,000,000
<b>Total</b> .....	<b>19,186,711</b>	<b>4,272,846</b>	<b>4,251,161</b>	<b>27,710,718</b>
<b>31 December 2013</b>				
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
<b>Total assets</b> .....	<b>18,883,073</b>	<b>4,889,779</b>	<b>4,928,875</b>	<b>28,701,727</b>
Bonds guaranteed by the Cyprus government .....	1,000,000	–	–	1,000,000
<b>Total</b> .....	<b>19,883,073</b>	<b>4,889,779</b>	<b>4,928,875</b>	<b>29,701,727</b>

### Funding

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

	31 December		30 June
	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>
(€'000)			
<b>Funding</b>			
Customer deposits .....	28,442,152	14,971,167	13,802,750
Funding from central banks .....	—	10,956,277	10,184,574
Repurchase agreements .....	607,773	594,004	582,646
Amounts due to banks .....	341,044	196,422	219,186
Debt securities in issue .....	44,775	1,515	4,919
<b>Total</b> .....	<b>29,435,744</b>	<b>26,719,385</b>	<b>24,794,075</b>

Note:

- (1) Balance sheet information as at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

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 2.25 per cent. for the year ended 31 December 2012, 2.37 per cent. for the year ended 31 December 2013 and 1.86 per cent. (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. As at 31 December 2012, 31 December 2013 and 30 June 2014, customer deposits accounted for 96.6 per cent., 56.0 per cent. and 55.7 per cent., 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.

	<b>31 December</b>		<b>30 June</b>
	<b>2012<sup>(1)</sup></b>	<b>2013<sup>(1)</sup></b>	<b>2014<sup>(1)</sup></b>
	<i>(€'000)</i>		
<b>Customer deposits</b>			
<i>By type of deposit</i>			
Demand.....	6,417,980	3,492,789	3,718,326
Savings.....	1,865,042	925,549	948,634
Time or notice .....	20,159,130	10,552,829	9,135,790
	<b>28,442,152</b>	<b>14,971,167</b>	<b>13,802,750</b>
<i>By geographical area</i>			
Cyprus.....	18,511,979	12,705,254	11,687,404
Greece .....	7,152,375	—	—
Russia .....	1,253,677	918,491	845,472
United Kingdom.....	1,215,207	1,244,186	1,251,630
Romania.....	214,149	30,055	18,244
Ukraine .....	94,765	73,181	—
	<b>28,442,152</b>	<b>14,971,167</b>	<b>13,802,750</b>

Note:

- (1) Balance sheet information as at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

Customer deposits decreased by €13.5 billion or 47.4 per cent. from €28.4 billion as at 31 December 2012 to €15.0 billion as 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 per cent. in the six months to 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 65.1 per cent. of customer deposits as at 31 December 2012, 84.9 per cent. as at 31 December 2013 and 84.7 per cent. as at 30 June 2014. The Group's customer deposits in Cyprus decreased by €5,806.7 million or 31.4 per cent., from €18,512.0 million as at

31 December 2012 to €12,705.3 million as at 31 December 2013, primarily as a result of the bail-in, and by a further €1,017.9 million or 8.0 per cent. to €11,687.4 million as at 30 June 2014.

Following the disposal of its operations in Greece, the Group had no customer deposits in Greece as at 31 December 2013 or 30 June 2014, compared to €7.2 billion as at 31 December 2012 (25.1 per cent. of total customer deposits).

The Group's customer deposits in Romania decreased by €184.1 million, from €214.1 million as at 31 December 2012 to €30.1 million as at 31 December 2013 and amounted to €18.2 million as 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 €1,215.2 million (4.3 per cent. of total deposits) as at 31 December 2012, to €1,244.2 million (8.3 per cent.) as at 31 December 2013 and €1,251.6 million (9.1 per cent.) 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 €335.2 million or 26.7 per cent. from €1,253.7 million as at 31 December 2012 to €918.5 million as at 31 December 2013 and by a further €73.0 million or 7.9 per cent. to €845.5 million as 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.

### Funding from central banks

As a result of the financial crisis in Cyprus, 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
	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>
		(€'000)	
<b>Funding from Central Banks</b>			
Emergency Liquidity Assistance.....	—	9,556,035	8,784,439
Monetary policy operations.....	—	1,400,242	1,400,135
<b>Total</b> .....	—	<b>10,956,277</b>	<b>10,184,574</b>

Note:

- (1) Balance sheet information as at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

As at 31 December 2012, the Group had no ELA or ECB funding and the Bank had been suspended by the ECB from participation in monetary policy operations since November 2012. As at 31 December 2013 and 30 June 2014, 41.0 per cent. and 41.1 per cent., 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 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 2013 Audited Financial Statements.

Since August 2013, the Bank has been reinstated by the ECB as an eligible counterparty for monetary policy operations. This enables the Bank to resort to monetary policy operations which may be used for ELA repayment. 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.

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 30 June 2014. The Bank currently has €7,680 million of ELA funding and €920 million of ECB funding.

## **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 per cent. annually and is traded on the Luxembourg Stock Exchange. Loans and advances pledged as collateral for covered bonds are disclosed in note 48 to

2013 Audited Financial Statements. 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:

	<b>31 December</b>		<b>30 June</b>
	<b>2012<sup>(1)</sup></b>	<b>2013<sup>(1)</sup></b>	<b>2014<sup>(1)</sup></b>
	<i>(€'000)</i>		
<b>Debt securities in issue</b>			
<b>Medium term senior debt</b> .....			
SEK100 million notes due 2014 .....	11,990	—	—
€2 million notes due 2016 .....	1,897	531	531
\$2 million notes due 2016 .....	1,502	143	144
	<b>15,389</b>	<b>674</b>	<b>675</b>
<b>Other debt securities in issue</b>			
RUB certificates of deposit and promissory notes.....	28,894	349	3,752
Interest free loan from the European Development Bank .....	492	492	492
	<b>29,386</b>	<b>841</b>	<b>4,244</b>
<b>Total debt securities in issue</b> .....	<b>44,775</b>	<b>1,515</b>	<b>4,919</b>

Note:

- (1) Balance sheet information as at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

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, it will resume issuing debt securities in the capital markets as part of its funding strategy going forward.

### 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. The bonds bear interest at an annual fixed interest rate of 5 per cent. and are guaranteed by the 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.

### 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
	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>
	(€'000)		
<b>Subordinated loan stock</b>			
U.S.\$ subordinated bonds issued by CB			
Uniastrum Bank LLC.....	6,922	4,676	4,718
2008 Convertible Bonds.....	27,103	—	—
CECS .....	76,775	—	—
2007 Capital Securities .....	22,494	—	—
<b>Total .....</b>	<b>133,294</b>	<b>4,676</b>	<b>4,718</b>

Note:

- (1) Balance sheet information as at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

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.

### 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.

### Equity

The following table shows the Group's equity at the dates indicated:

	<b>31 December</b>		<b>30 June</b>
	<b>2012<sup>(1)</sup></b>	<b>2013<sup>(1)</sup></b>	<b>2014<sup>(1)</sup></b>
	<i>(€'000)</i>		
<b>Equity</b>			
Share capital.....	1,795,141	4,683,985	4,755,711
Shares subject to interim orders .....	–	58,922	297
Share premium .....	428,271	–	–
Convertible Enhanced Capital Securities (CECS) .....	428,835	–	–
Revaluation and other reserves.....	106,336	72,251	79,178
Accumulated losses .....	(2,500,530)	(2,151,835)	(2,086,954)
<b>Equity attributable to the owners of the Bank .....</b>	<b>258,053</b>	<b>2,663,323</b>	<b>2,748,232</b>
Non-controlling interests .....	77,222	74,353	65,693
<b>Total equity .....</b>	<b>335,275</b>	<b>2,737,676</b>	<b>2,813,925</b>

Note:

- (1) Balance sheet information as at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

### Share Capital

The Group's share capital has been significantly impacted by the Recapitalisation, in which certain deposits, debt securities and subordinated loan stock of the Group were converted into ordinary shares. For a more detailed description of the Recapitalisation, please see "*Restructuring of the Bank and Laiki Bank*".

The following table shows the evolution of the Group's share capital at the dates indicated:

	<b>31 December</b>		<b>30 June</b>
	<b>2012<sup>(1)</sup></b>	<b>2013<sup>(1)</sup></b>	<b>2014<sup>(1)</sup></b>
	<i>(€'000)</i>		
<b>Share capital</b>			
<b>Beginning of year/period .....</b>	<b>899,528</b>	<b>1,795,141</b>	<b>4,683,985</b>
Issue of shares .....	159,683	–	–
Bonus issue .....	303,743	–	–
Conversion of CECS into shares.....	432,187	459,399	–
Bail-in of deposits and structured products .....	–	3,814,495	150
Shares subject to interim orders withdrawn/cancelled .....	–	–	58,625
Bail-in of 2007 Capital Securities, 2008 Convertible Bonds, 2009 Convertible Capital Securities into shares.....	–	122,541	–
Reduction in nominal value of share capital and utilisation of share premium.....	–	(2,353,349)	–
Acquisitions .....	–	845,758	12,951
<b>End of year/period .....</b>	<b>1,795,141</b>	<b>4,683,985</b>	<b>4,755,711</b>

Note:



- (1) Balance sheet information as at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

## 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 per cent. 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 ratio plus 1.5 per cent. In addition, it set the minimum total capital ratio as the Tier 1 ratio plus 2.0 per cent. As a result, the minimum required ratios for Tier 1 and total capital as at 31 December 2012 were 10.2 per cent. and 12.2 per cent., 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 per cent., 10.2 per cent. and 12.2 per cent., respectively. On 31 December 2013, the CBC increased the minimum Core Tier 1 capital ratio to 9 per cent. 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 ratios as at 30 June 2013 and 30 September 2013 were 10.2 per cent. and complied with the minimum Core Tier 1 ratio (8.7 per cent.) required by the CBC until 30 December 2013. The total capital ratio was 10.7 per cent. as at 30 June 2013 and 10.4 per cent. as at 30 September 2013 and did not comply with the minimum total capital ratio (12.2 per cent.) 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 Bank's CET 1 Ratio (CRD IV/CRR1 – transitional basis) increased to 15.6 per cent. and its CET 1 Ratio (CRD IV/CRR – fully loaded basis) increased to 15.1 per cent.

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 EU'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 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 RWAs 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 per cent. 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 any additional capital requirements which may arise upon finalisation of the AQR and the EU-wide stress test (Pillar II add-ons).

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.

	<b>31 December 2013</b>	<b>30 June 2014</b>
	(€'000)	
<b>Provisional CRR and CRD IV Regulatory Capital</b>		
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
<b>Transitional total regulatory capital</b> .....	<b>2,495,082</b>	<b>2,549,934</b>
 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
<b>Total risk-weighted assets</b> .....	<b>23,529,603</b>	<b>22,485,200</b>
	(%)	
<b>Capital Ratios</b>		
Transitional Common Equity Tier 1 (CET 1) ratio .....	10.4	11.3
Transitional total capital ratio .....	10.6	11.3
 <b>Minimum ratios per the CBC Directive</b>		
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:

	<b>31 December 2012</b>	<b>2013</b>
	(€'000)	
<b>Pre-CRR and CRD IV Regulatory Capital</b>		
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)	–
<b>Total regulatory capital</b> .....	<b>196,907</b>	<b>2,357,094</b>
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
<b>Total risk-weighted assets</b> .....	<b>21,579,852</b>	<b>22,441,445</b>
	(%)	
Core Tier 1 ratio .....	(1.9)	10.2
Tier 1 ratio .....	0.6	10.2
Tier 2 ratio .....	1.2	0.3
<b>Total capital ratio</b> .....	0.9	10.5
 <b>Minimum ratios per the CBC Directive</b>		
Core Tier 1 ratio .....	8.7	9.0
Tier 1 ratio .....	10.2	N/A
<b>Total capital ratio</b> .....	12.2	N/A

## 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 Financial Statements and its Unaudited Financial Statements (that includes comparative information for the six months ended 30 June 2013) 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.

### Credit Risk

#### 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:

	31 December		30 June
	2012	2013	2014
	(€'000)		
<b>Maximum exposure to credit risk</b>			
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
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
<b>On-balance sheet total</b> .....	<b>29,163,451</b>	<b>27,751,355</b>	<b>26,174,897</b>
<i>Contingent liabilities</i>			
Acceptances and endorsements .....	12,970	20,467	11,875
Guarantees .....	1,546,572	1,207,501	1,064,361
<i>Commitments</i>			
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
<b>Off-balance sheet total</b> .....	<b>4,299,259</b>	<b>4,142,601</b>	<b>3,679,737</b>
<b>Total credit risk exposure</b> .....	<b>33,462,710</b>	<b>31,893,956</b>	<b>29,854,634</b>

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		30 June
	2012	2013	2014
	(€'000)		
<b>On-balance sheet</b>			
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	—
<b>Total .....</b>	<b>29,163,451</b>	<b>27,751,355</b>	<b>26,174,897</b>
<b>Off-balance sheet</b>			
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	—
<b>Total .....</b>	<b>4,299,259</b>	<b>4,142,601</b>	<b>3,679,737</b>
<b>Total on and off-balance sheet</b>			
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	—
<b>Total .....</b>	<b>33,462,710</b>	<b>31,893,956</b>	<b>29,854,634</b>

### 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.



Debt securities classified as available-for-sale and loans and receivables....	1,783,730	—	—	—	—	—	—	—	1,783,730
Derivative financial instruments .....	26,794	1,310	—	—	—	—	—	1,310	25,484
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
<b>On-balance sheet total</b>	<b>29,163,451</b>	<b>1,821,845</b>	<b>363,821</b>	<b>294,388</b>	<b>24,544,975</b>	<b>3,270,589</b>	<b>(7,741,127)</b>	<b>22,554,491</b>	<b>6,608,960</b>
<i>Contingent liabilities</i>									
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
<i>Commitments.....</i>									
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
<b>Off-balance sheet total</b>	<b>4,299,259</b>	<b>689,556</b>	<b>3,199</b>	<b>17,546</b>	<b>164,947</b>	<b>12,318</b>	<b>(90,029)</b>	<b>797,537</b>	<b>3,501,722</b>
<b>Total credit risk exposure</b>	<b>33,462,710</b>	<b>2,511,401</b>	<b>367,020</b>	<b>311,934</b>	<b>24,709,922</b>	<b>3,282,907</b>	<b>(7,831,156)</b>	<b>23,352,028</b>	<b>10,110,682</b>

The Group's exposure to customer groups who have credit facilities amounting to more than 10 per cent. of the Group's capital base was €2.8 billion as at 31 December 2013. Total exposure to the Group's largest customer groups was 10.4 per cent. of the Group's gross loans and advances to customers before fair value adjustments on initial recognition as at 31 December 2013.

There are restrictions on loan concentrations which are imposed under the Banking Law of Cyprus of 1997 (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 per cent. of their capital to any individual borrower and their connected persons. In addition, total lending to individual borrowers and their connected persons whose borrowings exceed 10 per cent. of a bank's capital base should not in aggregate exceed eight times its capital base. The Bank is in compliance with both of these regulations – see *Overview of the Banking Sector in Cyprus*. 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 as at 30 June 2014 are presented below:

							Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
	Cyprus	Greece	Russia	United Kingdom	Romania	Total		
<b>30 June 2014<sup>(1)</sup></b>	<i>(€'000)</i>							
<b>By economic activity</b>								
Trade .....	2,444,121	—	242,594	37,107	12,460	<b>2,736,282</b>	<b>(197,105)</b>	<b>2,539,177</b>
Manufacturing .....	846,820	—	95,600	14,720	7,457	<b>964,597</b>	<b>(58,075)</b>	<b>906,522</b>
Hotels and catering ..	1,590,735	—	—	94,499	7,485	<b>1,692,719</b>	<b>(102,758)</b>	<b>1,589,961</b>
Construction .....	3,995,930	—	59,149	45,121	26,922	<b>4,127,122</b>	<b>(378,764)</b>	<b>3,748,358</b>
Real estate.....	2,449,756	43,481	143,687	556,246	211,956	<b>3,405,126</b>	<b>(171,172)</b>	<b>3,233,954</b>
Private individuals ...	7,644,430	245	361,172	42,737	3,546	<b>8,052,130</b>	<b>(337,381)</b>	<b>7,714,749</b>
Professional and other services .....	1,866,862	—	376,619	57,196	71,367	<b>2,372,044</b>	<b>(142,556)</b>	<b>2,229,488</b>
Other sectors .....	1,346,204	129,010	24,937	997	29,722	<b>1,530,870</b>	<b>(208,500)</b>	<b>1,322,370</b>
	<b>22,184,858</b>	<b>172,736</b>	<b>1,303,758</b>	<b>848,623</b>	<b>370,915</b>	<b>24,880,890</b>	<b>(1,596,311)</b>	<b>23,284,579</b>
<b>By customer sector</b>								
Corporate.....	2,493,105	172,491	697,240	371,121	333,080	<b>4,067,037</b>	<b>(203,596)</b>	<b>3,863,441</b>
Small and medium- sized enterprises (SMEs) .....	1,874,105	—	245,347	443,766	34,419	<b>2,597,637</b>	<b>(87,810)</b>	<b>2,509,827</b>
Retail								
- housing .....	3,874,359	—	38,265	25,597	1,660	<b>3,939,881</b>	<b>(58,150)</b>	<b>3,881,731</b>
- credit cards .....	126,214	—	103,467	—	—	<b>229,681</b>	<b>(15,211)</b>	<b>214,470</b>
- consumer and other .....	1,542,361	245	219,439	8,139	1,756	<b>1,771,940</b>	<b>(73,293)</b>	<b>1,698,647</b>
Restructuring and Recovery								
- corporate.....	5,841,386	—	—	—	—	<b>5,841,386</b>	<b>(358,969)</b>	<b>5,482,417</b>
- SMEs .....	1,501,329	—	—	—	—	<b>1,501,329</b>	<b>(140,679)</b>	<b>1,360,650</b>
- recoveries .....	4,059,525	—	—	—	—	<b>4,059,525</b>	<b>(612,856)</b>	<b>3,446,669</b>
International banking services .....	809,012	—	—	—	—	<b>809,012</b>	<b>(36,413)</b>	<b>772,599</b>
Wealth management .....	63,462	—	—	—	—	<b>63,462</b>	<b>(9,334)</b>	<b>54,128</b>
	<b>22,184,858</b>	<b>172,736</b>	<b>1,303,758</b>	<b>848,623</b>	<b>370,915</b>	<b>24,880,890</b>	<b>(1,596,311)</b>	<b>23,284,579</b>

Note:

- (1) Balance sheet information as at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

The geographic and industry concentrations of loans and advances to customers which are classified as held for sale at 30 June 2014 presented in the table below:

				Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
30 June 2014	United Kingdom	Romania	Total		
			(€'000)		
<b>By economic activity</b>					
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
	<b>323,014</b>	<b>95,644</b>	<b>418,658</b>	<b>(18,257)</b>	<b>400,401</b>
<b>By customer sector</b>					
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
	<b>323,014</b>	<b>95,644</b>	<b>418,658</b>	<b>(18,257)</b>	<b>400,401</b>

- (1) Balance sheet information as at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

Geographical and industry concentrations of Group loans and advances to customers as at 31 December 2013 are presented below:

								Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
31 December 2013 <sup>(1)</sup>	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total		
							(€'000)		
<b>By economic activity</b>									
Trade.....	2,471,968	—	261,518	48,816	16,239	34,571	<b>2,833,112</b>	<b>(187,369)</b>	<b>2,645,743</b>
Manufacturing.....	829,327	—	99,790	33,608	22,701	13,631	<b>999,057</b>	<b>(63,157)</b>	<b>935,900</b>



								Gross loans after fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
			United Kingdom					Fair value adjustment on initial recognition	Fair value adjustment on initial recognition
	Cyprus	Greece	Russia	Kingdom	Romania	Ukraine	Total		
<b>31 December 2013<sup>(1)</sup></b>									
							(€'000)		
Hotels and catering.....	1,610,289	–	–	165,499	105,434	6,610	<b>1,887,832</b>	<b>(112,051)</b>	<b>1,775,781</b>
Construction .....	4,101,528	–	64,096	44,746	26,252	12,028	<b>4,248,650</b>	<b>(383,290)</b>	<b>3,865,360</b>
Real estate .....	2,846,007	–	172,732	802,346	217,191	162,905	<b>4,201,181</b>	<b>(350,743)</b>	<b>3,850,438</b>
Private individuals.....	8,030,587	542	399,116	43,476	3,809	61,585	<b>8,539,115</b>	<b>(392,344)</b>	<b>8,146,771</b>
Professional and other services.....	1,675,402	–	404,403	56,638	70,692	99,628	<b>2,306,763</b>	<b>(179,998)</b>	<b>2,126,765</b>
Other sectors.....	1,399,096	171,465	27,506	88,620	30,665	10,257	<b>1,727,609</b>	<b>(233,759)</b>	<b>1,493,850</b>
	<b>22,964,204</b>	<b>172,007</b>	<b>1,429,161</b>	<b>1,283,749</b>	<b>492,983</b>	<b>401,215</b>	<b>26,743,319</b>	<b>(1,902,711)</b>	<b>24,840,608</b>
<b>By customer sector</b>									
Corporate .....	9,882,891	171,465	773,340	634,572	448,642	330,703	<b>12,241,613</b>	<b>(1,033,886)</b>	<b>11,207,727</b>
Small and medium- sized enterprises (SMEs) .....	5,201,416	–	256,705	592,048	40,695	24,838	<b>6,115,702</b>	<b>(517,716)</b>	<b>5,597,986</b>
Retail.....									
- housing.....	5,281,389	–	41,792	34,809	1,767	14,909	<b>5,374,666</b>	<b>(121,036)</b>	<b>5,253,630</b>
- credit cards.....	170,552	–	102,025	–	–	11	<b>272,588</b>	<b>(21,281)</b>	<b>251,307</b>
- consumer and other....	2,427,956	542	255,299	22,320	1,879	30,754	<b>2,738,750</b>	<b>(208,792)</b>	<b>2,529,958</b>
	<b>22,964,204</b>	<b>172,007</b>	<b>1,429,161</b>	<b>1,283,749</b>	<b>492,983</b>	<b>401,215</b>	<b>26,743,319</b>	<b>(1,902,711)</b>	<b>24,840,608</b>

Note:

- (1) Balance sheet information as at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

Geographical and industry concentrations of Group loans and advances to customers as at 31 December 2012 are presented below:

	Cyprus	Greece	Russia	United Kingdom	Roma nia	Ukraine	Total
<b>31 December 2012<sup>(1)</sup></b>							
							(€'000)
<b>By economic activity</b>							
Trade .....	1,621,879	1,337,611	398,902	55,489	27,278	21,462	<b>3,462,621</b>
Manufacturing .....	518,754	1,197,493	179,067	15,525	28,226	12,956	<b>1,952,021</b>
Hotels and catering .....	914,486	1,130,222	–	115,327	108,375	8,534	<b>2,276,944</b>
Construction .....	2,420,212	1,013,129	78,885	56,583	25,504	15,538	<b>3,609,851</b>
Real estate.....	1,715,884	651,750	183,669	484,948	223,221	91,777	<b>3,351,249</b>
Private individuals .....	5,323,545	2,611,578	521,945	53,594	42,515	78,660	<b>8,631,837</b>
Professional and other services.....	1,425,792	503,640	614,806	51,883	81,185	98,938	<b>2,776,244</b>
Other sectors .....	932,384	992,254	47,250	657	13,850	3,425	<b>1,989,820</b>

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
<b>31 December 2012<sup>(1)</sup></b>				(€'000)			
	<b>14,872,936</b>	<b>9,437,677</b>	<b>2,024,524</b>	<b>834,006</b>	<b>550,154</b>	<b>331,290</b>	<b>28,050,587</b>
<b>By customer sector</b>							
Corporate .....	7,082,512	3,470,307	1,199,608	321,927	453,600	242,810	<b>12,770,764</b>
Small and medium-sized enterprises (SMEs) .....	2,276,659	2,739,550	366,649	472,642	53,292	29,558	<b>5,938,350</b>
Retail .....							
- housing .....	3,740,856	1,634,263	58,976	33,584	18,739	20,792	<b>5,507,210</b>
- credit cards .....	120,658	155,727	102,966	–	–	7	<b>379,358</b>
- consumer and other....	1,652,251	1,437,830	296,325	5,853	24,523	38,123	<b>3,454,905</b>
	<b>14,872,936</b>	<b>9,437,677</b>	<b>2,024,524</b>	<b>834,006</b>	<b>550,154</b>	<b>331,290</b>	<b>28,050,587</b>

Note:

- (1) Balance sheet information as at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

### 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:

	Gross loans before fair value adjustment on initial recognition	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
<b>Loans and advances to customers</b>			
		(€'000)	
<b>30 June 2014</b>			
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
<b>Total .....</b>	<b>24,880,890</b>	<b>(1,596,311)</b>	<b>23,284,579</b>
<b>31 December 2013</b>			
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
<b>Total .....</b>	<b>26,743,319</b>	<b>(1,902,711)</b>	<b>24,840,608</b>

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:

<b>Loans and advances to customers – held for sale</b>	<b>Gross loans before fair value adjustment on initial recognition</b>	<b>Fair value adjustment on initial recognition</b>	<b>Gross loans after fair value adjustment on initial recognition</b>
		<b>(€'000)</b>	
<b>30 June 2014</b>			
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
<b>Total .....</b>	<b>418,658</b>	<b>(18,257)</b>	<b>400,401</b>

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.

As 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:

<b>Loans and advances to customers – neither past due nor impaired</b>	<b>Grade 1</b>	<b>Grade 2</b>	<b>Grade 3</b>	<b>Total</b>
		<b>(€'000)</b>		
<b>31 December 2013</b>				
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
<b>Total .....</b>	<b>7,331,827</b>	<b>2,044,638</b>	<b>2,478,898</b>	<b>11,855,363</b>

**31 December 2012**

**Loans and advances to customers –  
neither past due nor impaired**

	<b>Grade 1</b>	<b>Grade 2</b>	<b>Grade 3</b>	<b>Total</b>
		<i>(€'000)</i>		
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
<b>Total .....</b>	<b>13,017,785</b>	<b>1,541,254</b>	<b>2,843,080</b>	<b>17,402,119</b>

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 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:

<b>Loans and advances to customers – past due but not impaired</b>	<b>31 December</b>		<b>30 June</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>
		<i>(€'000)</i>	
<b>Past due:</b>			
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
<b>Total</b>	<b>5,752,371</b>	<b>6,732,583</b>	<b>5,215,567</b>
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:

<b>Loans and advances to customers – impaired</b>	<b>Gross loans and advances</b>	<b>Fair value of collateral<sup>(1)</sup></b>
	<i>(€'000)</i>	
<b>30 June 2014</b>		
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.....	–	–
<b>Total .....</b>	<b>8,874,168</b>	<b>6,410,880</b>
<b>31 December 2013</b>		
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
<b>Total .....</b>	<b>8,155,373</b>	<b>4,689,810</b>
<b>31 December 2012</b>		
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
<b>Total .....</b>	<b>4,896,097</b>	<b>2,898,208</b>

(1) The fair value of the collateral presented has been computed based on the extent that the collateral mitigates credit risk.

#### **Provision for impairment of loans and advances to customers**

The movement of provisions for impairment of loans and advances to customers is as follows:

<b>Provision for impairment<sup>(1)</sup></b>	<b>Cyprus</b>	<b>Greece</b>	<b>Russia</b>	<b>Other countries</b>	<b>Total</b>
			(€'000)		
<b>Six months ended 30 June 2014</b>					
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
<b>30 June.....</b>	<b>2,813,813</b>	<b>9,978</b>	<b>310,401</b>	<b>129,831</b>	<b>3,264,023</b>
<b>Individual impairment .....</b>	<b>2,052,030</b>	<b>9,978</b>	<b>153,166</b>	<b>121,110</b>	<b>2,336,284</b>
<b>Collective impairment .....</b>	<b>761,783</b>	<b>–</b>	<b>157,235</b>	<b>8,721</b>	<b>927,739</b>
The balance of provisions of impaired loans and advances at 30 June 2014 includes €42,478 thousand of loans and advances held for sale.					
<b>Year ended 31 December 2013</b>					
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
<b>31 December .....</b>	<b>2,574,670</b>	<b>189</b>	<b>286,366</b>	<b>215,045</b>	<b>3,076,270</b>
<b>Individual impairment .....</b>	<b>1,916,985</b>	<b>189</b>	<b>142,700</b>	<b>185,395</b>	<b>2,245,269</b>
<b>Collective impairment .....</b>	<b>657,685</b>	<b>–</b>	<b>143,666</b>	<b>29,650</b>	<b>831,001</b>

<b>Provision for impairment<sup>(1)</sup></b>	<b>Cyprus</b>	<b>Greece</b>	<b>Russia</b>	<b>Other countries</b>	<b>Total</b>
			(€'000)		
<b>Year ended 31 December 2012</b>					
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
<b>31 December .....</b>	<b>1,779,343</b>	<b>1,528,224</b>	<b>238,472</b>	<b>130,017</b>	<b>3,676,056</b>
<b>Individual impairment .....</b>	<b>1,425,220</b>	<b>1,045,187</b>	<b>130,113</b>	<b>115,371</b>	<b>2,715,891</b>
<b>Collective impairment .....</b>	<b>354,123</b>	<b>483,037</b>	<b>108,359</b>	<b>14,646</b>	<b>960,165</b>

- (1) Balance sheet information at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance Sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

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 Bank's Restructuring and Recoveries Division ("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 per cent. and 10 per cent., 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 Cyprus increased by 5 per cent. and 10 per cent., then the provisions for impairment of loans and advances would decrease by €201,186 thousand and €392,298 thousand respectively.

### 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)			
<b>Six months ended 30 June 2014<sup>(1)</sup></b>							
1 January .....	5,135,646	—	187,031	107,624	124,312	62,051	<b>5,616,664</b>
Disposal of Ukraine operations.....	—	—	—	—	—	(78,708)	<b>(78,708)</b>
New loans and advances rescheduled during the period .....	853,273	70,422	27,801	67,443	122,385	4,481	<b>1,145,805</b>
Assets no longer rescheduled (including repayments).....	(595,747)	—	(32,241)	(27,295)	(22,495)	(3,975)	<b>(681,753)</b>
Interest accrued on rescheduled loans and advances.....	139,660	413	1,911	3,335	1,407	2,460	<b>149,186</b>
Exchange adjustments .....	2,420	—	(5,056)	5,007	3,601	13,691	<b>19,663</b>
<b>30 June</b>	<b>5,535,252</b>	<b>70,835</b>	<b>179,446</b>	<b>156,114</b>	<b>229,210</b>	<b>—</b>	<b>6,170,857</b>

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.

### Year ended 31 December 2013<sup>(1)</sup>

1 January .....	3,394,783	1,657,988	113,217	58,264	63,039	64,336	<b>5,351,627</b>
Disposal of Greek operations.....	—	(1,302,984)	—	—	—	—	<b>(1,302,984)</b>
New loans and advances rescheduled during the year.....	2,657,226	—	106,959	61,825	76,323	26,519	<b>2,928,852</b>
Assets no longer rescheduled (including .....	(1,126,560)	(355,004)	(24,411)	(16,775)	(17,381)	(29,092)	<b>(1,569,223)</b>



<b>Rescheduled loans and advances to customers</b>	<b>Cyprus</b>	<b>Greece</b>	<b>Russia</b>	<b>United Kingdom</b>	<b>Romania</b>	<b>Ukraine</b>	<b>Total</b>
				(€'000)			
repayments).....							
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	<b>234,816</b>
Exchange adjustments .....	(3,886)	–	(18,135)	(358)	(1,121)	(2,913)	<b>(26,413)</b>
31 December.....	<b>5,135,646</b>	<b>–</b>	<b>187,031</b>	<b>107,624</b>	<b>124,312</b>	<b>62,051</b>	<b>5,616,664</b>

**Year ended**

**31 December 2012<sup>(1)</sup>**

1 January .....	1,843,527	1,099,737	54,266	94,855	66,609	58,875	<b>3,217,869</b>
New loans and advances rescheduled during the year.....	1,895,156	1,497,983	107,045	1,335	26,174	21,341	<b>3,549,034</b>
Assets no longer rescheduled (including repayments).....	(540,332)	(945,395)	(53,312)	(37,989)	(32,611)	(15,523)	<b>(1,625,162)</b>
Applied in writing off rescheduled loans and advances.....	–	–	–	(5,022)	–	–	<b>(5,022)</b>
Interest accrued on rescheduled loans and advances.....	197,500	3,912	3,025	2,428	3,360	1,476	<b>211,701</b>
Exchange adjustments .....	(1,068)	1,751	2,193	2,657	(493)	(1,833)	<b>3,207</b>
31 December.....	<b>3,394,783</b>	<b>1,657,988</b>	<b>113,217</b>	<b>58,264</b>	<b>63,039</b>	<b>64,336</b>	<b>5,351,627</b>

- (1) Balance sheet information at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance Sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

In addition to the above, the loans acquired from Laiki Bank include rescheduled loans of a gross amount of €1,938,114 thousand as 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.

### Rescheduled loans and advances to customers – credit quality

The table below analyses the Group's rescheduled loans and advances to customers by credit quality as at 31 December 2012 and 2013 and 30 June 2014:

<b>Rescheduled loans and advances to customers</b>	<b>Cyprus</b>	<b>Greece</b>	<b>Russia</b>	<b>United Kingdom</b>	<b>Romania</b>	<b>Ukraine</b>	<b>Total</b>
				(€'000)			
<b>30 June 2014</b>							
Neither past due nor impaired .....	2,828,822	–	106,448	122,444	172,083	–	<b>3,229,797</b>
Past due but not impaired.....	1,593,626	–	19,134	29,566	904	–	<b>1,643,230</b>
Impaired .....	1,112,804	70,835	53,864	4,104	56,223	–	<b>1,297,830</b>
	<b>5,535,252</b>	<b>70,835</b>	<b>179,446</b>	<b>156,114</b>	<b>229,210</b>	<b>–</b>	<b>6,170,857</b>
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.							
<b>31 December 2013</b>							
Neither past due nor impaired .....	2,659,066	–	154,721	89,549	16,586	6,128	<b>2,926,050</b>
Past due but not impaired.....	1,428,549	–	18,529	10,425	22,598	22,221	<b>1,502,322</b>
Impaired .....	1,048,031	–	13,781	7,650	85,128	33,702	<b>1,188,292</b>
	<b>5,135,646</b>	<b>–</b>	<b>187,031</b>	<b>107,624</b>	<b>124,312</b>	<b>62,051</b>	<b>5,616,664</b>
<b>31 December 2012</b>							
Neither past due nor impaired .....	2,200,463	871,475	97,446	40,642	25,694	19,390	<b>3,255,110</b>
Past due but not impaired.....	773,395	672,857	3,939	5,086	34,796	16,268	<b>1,506,341</b>
Impaired .....	420,925	113,656	11,832	12,536	2,549	28,678	<b>590,176</b>
	<b>3,394,783</b>	<b>1,657,988</b>	<b>113,217</b>	<b>58,264</b>	<b>63,039</b>	<b>64,336</b>	<b>5,351,627</b>

The table below analyses the fair value of collateral securing the Group's rescheduled loans and advances to customers as at 31 December 2012 and 2013 and 30 June 2014:

<b>Fair value of collateral</b>	<b>Cyprus</b>	<b>Greece</b>	<b>Russia</b>	<b>United Kingdom</b>	<b>Romania</b>	<b>Ukraine</b>	<b>Total</b>
				(€'000)			
<b>30 June 2014</b>							
Neither past due nor impaired .....	2,485,649	–	102,808	115,595	170,828	–	<b>2,874,880</b>
Past due but not impaired.....	1,440,819	–	18,567	28,388	904	–	<b>1,488,678</b>
Impaired .....	892,963	–	39,093	2,687	47,760	–	<b>982,503</b>
	<b>4,819,431</b>	<b>–</b>	<b>160,468</b>	<b>146,670</b>	<b>219,492</b>	<b>–</b>	<b>5,346,061</b>

The fair value of the 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.

<b>Fair value of collateral</b>	<b>Cyprus</b>	<b>Greece</b>	<b>Russia</b>	<b>United Kingdom</b>	<b>Romania</b>	<b>Ukraine</b>	<b>Total</b>
				(€'000)			
<b>31 December 2013</b>							
Neither past due nor impaired .....	2,290,950	–	151,815	89,444	14,052	6,127	<b>2,552,388</b>
Past due but not impaired.....	1,218,052	–	18,206	12,236	16,544	20,699	<b>1,285,737</b>
Impaired .....	789,767	–	9,509	5,639	57,430	20,369	<b>882,714</b>
	<b>4,298,769</b>	<b>–</b>	<b>179,530</b>	<b>107,319</b>	<b>88,026</b>	<b>47,195</b>	<b>4,720,839</b>
<b>31 December 2012</b>							
Neither past due nor impaired .....	1,837,569	619,427	40,263	40,504	9,183	19,389	<b>2,566,335</b>
Past due but not impaired.....	642,094	552,064	3,580	5,086	8,047	14,675	<b>1,225,546</b>
Impaired .....	303,889	78,111	8,162	9,365	2,282	18,774	<b>420,583</b>
	<b>2,783,552</b>	<b>1,249,602</b>	<b>52,005</b>	<b>54,955</b>	<b>19,512</b>	<b>52,838</b>	<b>4,212,464</b>

The fair value of collateral presented above has been computed based on the extent that the collateral mitigates credit risk.

#### **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:

<b>Rescheduled loans and advances to customers</b>	<b>Cyprus</b>	<b>Greece</b>	<b>Russia</b>	<b>United Kingdom</b>	<b>Romania</b>	<b>Ukraine</b>	<b>Total</b>
				(€'000)			
<b>30 June 2014</b>							
<b>By economic activity</b>							
Trade .....	504,118	–	32,730	838	7,348	–	<b>545,034</b>
Manufacturing .....	211,976	–	8,349	10,799	959	–	<b>232,083</b>
Hotels and catering .....	478,774	–	–	22,391	101,901	–	<b>603,066</b>
Construction .....	1,034,991	–	8,642	18,530	9,562	–	<b>1,071,725</b>
Real estate .....	731,736	–	–	84,610	86,518	–	<b>902,864</b>
Private individuals .....	1,883,555	–	–	3,371	61	–	<b>1,886,987</b>
Professional and other services .....	367,032	–	129,725	14,268	21,781	–	<b>532,806</b>
Other sectors .....	323,070	70,835	–	1,307	1,080	–	<b>396,292</b>
	<b>5,535,252</b>	<b>70,835</b>	<b>179,446</b>	<b>156,114</b>	<b>229,210</b>	<b>–</b>	<b>6,170,857</b>

<b>Rescheduled loans and advances to customers</b>	<b>Cyprus</b>	<b>Greece</b>	<b>Russia</b>	<b>United Kingdom</b>	<b>Romania</b>	<b>Ukraine</b>	<b>Total</b>
				(€'000)			
<b>By customer sector</b>							
Corporate.....	734,441	70,835	155,703	87,310	212,580	–	<b>1,260,869</b>
Small and medium-sized enterprises (SMEs).....	553,538	–	20,654	68,294	16,569	–	<b>659,055</b>
Retail							
- housing .....	1,314,709	–	74	62	–	–	<b>1,314,845</b>
- credit cards .....	195	–	590	–	–	–	<b>785</b>
- consumer and other .....	369,690	–	2,425	448	61	–	<b>372,624</b>
Restructuring and recovery							
- corporate.....	2,062,387	–	–	–	–	–	<b>2,062,387</b>
- SMEs .....	365,487	–	–	–	–	–	<b>365,487</b>
- recoveries .....	101,953	–	–	–	–	–	<b>101,953</b>
International banking services.....	25,953	–	–	–	–	–	<b>25,953</b>
Wealth management .....	6,899	–	–	–	–	–	<b>6,899</b>
	<b>5,535,252</b>	<b>70,835</b>	<b>179,446</b>	<b>156,114</b>	<b>229,210</b>	<b>–</b>	<b>6,170,857</b>

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	<b>515,082</b>
Manufacturing.....	186,322	–	4,417	1,204	1,348	994	<b>194,285</b>
Hotels and catering.....	371,577	–	–	11,410	6,314	6,232	<b>395,533</b>
Construction.....	993,812	–	9,773	16,124	17,512	10,738	<b>1,047,959</b>
Real estate .....	700,093	–	–	70,691	68,019	25,398	<b>864,201</b>
Private individuals .....	1,815,870	–	–	1,693	119	8,665	<b>1,826,347</b>
Professional and other services.....	379,664	–	126,007	5,909	21,644	4,740	<b>537,964</b>
Other sectors .....	233,436	–	–	–	1,294	563	<b>235,293</b>
	<b>5,135,646</b>	<b>–</b>	<b>187,031</b>	<b>107,624</b>	<b>124,312</b>	<b>62,051</b>	<b>5,616,664</b>

#### By customer sector

Corporate.....	2,428,050	–	165,286	58,069	101,904	53,553	<b>2,806,862</b>
Small and medium-sized enterprises (SMEs).....	937,341	–	18,592	49,310	22,289	5,501	<b>1,033,033</b>
Retail .....							

<b>Rescheduled loans and advances to customers</b>	<b>Cyprus</b>	<b>Greece</b>	<b>Russia</b>	<b>United Kingdom</b>	<b>Romania</b>	<b>Ukraine</b>	<b>Total</b>
				(€'000)			
- housing .....	1,396,739	–	2,340	64	110	263	<b>1,399,516</b>
- credit cards .....	382	–	153	–	–	–	<b>535</b>
- consumer and other .....	373,134	–	660	181	9	2,734	<b>376,718</b>
	<b>5,135,646</b>	<b>–</b>	<b>187,031</b>	<b>107,624</b>	<b>124,312</b>	<b>62,051</b>	<b>5,616,664</b>

### 31 December 2012

#### By economic activity

Trade .....	263,551	113,294	17,901	369	210	10,462	<b>405,787</b>
Manufacturing .....	63,668	89,909	7,219	75	1,488	379	<b>162,738</b>
Hotels and catering .....	239,384	296,273	–	11,229	971	4,951	<b>552,808</b>
Construction .....	937,094	205,160	10,282	12,144	3,966	10,560	<b>1,179,206</b>
Real estate .....	615,446	154,365	–	27,975	18,821	24,394	<b>841,001</b>
Private individuals .....	839,420	530,828	–	1,117	1,823	8,492	<b>1,381,680</b>
Professional and other services .....	249,147	128,241	77,815	5,355	26,867	3,868	<b>491,293</b>
Other sectors .....	187,073	139,918	–	–	8,893	1,230	<b>337,114</b>
	<b>3,394,783</b>	<b>1,657,988</b>	<b>113,217</b>	<b>58,264</b>	<b>63,039</b>	<b>64,336</b>	<b>5,351,627</b>

#### By customer sector

Corporate .....	1,995,147	603,348	97,686	35,832	50,413	55,865	<b>2,838,291</b>
Small and medium-sized enterprises (SMEs) .....	589,460	499,786	12,986	22,357	10,803	5,802	<b>1,141,194</b>
Retail							
- housing .....	635,409	396,576	2,322	71	881	172	<b>1,035,431</b>
- credit cards .....	327	–	–	–	–	–	<b>327</b>
- consumer and other .....	174,440	158,278	223	4	942	2,497	<b>336,384</b>
	<b>3,394,783</b>	<b>1,657,988</b>	<b>113,217</b>	<b>58,264</b>	<b>63,039</b>	<b>64,336</b>	<b>5,351,627</b>

### 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 as at 31 December 2012 and 2013 and 30 June 2014:

#### Rescheduled loans and advances to customers - provisions for impairment

	<b>Cyprus</b>	<b>Greece</b>	<b>Russia</b>	<b>United Kingdom</b>	<b>Romania</b>	<b>Ukraine</b>	<b>Total</b>
				(€'000)			
<b>30 June 2014</b>							
Individual impairment .....	434,218	9,045	13,711	4,910	8,636	–	<b>470,520</b>

**Rescheduled loans and advances to customers - provisions for impairment**

	<u>Cyprus</u>	<u>Greece</u>	<u>Russia</u>	<u>United Kingdom</u>	<u>Romania</u>	<u>Ukraine</u>	<u>Total</u>
				(€'000)			
Collective impairment.....	191,689	–	8,240	32	1,709	–	<b>201,670</b>
	<b>625,907</b>	<b>9,045</b>	<b>21,951</b>	<b>4,942</b>	<b>10,345</b>	<b>–</b>	<b>672,190</b>

There are no provisions for impairment for rescheduled loans and advances which are classified as held for sale at 30 June 2014.

**31 December 2013**

Individual impairment.....	410,690	–	2,628	2,893	17,938	14,577	<b>448,726</b>
Collective impairment.....	176,223	–	11,465	–	3,044	–	<b>190,732</b>
	<b>586,913</b>	<b>–</b>	<b>14,093</b>	<b>2,893</b>	<b>20,982</b>	<b>14,577</b>	<b>639,458</b>

**31 December 2012**

Individual impairment.....	280,682	57,344	3,324	3,170	541	11,097	<b>356,158</b>
Collective impairment.....	98,965	–	3,457	50	277	–	<b>102,749</b>
	<b>379,647</b>	<b>57,344</b>	<b>6,781</b>	<b>3,220</b>	<b>818</b>	<b>11,097</b>	<b>458,907</b>

**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 are 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 Audited Financial Statements are presented in the following tables:

**Performing loans and advances**

	<u>Total loans and advances</u>	<u>Not restructured loans and advances</u>	<u>Restructured loans and advances</u>	<u>Total</u>	<u>Non-performing credit facilities</u>
<b>Non-performing loans</b>					

(€'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

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)		
Electricity, gas, steam and air conditioning supply .....	34,692	31,352	1,106	32,458	2,234
All other sectors .....	3,699,161	1,101,260	319,905	1,421,165	2,277,996
	<b>13,830,296</b>	<b>3,318,694</b>	<b>1,102,015</b>	<b>4,420,709</b>	<b>9,409,587</b>
<b>Retail legal entities</b>					
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
	<b>2,542,119</b>	<b>1,092,818</b>	<b>184,731</b>	<b>1,277,549</b>	<b>1,264,570</b>
<b>Private individuals</b>					
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 .....	1,937,202	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
	<b>8,927,133</b>	<b>3,976,285</b>	<b>1,043,564</b>	<b>5,019,849</b>	<b>3,907,284</b>
<b>Total credit facilities .....</b>	<b>25,299,548</b>	<b>8,387,797</b>	<b>2,330,310</b>	<b>10,718,107</b>	<b>14,581,441</b>
<b>Provisions for impairment and fair value adjustment on initial recognition<sup>(1)</sup> .....</b>	<b>4,878,591</b>	<b>314,143</b>	<b>54,726</b>	<b>368,869</b>	<b>4,509,722</b>
<b>31 December 2013</b>					
<b>Corporate legal entities</b>					
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	2,137,664	845,171	192,590	1,037,761	1,099,903

	Performing loans and advances				
	Total loans and advances	Not restructured loans and advances	Restructured loans and advances	Total	Non-performing credit facilities
Non-performing loans			(€'000)		
of motor vehicles and motorcycles ..					
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
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 <sup>(1)</sup> .....	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 acquisition. Amounts shown at 30 June 2014 also include loans and advances classified as held for sale.

NPLs amounted to €14,042 million as at 31 December 2013 and accounted for 53 per cent. of gross loans.

As at 31 December 2013, the NPL ratio consists of two components: restructured loans that are less than 90 days past due (6 per cent. 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 per cent. of gross loans).

#### Non-performing loans

	31 December 2013	
	(€ millions)	% 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
<b>Total</b> .....	<b>14,042</b>	<b>53</b>

The table below presents non-performing credit facilities as 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
<b>31 December 2013</b>		(€'000)		
<b>Credit facilities to legal entities</b>				
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
<b>Total</b>	<b>17,428,051</b>	<b>10,463,145</b>	<b>1,820,104</b>	<b>1,503,084</b>
<b>Credit facilities to private individuals – property loans</b>				
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
<b>Total</b>	<b>5,830,027</b>	<b>1,904,986</b>	<b>156,587</b>	<b>167,528</b>
<b>Credit facilities to private individuals – other loans</b>				

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
<b>Total</b>	<b>3,485,241</b>	<b>1,673,938</b>	<b>268,578</b>	<b>232,099</b>

#### 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
<b>Total</b>	<b>26,743,319</b>	<b>14,042,069</b>	<b>2,245,269</b>	<b>1,902,711</b>

#### 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 per cent..

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)					
<b>30 June 2014</b>						
Available-for-sale.....	–	–	171	–	33	<b>204</b>
Loans and receivables.....	1,896,468	199,085	76,180	285,236	299,885	<b>2,756,854</b>
Fair value through profit or loss ...	–	–	147	17,088	–	<b>17,235</b>
	<b>1,896,468</b>	<b>199,085</b>	<b>76,498</b>	<b>302,324</b>	<b>299,918</b>	<b>2,774,293</b>
<b>31 December 2013</b>						
Available-for-sale.....	–	–	–	1,423	–	<b>1,423</b>
Loans and receivables.....	–	199,003	1,749,757	327,267	296,913	<b>2,572,940</b>
Fair value through profit or loss ...	–	–	–	15,413	–	<b>15,413</b>
	–	<b>199,003</b>	<b>1,749,757</b>	<b>344,103</b>	<b>296,913</b>	<b>2,589,776</b>
<b>31 December 2012</b>						
Available-for-sale.....	1,009	–	–	125	–	<b>1,134</b>
Loans and receivables.....	–	99,377	12,607	510,974	127,023	<b>749,981</b>
Fair value through profit or loss ...	–	–	–	13,042	–	<b>13,042</b>
	<b>1,009</b>	<b>99,377</b>	<b>12,607</b>	<b>524,141</b>	<b>127,023</b>	<b>764,157</b>

In addition, as 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:

	<u>Cyprus</u>	<u>Greece</u>	<u>Italy</u>	<u>Russia</u>	<u>Romania</u>	<u>Ukraine</u>
	<i>(€'000)</i>					
<b>30 June 2014<sup>(1)</sup></b>						
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	—
<b>Total on balance sheet .....</b>	<b>23,692,327</b>	<b>116,909</b>	<b>86,937</b>	<b>1,411,638</b>	<b>666,761</b>	<b>—</b>
Contingent liabilities .....	823,634	245,717	—	2,556	21	—
Commitments .....	2,455,097	—	—	130,387	1,053	—
<b>Total off balance sheet .....</b>	<b>3,278,731</b>	<b>245,717</b>	<b>—</b>	<b>132,943</b>	<b>1,074</b>	<b>—</b>
<b>Total exposure to credit risk .....</b>	<b>26,971,058</b>	<b>362,626</b>	<b>86,937</b>	<b>1,544,581</b>	<b>667,835</b>	<b>—</b>
<b>31 December 2013<sup>(1)</sup></b>						
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
<b>Total on balance sheet .....</b>	<b>24,277,736</b>	<b>117,213</b>	<b>52,639</b>	<b>1,586,781</b>	<b>711,653</b>	<b>414,479</b>
Contingent liabilities .....	880,984	335,073	—	7,206	100	50

	Cyprus	Greece	Italy	Russia	Romania	Ukraine
	(€'000)					
Commitments .....	2,748,596	—	—	147,695	3,366	536
<b>Total off balance sheet .....</b>	<b>3,629,580</b>	<b>335,073</b>	<b>—</b>	<b>154,901</b>	<b>3,466</b>	<b>586</b>
<b>Total exposure to credit risk .....</b>	<b>27,907,316</b>	<b>452,286</b>	<b>52,639</b>	<b>1,741,682</b>	<b>715,119</b>	<b>415,065</b>

- (1) Balance sheet information as at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc.

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.

#### 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 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>
	(€'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
<b>Total .....</b>	<b>2,777,489</b>	<b>2,374,933</b>	<b>1,823,478</b>

- (1) Balance sheet information as at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

As 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.

## 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 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>
		(€'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
<b>Total .....</b>	<b>1,797,781</b>	<b>3,322,747</b>	<b>3,504,397</b>
<i>Issued by</i>			
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
	<b>1,797,781</b>	<b>3,322,747</b>	<b>3,504,397</b>
<i>Classified as</i>			
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
	<b>1,797,781</b>	<b>3,322,747</b>	<b>3,504,397</b>

Note:

- (1) Balance sheet information as at 30 June 2014 is unaudited. Balance sheet information at 31 December 2013 has been restated to reflect final adjustments on the acquisition date fair values related to the Laiki acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc. Balance sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

## 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.

### 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:

<b>Interest rate sensitivity analysis</b>	<b>Euro</b>	<b>US Dollars</b>	<b>British Pounds</b>	<b>Other currencies</b>	<b>Total</b>
			(€'000)		
<b>Year ended 31 December 2013</b>					
+0.5% for all currencies .....	8,531	2,862	594	71	<b>11,133</b>
-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)	<b>(6,275)</b>
<b>Year ended 31 December 2012</b>					
+1.0% for all currencies .....	(11,197)	23,276	4,876	(833)	<b>27,699</b>
-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	<b>7,576</b>

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)	
<b>Year ended 31 December 2013</b>		
+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
<b>Year ended 31 December 2012</b>		
+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

### 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)
<b>Year ended 31 December 2013</b>		
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

<b>Currency risk sensitivity analysis</b>	<b>Change in exchange rate</b>	<b>Impact on loss after tax and equity</b>
	(%)	(€'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)



## 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)	
<b>Year ended 31 December 2013</b>			
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)	—
<b>Year ended 31 December 2012.....</b>			
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	—
<b>Year ended 31 December 2011.....</b>			
Cyprus Stock Exchange .....	-50	(6,171)	(430)
Athens Stock Exchange.....	-30	—	(301)
Moscow Stock Exchange .....	-20	—	(140)

<b>Equity securities price risk</b>	<b>Change in index</b>	<b>Impact on loss before tax</b>	<b>Impact on equity</b>
	(%)	(€'000)	
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: B3; 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.

<b>Debt securities price risk</b>	<b>Impact on loss before tax</b>	<b>Impact on equity</b>
<i>Change in market prices</i>	(€'000)	
<b>Year ended 31 December 2013</b>		
+7.0%.....	1,050	50,610
-7.0%.....	(1,050)	(50,610)
<b>Year ended 31 December 2012</b>		
+7.0%.....	885	71,501
-7.0%.....	(885)	(71,501)

## RISK MANAGEMENT

### Risk Management Governance

Enhancing risk management is a key priority for the Group and the Group has established a centralised and independent Risk Management Division (**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 reviewing credit approval applications, once approved by the Credit Risk Approval department, and 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 "— *Asset and Liability Management*" below.
- *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 RWAs in line with the requirements of CRD IV/CRR (as defined in "Regulation and Supervision of Banks in Cyprus"). 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.

## 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; and
- *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.

## 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 "*Regulation and Supervision of Banks in Cyprus—CBC Credit Risk Directives*".

### 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 "*—Credit Criteria by Lending Segment*" below; 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 "*—Credit Approval Limits*" below.

The CRP is principally responsible for the establishment of the Group's credit risk and lending policies and approval limits. These policies and approval 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), loans to customers on the "watch list" 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 compliance of each business division with the applicable lending policy and approval limits and with decisions issued by Loans Committee members.

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.

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. A credit appraiser in the Credit Appraisal department is 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 specialist teams within the SME underwriting department and the retail underwriting department that focus on restructured and problematic loans and which report directly to the manager and the head of the Credit Appraisal department, respectively. For any credit exposure, including RRD originated credit exposures, over €3 million but under €10 million (currently), a loans committee (typically comprised of at least three senior credit appraisers) is convened. Credit exposures over €10 million (currently) but under €25 million are approved by the Executive Loans Committee and credit exposures over €25 million but under €50 million are approved by the Group Highest Executive Loans Committee. The Executive Credit Loan Committee is usually comprised of three senior credit appraisers and three officers from other departments of the Bank (none of which may be from business units, including the RRD) as well as a representative from the CRA. At least three of the permanent members of the Executive Credit Loan Committee must attend each meeting in

order for it to be quorate. The Group Highest Executive Loans Committee is comprised of six permanent members which includes the manager of the Credit Appraisal department. At least three of the permanent members of the Group Highest Executive Loans Committee must attend each meeting in order for it to be quorate.

Any credit exposures of more than €50 million but under €100 million are approved by the Board Risk Committee while any credit exposures over €100 million, all loan applications and all restructuring or write off of loans of any amount to politically exposed persons, must be referred to the Board of Directors by the Board Risk Committee for final approval. All credit committee meetings approving credit exposures over €25 million are attended by the GCRO and a representative from the CRA, either of whom has the right of veto which can only be overruled by the Board Risk Committee. Credit approval limits up to €50 million can be changed jointly by the Group's Chief Executive Officer and the GCRO.

### ***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.* No disbursements in foreign currencies are permitted.

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 II 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 minimise 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 "*Credit Risk Management*" above). 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 and the relevant exposures are set out in the Group's 2013 and 2012 Audited Financial Statements (see "*Management and Corporate Governance—Related Party Transactions*").

### **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 €7.5million.



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.

### **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 other banking and insurance units (the United Kingdom and Russia), that monitor the implementation of asset and liability management for their local operations.

### **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 "*Regulation and Supervision of Banks in Cyprus—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.

### **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 "*Operating and Financial Review and Prospects—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.

### **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 Group only holds LCR Level 1 eligible assets which include high quality debt securities issued by a government or central bank, multilateral agency bonds, cash and reserves at central banks.

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.

## **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.

### **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).

### **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 limits 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, who report the overnight foreign currency position of each unit to the MR daily.

### **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.

## **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 B2 (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.

## **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. To enable effective management of all material operational risks, the operational risk management policy 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. The third line of defence comprises the Internal Audit function and the Audit Committee of the Board of Directors, which provide independent oversight of 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.

## **Other Risks**

### **Business Continuity Risk**

Business Continuity Plans and Disaster Recovery Plans exist and 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.

### **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.

### **Information Security Risks**

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-ups emails and the internet. Information technology applications are also protected in line with international best practices.

### **Insurance risk**

Insurance risk is the risk that an insured event under an insurance contract occurs and the uncertainty of 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.

## THE MACROECONOMIC ENVIRONMENT IN CYPRUS<sup>1</sup>

### 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 amounting to 90.5 per cent. 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 84.3 per cent. 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 3.9 per cent. in 2000 to 2.5 per cent. in 2013. The share of the secondary sector, including manufacturing, basic utilities and construction, in real GVA also declined from 21.5 per cent. in 2000 to 13.2 per cent. in 2013, with a decline both in manufacturing and construction activity.

In contrast, the tertiary sector's share of real GVA increased from 74.6 per cent. in 2000 to 84.3 per cent. in 2013. In 2013, shares of real GVA in the tertiary sector included real estate activities (12.7 per cent.), wholesale and retail trade, including repair of motor vehicles (12.2 per cent.), public administration and defence (11.6 per cent.), financial and insurance activities (8.7 per cent.), tourism, including accommodation and food services activities (7.6 per cent.), education (7.0 per cent.), professional, scientific and technical activities (5.8 per cent.), information and communication (4.7 per cent.), and human health and social work (4.2 per cent.).

### Recent Economic Trends

#### *International Business Hub for Emerging Europe*

Cyprus has been a Member State 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 “—*The Cypriot Economic Crisis—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 per cent.) and Russia (25.3 per cent.). In 2013, tourism receipts amounted to 12.6 per cent. of GDP in nominal terms.

---

<sup>1</sup> General drafting note on definitions: to be moved if defined terms appear in preceding sections of the prospectus.

### ***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 publicised 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 “*Risk Factors—Risks Relating to the Economic Crisis in Cyprus—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 Cyprus' 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 “*Risk Factors – Risks Relating to the Economic Crisis in Cyprus – 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 “*Risk Factors — Regulatory and Legal Risks — 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 5.7 per cent. 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 and 2015 according to the European Commission (European Economic Forecast, Spring 2014). Therefore, the economic contraction in 2013 was mitigated by a decrease in prices and quantities. Real GDP contracted by 5.4 per cent. and the GDP deflator dropped by 1.5 per cent., resulting in a contraction of nominal GDP by 6.9 per cent. For more information, see “—*The Cypriot Economic Crisis—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 per cent. 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.

## **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 3.8 per cent. as a result of increasing investment and growth of private consumption and exports. Consumption was supported by annual employment growth averaging 2.5 per cent. 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 Member States, with GDP in euro per capita terms reaching €21,800 in 2008, corresponding to 98.8 per cent. of the EU average in purchasing power parity terms.

The average annual growth of real GDP in the period from 2008 to 2012 was 0.2 per cent., which includes a 2.4 per cent. contraction in 2012, while inflation averaged 2.6 per cent. during that same period. Unemployment (as a percentage of the economically active population) rose from 3.7 per cent. in 2008 to 7.9 per cent. in 2011 and to 11.8 per cent. 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.

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**). These key elements and principles 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.

### **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 per cent. 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 “*Risk Factors – Risks Relating to the Economic Crisis in Cyprus – 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 “*Risk Factors — Regulatory and Legal Risks — 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 "Risk Factors – Risks Relating to the Group's Business – 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 per cent. compared to an initial expectation of a 4.8 per cent. contraction, with growth in the tourism sector cushioning weak activity in other sectors (the IMF's World Economic Outlook, October 2014 currently projects the decline in real GDP at 3.2 per cent.). While unemployment remains high, signs of stabilisation are emerging. Real GDP growth in 2015 is projected at 0.4 per cent., 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 "*Risk Factors—Regulatory and Legal Risks—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 "Regulation and Supervision of Banks in Cyprus – 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 “Regulation and Supervision of Banks in Cyprus — 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 per cent. 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 “*Risk Factors—Risks Relating to the Economic Crisis in Cyprus—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*”.

#### **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 per cent. to 12.5 per cent. 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 per cent. to 30 per cent. 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 4/1978 as amended with 79(I)/2014 (**Assessment and Collection of Taxes Law**) 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 Cyprus Companies Law;
- the immovable property tax rates have been increased as of 1 January 2013 at rates which range from 0.6 per cent. to 1.9 per cent. 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 per cent. to 0.15 per cent. 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 per cent. 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.

## **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 per cent. 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 per cent. in 2009 to 15.9 per cent. 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 per cent. in 2013, which is the highest in the Eurozone after Greece, Spain and Italy. In the first half of 2014, the average unemployment rate dropped marginally to 15.4 per cent.

The employment rate in Cyprus, the proportion of employed people to the economically active population, dropped to 61.7 per cent. in 2013 from 64.6 per cent. in 2012, but remains close to the Eurozone average and is higher than in other distressed countries, such as Greece, Spain and Portugal. Cyprus has favourable demographics: the old age dependency ratio in 2013 was 18.8 per cent. compared with 28.9 per cent. in the Eurozone and 27.5 per cent. in the EU 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 per cent. Cypriot nationals and 21.1 per cent. non-Cypriot nationals of whom 9.2 per cent. were non-EU nationals and 11.9 per cent. were non-Cypriot EU nationals. The drop in total employment in the year was 3.5 per cent. of which the drop in the employment of Cypriot nationals was 1.5 per cent. and that of non-Cypriot nationals was 10.2 per cent. As a percentage of the total unemployed in 2013, Cypriot nationals were 78.8 per cent. of the total and non-Cypriot nationals were 21.2 per cent. 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 4.3 per cent. in 2013 and are expected to decrease by a further 3.1 per cent. in 2014 according to the European Commission (European Economic Forecast, Spring 2014), thus improving the overall cost competitiveness of the economy.

## **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 April 2014, Standard and Poor's raised its long-term foreign and local currency sovereign

ratings on the Republic of Cyprus to B from B- with a positive outlook. Moody's Investors Service in March 2014 affirmed Cyprus' Caa3 government bond rating and changed the outlook to positive from negative. Fitch in April 2014 revised the outlook on long-term foreign currency to stable from negative, affirmed the foreign currency issuer default rating to B- and upgraded the long-term local currency issuer default rating to B- from CCC. DBRS in June 2014 upgraded the long-term foreign and local currency issuer ratings from CCC to B (low) with stable trends.

### Main Economic Indicators

The following table summarises the main economic indicators for the period 2010-2013:

	2010	2011	2012	2013	2014
GDP at current market prices (€billion) .....	17.4	17.9	17.7	16.5	7.8 <sup>(1)</sup>
GDP per capita (€thousand) .....	21.0	21.0	20.5	19.0	
GDP in constant prices (% change) .....	1.3	0.4	-2.4	-5.4	-2.9 <sup>(2)</sup>
Employment (% change) .....	3.2	0.8	-3.3	-5.2	-2.6 <sup>(3)</sup>
Unemployment rate (%).....	6.3	7.9	11.8	15.9	15.4 <sup>(4)</sup>
Harmonised index of consumer prices (% change) .....	2.6	3.5	3.1	0.4	-0.3 <sup>(5)</sup>
Fiscal balance (€billion) .....	-0.9	-1.1	-1.1	-0.9	-0.02 <sup>(6)</sup>
Fiscal balance (in% of GDP) .....	-5.3	-6.3	-6.4	-5.4	
Public debt (€billion) .....	10.7	12.8	15.3	18.4	19.1 <sup>(7)</sup>
Public debt (% of GDP) .....	61.3	71.5	86.6	111.5	119.5 <sup>(8)</sup>
Exports of goods and services (% change) .....	3.8	4.4	-2.5	-4.2	0.1 <sup>(9)</sup>
Imports of goods and services (% change) .....	4.8	-0.2	-5.4	-14.1	2.5 <sup>(10)</sup>
Trade balance (€billion) .....	-4.7	-4.3	-3.9	-2.9	-0.7 <sup>(11)</sup>
Trade balance (% of GDP) .....	-26.8	-24.3	-21.8	-17.8	
Current account balance (€billion) .....	-1.7	0.6	-1.2	-0.3	-0.6 <sup>(12)</sup>
Current account balance (% of GDP) .....	-9.8	-3.4	-6.9	-1.9	

- 
- (1) First half 2014.  
(2) First half 2014.  
(3) First quarter 2014.  
(4) First half 2014.  
(5) January through August 2014.  
(6) First half 2014.  
(7) As at 30 June 2014.  
(8) As at 30 June 2014.  
(9) First half 2014.  
(10) First half 2014.  
(11) First quarter 2014.  
(12) First quarter 2014.

Source: Cyprus Statistical Service, CBC, Eurostat and BOC Economic Research estimates.

## THE BANKING SECTOR IN CYPRUS

### 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 EU 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 cent. per year between 2005 and 2012 and the increase was particularly steep in 2007 and 2008 when annual credit growth averaged 31.6 per cent. 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 “*The Macroeconomic Environment in Cyprus*”. For more information on the regulation of banks in Cyprus, please see “*Regulation and Supervision of Banks in Cyprus*”.

### **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 “*Regulation and Supervision of Banks in Cyprus—CBC Credit Risk Directives*” and “*Risk Factors—Regulatory and Legal Risks—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 non-performing loans (NPLs) of all 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 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 per cent. 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 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 “*Lending Based on Collateral Rather than Repayment Ability*”) and the limited resolution framework (see “*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 *"Risk Factors – Risks Relating to the Economic Crisis in Cyprus – 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 *"Risk Factors – Regulatory and Legal Risks – 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 *"Regulation and Supervision of Banks in Cyprus – 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-collateralisation distributes the debt burden across the borrower group (see *"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.

## **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 59 banks and financial institutions, including two representative offices, in Cyprus: six 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 per cent. of the banking system's total loans and 75.5 per cent. 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 93 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 per cent. of the banking system's total loans and 24.5 per cent. 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.

### 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)	(%)	(%)
<b>Credit facilities to private individuals</b>					
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
<b>Total credit facilities to private individuals ...</b>	<b>14.76</b>	<b>10.35</b>	<b>25.10</b>	<b>58.8</b>	<b>41.2</b>
<b>Credit facilities to legal entities</b>					

	Total Credit Outstanding			Market Share	
	Banks	CCIs	Total	Banks	CCIs
	(€ in billions)	(€ in billions)	(€ in billions)	(%)	(%)
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
<b>Total credit facilities to legal entities.....</b>	<b>30.96</b>	<b>2.91</b>	<b>33.87</b>	<b>91.4</b>	<b>8.6</b>
<b>Total intragroup facilities .....</b>	<b>2.52</b>	<b>0.00</b>	<b>2.52</b>	<b>100.0</b>	<b>0.0</b>
<b>Total facilities .....</b>	<b>48.24</b>	<b>13.26</b>	<b>61.49</b>	<b>78.4</b>	<b>21.6</b>

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)	(%)	(%)
<b>Credit facility NPLs to private individuals</b>					
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
<b>Total credit facility NPLs to private individuals .....</b>	<b>6.52</b>	<b>5.70</b>	<b>12.22</b>	<b>53.3</b>	<b>46.7</b>
<b>Credit facility NPLs to legal entities</b>					
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
<b>Total credit facility NPLs to legal entities.....</b>	<b>15.19</b>	<b>1.33</b>	<b>16.52</b>	<b>92.0</b>	<b>8.0</b>
<b>Total intragroup facility NPLs .....</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>100.0</b>	<b>0.0</b>

	Total NPLs			Market Share	
	Banks	CCIs	Total	Banks	CCIs
	(€ in billions)	(€ in billions)	(€ in billions)	(%)	(%)
<b>Total facility NPLs .....</b>	21.71	7.03	28.74	75.5	24.5

Source: CBC

### 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 per cent. of loans in Cyprus as at 30 June 2014. The Bank's deposit market share (based on CBC data) in Cyprus was 25.5 per cent. as at 30 June 2014, compared to 27.5 per cent. as at 31 December 2013.

## RESTRUCTURING OF THE BANK AND LAIKI BANK

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.

### 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 insured 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 per cent. of the total share capital of the Bank outstanding at the time. As a result of the Recapitalisation as further described in "*—Recapitalisation of the Bank*" below, 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 per cent. of the Bank's total share capital and is the single largest shareholder in the Bank (see "*Risk Factors – Regulatory and Legal Risks – The ordinary shares of the Bank are currently suspended from trading and the Bank may be adversely affected when trading in the ordinary shares resume*"). 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. It is expected that these ordinary shares will be sold with a view to maximising returns for Laiki Bank's creditors.

## **Recapitalisation of the Bank**

From 29 March 2013 to 30 July 2013, the Resolution Authority effected the recapitalisation of the Bank (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:

### **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
- 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.

#### **Holders of ordinary shares of the Bank as of 29 March 2013**

The Bail-in Decrees suspended all shareholder rights in relation to the 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 “—*Conversion into shares*”.

#### **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 per cent. Capital Guaranteed, 100 per cent. Participation Himalayan World Index Linked Deposit: SEK-denominated capital guaranteed structured product with 100 per cent. participation in the performance of a basket of equity indices; and



- Advantage: euro-denominated capital guaranteed structured product linked to the performance of a basket of indices.

The Bank had two schuldchein loans due March 2038 with a total principal amount of €20 million.

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 per cent. of the excess amount was converted into Class A Shares;
- 22.5 per cent. 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 per cent. 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 per cent. of the Affected Deposits were converted into deposits with no fixed term; and
- 88 per cent. 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 per cent. 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 per cent. 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 per cent. 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 “—*Conversion into shares*” below.

### ***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.

### ***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 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.

### **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 "*Risk Factors—Risks Relating to the Group's Business—The independent auditor's report in respect of the Bank's 2013 Audited Financial Statements and independent auditor's review report in respect of the June 2014 Unaudited Financial Statements are qualified and contain 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 following tables show the composition of the Bank's share capital as of 30 July 2013 and as of the date of this Prospectus in the following categories (as applicable):

- 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**);
- 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**);
- the Placing Shares; and
- the Open Offer Shares.

The Bail-in Shares, Diluted Shares and Laiki Shares comprise all of the ordinary shares of the Bank as at 30 July 2013. Following the issue of the Bail-in Decrees, certain depositors secured (on an ex-parte basis) interim orders from the Cypriot courts restricting the Bank from taking any steps for the implementation of the Bail-in Decrees in respect of their 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.

#### **Share capital of the Bank as of 30 July 2013**

<b>Category</b>	<b>No. of ordinary shares</b>	<b>Percentage of total share capital %</b>
Bail-in Shares.....	3,873,269,066	81.4
Diluted Shares.....	23,732,848	0.5
Laiki Shares.....	858,708,764	18.1
<b>Total</b> .....	<b>4,755,710,678</b>	<b>100.0</b>

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. 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.

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

<b>Category</b>	<b>No. of ordinary shares</b>	<b>Percentage of total share capital %</b>
Bail-in Shares <sup>(1)</sup> .....	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
<b>Total</b> .....	<b>8,922,377,345</b>	<b>100.0</b>

(1) Bail-in Shares includes shares in respect of all court order lifted to date but do not include approximately €297 thousand of shares subject to interim orders. See “*Operating and Financial Review and Prospects – Presentation and Comparability of Financial Information – The Recapitalisation*”.

#### **Release of New Deposits**

The Bank has recently released some of the New Deposits issued by the Bank pursuant to the Recapitalisation. See “*Business Description of the Group – History and development of the Group*” and “*Business Description of the Group—Recent Developments*”.

The released deposits are subject to the restrictive measures relating to overseas transfers currently applicable in the Cypriot banking system. See “*Regulation and Supervision of Banks in Cyprus—Capital Control Measures*”.

### **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.

### **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.

## REGULATION AND SUPERVISION OF BANKS IN CYPRUS

### 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 Existing Shares of the Bank 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 as amended basis from time to time.

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 “– *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 on anti-money laundering activities (see “– *Money Laundering and Terrorist Financing*”), (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 a 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 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 will fully assume the following supervisory responsibilities, among others, in 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 European Banking Authority (**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.

The Bank is participating in the AQR and the methodology and scenarios used in the stress tests were published on 29 April 2014, and banks' individual results are expected to be released at the end of October 2014 (see "*Risk Factors—Risks Relating to the Group's Business— The ECB's comprehensive assessment prior to the inception of the Single Supervisory Mechanism for Eurozone banks and other credit institutions may lead to further capital increases or loss of public confidence in the Bank*").

As regards the monitoring of financial institutions, the national competent authorities (**NCA**s) 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, will be exclusively 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 per cent., 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 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 licence (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 "*Resolution Law*" below).

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 Directive 2014/59/EU of the European Parliament of 15 May 2014 and of the Council 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 CRD IV, and Regulations (EU) No 1093/2010 and (EU) No 648/2012 (the **BRRD**) was adopted. Then BRRD was adopted by the European Parliament and the Council 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 20<sup>th</sup> 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 7 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 recover 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, which is expected to be operational in November 2014. 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 per cent. 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 per cent. 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.

## 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 implemented in the EU on 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, 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 per cent. and Tier I capital ratio of 6.0 per cent. 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 per cent. 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 per cent. 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 per cent. to 2.5 per cent. 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 4.0 per cent. risk-weight factor is introduced to certain trade exposures to qualifying CCPs (replacing the current 0 per cent. 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 per cent. 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 per cent. 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 per cent. and 2 per cent. 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 per cent. in 2015, and expected to be 100 per cent. 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, CRD IV/CRR contemplates that, beginning in November 2014, the ECB will assume 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 “*Risk Factors—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*”).

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 “—*MiFID (the Markets in Financial Instruments Directive (Directive 2004/39/EC))*” below) and the European Market Infrastructure Regulation (see “—*The European Market Infrastructure Regulation*” below).

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 EU 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.

## **Solvency II**

The directive on the undertaking and pursuit of the business of insurance and reinsurance (Directive 2009/138/EC) of 25 November 2009 (**Solvency II**) 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, General Insurance of Cyprus Ltd (**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 as 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.

## **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 EU 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 EU 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).

### **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 per cent. 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 16 and 31 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 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 the 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.

### **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) and all Cypriot branches of credit institutions incorporated in countries other than 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 Member States are covered by the corresponding deposit protection schemes in the applicable 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 per cent. 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.

## **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 per cent. 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 “*Risk Factors—Risks Relating to the Group’s Business—The Bank is dependent on central bank (ECB and Emergency Liquidity Assistance (ELA)) funding for liquidity and difficulties in securing traditional sources of liquidity may affect the Group’s ability to meet its financial obligations*”.

## **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 (SEPA)

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 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.

## 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 per cent. 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 “*Restructuring of the Bank and Laiki Bank—Recapitalisation of the Bank—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 and 12 months (see “*Restructuring of the Bank and Laiki Bank—Recapitalisation of the Bank—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.

## **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

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.

### **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 practices 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 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 *"Business Description of the Group—Banking and financial services—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 *"Risk Factors—Regulatory and Legal Risks—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 per cent. 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.

### **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.

### **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, “ – *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.

### **Money Laundering and Terrorist Financing**

As a fully cooperative member of the Financial Action Task Force (**FATF**) and a Member State, 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; and
- 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.

### **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 per cent. of the share capital of any other company or otherwise exercise control (10 per cent. 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 per cent. and (ii) the total value of its shareholdings in other companies cannot exceed 60 per cent., 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 a 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 per cent. 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 per cent. 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 per cent. 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 per cent. 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.

### **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.

### **Equity Participations of Individuals or Legal Entities in Cypriot Credit Institutions**

Any individual or legal entity that has decided to acquire "control" (10 per cent. 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 per cent., 30 per cent. or 50 per cent.) 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 per cent. of the voting rights in any Cypriot credit institution.

## **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 per cent. If a credit institution cannot show that the default interest charged in the past above the 2 per cent. 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 per cent.

## **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 per cent. 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.

## **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 “– *Laws relating to Foreclosures*” and for more information on the enforcement of security.

In general, the appointment of a receiver or manager takes immediate effect.

### **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. For more information on the enforcement of security.

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) have been referred to Supreme Court by the Cypriot President for a ruling on their constitutionality. The Supreme Court is expected to convene on 20 October 2014 to hear arguments on the constitutionality of these four supplementary bills.

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 “Risk Factors — Regulatory and Legal Risks — 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 “Risk Factors — Risks Relating to the Economic Crisis in Cyprus - 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”.*

## **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.

## 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 "*The Macroeconomic Environment in Cyprus—The Cypriot Economic Crisis—Tax and other fiscal measures*".

## FATCA

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**) in 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 per cent. 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 per cent. 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 during 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.

## The European Market Infrastructure Regulation (EMIR)

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 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 “frontloading” period with respect to the clearing obligation began on 18 March 2014, which means that any OTC derivative contracts entered into by FCs from such date which fall within the classes of derivative contracts ultimately declared subject to the clearing obligation may need to be cleared (subject to certain 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.

## 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 “*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; and (ii) 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 “*Risk Factors—Regulatory and Legal Risks—The Group is exposed to tax risk and failure to manage such risk may have an adverse impact on the Group*”).

Generally, see “*Risk Factors—Regulatory and Legal Risks—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*”.

## **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 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 per cent. 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 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 participating Member States. Generally, it would apply to certain dealings in the corporate bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State



or (b) where the financial instrument which is subject to the dealings is issued in a 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. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

## TAXATION

### Cyprus Taxation

*The following is a general description of certain tax aspects of the Notes under Cypriot law as at the date of this Prospectus and does not purport to be a comprehensive description of all tax aspects relating to the Notes. Prospective investors should consult their tax and other professional advisers as to the specific tax consequences of acquiring, holding and disposing of the Notes.*

#### Income Tax

With effect from 1 January 2003, amendments were introduced to the tax system in Cyprus pursuant to which the basis of the taxation is now one of tax on worldwide income on the basis of residency. For the purposes of establishing residency under the provisions of the Income Tax Law, Law 118(I) of 2002 (as amended by 27(I) of 2013) (the **Income Tax Law**) a person is resident for tax purposes in Cyprus where in the case of a natural person that person is present in Cyprus for at least 183 days in the tax year and in the case of a company its management and control is exercised in Cyprus. The tax year for the purpose of the Income Tax Law coincides with the calendar year.

#### Interest Income

##### *Non-Cyprus Tax Residents*

Persons (natural and legal) who are not resident for tax purposes pursuant to the provisions of the Income Tax Law will not be liable to any charge to income tax or the special contribution for defence tax.

##### *Cyprus tax resident individuals*

Under the provisions of the Income Tax Law, an individual who is tax resident in the Republic of Cyprus and who receives or is credited with interest, is exempt from income tax, but is subject to 30 per cent. withholding pursuant to the provisions of the Special Contribution for the Defence Fund of the Republic Law, Law 117(I) of 2002 (as amended) (the **SCDF Law**).

##### *Cyprus tax resident companies*

The interest received or credited by a resident company is subject to:

- (a) 12.5 per cent. pursuant to the provisions of the Income Tax Law, provided that this interest is derived from the ordinary carrying on of its business or closely connected with the carrying on of its business; or
- (b) 30 per cent. pursuant to the provisions of the SCDF Law, if that interest is not derived from the ordinary carrying on of its business and is not closely connected with the carrying on of its business.

#### Stamp Duty

The Stamp Duty Law of 1963 (as amended) (the **Stamp Duty Law**) provides that:

“(1) every instrument specified in the First Schedule shall be chargeable with duty of the amount specified in the said Schedule as the proper duty therefor respectively if it relates to any asset situated in the Republic or to matters or things which shall be performed or done in the Republic irrespective of the place where the document is made”.

Furthermore, pursuant to the Stamp Duty Law, the First Schedule thereto provides a stamp duty of 0.15 per cent. for amounts from €5,001 up to €170,000 and 0.2 per cent. for amounts above €170,000 with a maximum flat stamp duty of €20,000.00.

The issue of the Notes may be liable to stamp duty. If so chargeable, stamp duty of €20,000.00 will be payable by the Bank.

So long as the Notes are cleared through Euroclear and Clearstream, Luxembourg, sales or transfers of the Notes (whether effected by residents or non-residents of Cyprus) will not attract stamp duty in Cyprus.

### **Profit from the Disposal of the Notes**

Any gains derived from the disposal of the Notes by a Cyprus resident natural person or legal entity is exempt from income tax in Cyprus.

Any gains from the disposal of the Notes is not subject to Cyprus income tax, irrespective of trading nature of the gain, the number of Notes held or the period for which the Notes were held. Any gain is also outside the scope of application of the Capital Gains Tax Law 1980-2002 (as amended).

### **EU Savings Directive**

Cyprus has enacted into Cyprus law EU Directive 2003/48/EC relating to the taxation of savings by virtue of the provisions of the Assessment and Collection of Taxes (Amendment) Law 146(I) of 2004. Pursuant to this law, the Cypriot Council of Ministers issued the Assessment and Collection of Tax (Provision of Information Regarding Interest Payments) Regulations of 2005. These regulations impose EU Savings Directive standards on Cypriot financial institutions making EU cross-border savings interest payments to individuals resident in other Member States, such as automatic reporting to the tax authorities of the other Member State of (a) an individual's identity and permanent address, (b) the name and address of the paying agent and (c) the bank account details. The Council has adopted certain amendments to the EU Savings Directive which will, upon implementation, amend or broaden the scope of the requirements described above.

### **United States Federal Income Tax Considerations**

*The following is a summary of certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of Registered Notes by a U.S. Holder (as defined below) (other than " – FATCA Withholding" which applies to all holders). This summary deals only with purchasers of Registered Notes that are U.S. Holders and that will hold the Registered Notes as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Registered Notes by particular investors, and does not address state, local, foreign or other tax laws. In particular, this summary does not address tax considerations applicable to investors that own (directly or indirectly) 10 per cent. or more of the voting stock of the Bank, nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Registered Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar). In addition, this discussion does not address any U.S. federal tax consequences other than U.S. federal income tax consequences, such as the estate and gift tax, the alternative minimum tax or the Medicare tax on net investment income. Moreover, the summary deals only with Registered Notes with a term of 30 years or less that are properly characterised as debt for U.S. federal income tax purposes. The U.S. federal income tax consequences of owning Registered Notes with a term of more than 30 years will be discussed in the applicable Final Terms.*

*As used herein, the term "U.S. Holder" means a beneficial owner of Registered Notes that is for U.S. federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to*

*exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.*

*The U.S. federal income tax treatment of a partner in an entity treated as a partnership for U.S. federal income tax purposes that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities treated as partnerships for U.S. federal income tax purposes should consult their tax adviser concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of Notes by the partnership.*

*This summary is based on the tax laws of the United States including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.*

*Bearer Notes (including Exchangeable Bearer Notes while in bearer form) are not being offered to U.S. Holders. A U.S. Holder who owns a Bearer Note may be subject to limitations under United States income tax laws including the limitations provided in sections 165(j) and 1287(a) of the United States Internal Revenue Code.*

**THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. IT IS NOT INTENDED TO BE RELIED ON, AND CANNOT BE RELIED ON, BY PURCHASERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED UNDER THE U.S. INTERNAL REVENUE CODE. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE REGISTERED NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.**

#### **U.S. Federal Income Tax Characterisation of the Notes**

The characterization of Registered Notes may be uncertain and will depend on the terms of those Registered Notes. The determination of whether an obligation represents debt, equity, or some other instrument or interest is based on all the relevant facts and circumstances. There may be no statutory, judicial or administrative authority directly addressing the characterization of some of the types of Registered Notes that are anticipated to be issued under the Programme or of instruments similar to the Registered Notes. Depending on the terms of a particular Series or Tranche of Notes, the Notes may not be characterized as debt for U.S. federal income tax purposes despite the form of the Notes as debt instruments. For example, Registered Notes may be more properly characterised as equity, or as representing an undivided proportionate ownership interest in the assets of, and share of the liabilities of the Bank. Additional alternative characterisations may also be possible. If the Registered Notes are not characterised as debt for U.S. federal income tax purposes, the U.S. federal income tax consequences to a U.S. Holder will be materially different than those below.

No rulings will be sought from the IRS regarding the characterisation of any of the Registered Notes issued hereunder for U.S. federal income tax purposes. Each U.S. Holder should consult its own tax adviser about the proper characterisation of the Registered Notes for U.S. federal income tax purposes and consequences to the holder of acquiring, owning or disposing of the Registered Notes.

The following summary assumes that the Registered Notes are properly treated as debt for U.S. federal income tax purposes.

## ***Payments of Interest***

### ***General***

Interest on a Note, whether payable in U.S. dollars or a foreign currency, other than interest on a “Discount Note” that is not “qualified stated interest” (each as defined below under “*Original Issue Discount – General*”), will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder’s method of accounting for tax purposes. Interest paid by the Bank on the Notes and original issue discount (**OID**), if any, accrued with respect to the Notes (as described below under “*Original Issue Discount*”) generally will constitute income from sources outside the United States. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Notes.

## **Original Issue Discount**

### ***General***

The following is a summary of the principal U.S. federal income tax consequences of the ownership of Notes issued with OID. The following summary does not discuss Notes that are characterised as contingent payment debt instruments for U.S. federal income tax purposes. In the event the Bank issues contingent payment debt instruments the applicable Final Terms will describe the material U.S. federal income tax consequences thereof.

A Note, other than a Note with a term of one year or less (a **Short-Term Note**), will be treated as issued with OID (a **Discount Note**) if the excess of the Note’s “stated redemption price at maturity” over its issue price is equal to or more than a de minimis amount (0.25 per cent. of the Note’s stated redemption price at maturity multiplied by the number of complete years to its maturity). An obligation that provides for the payment of amounts other than qualified stated interest before maturity (an **instalment obligation**) will be treated as a Discount Note if the excess of the Note’s stated redemption price at maturity over its issue price is equal to or greater than 0.25 per cent. of the Note’s stated redemption price at maturity multiplied by the weighted average maturity of the Note. A Note’s weighted average maturity is the sum of the following amounts determined for each payment on a Note (other than a payment of qualified stated interest): (i) the number of complete years from the issue date until the payment is made multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the Note’s stated redemption price at maturity. Generally, the issue price of a Note will be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers. The stated redemption price at maturity of a Note is the total of all payments provided by the Note that are not payments of “qualified stated interest”. A qualified stated interest payment generally is any one of a series of stated interest payments on a Note that are unconditionally payable at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods), or a variable rate (in the circumstances described below under “*Variable Interest Rate Notes*”), applied to the outstanding principal amount of the Note. Solely for the purposes of determining whether a Note has OID, the Bank will be deemed to exercise any call option that has the effect of decreasing the yield on the Note, and the U.S. Holder will be deemed to exercise any put option that has the effect of increasing the yield on the Note.

U.S. Holders of Discount Notes must include OID in income calculated on a constant-yield method before the receipt of cash attributable to the income, and generally will have to include in income increasingly greater amounts of OID over the life of the Discount Notes. The amount of OID includible in income by a U.S. Holder of a Discount Note is the sum of the daily portions of OID with respect to the Discount Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Discount Note (**accrued OID**). The daily portion is determined by allocating to each day in any “accrual period” a *pro rata*

portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Note as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the Discount Note's adjusted issue price at the beginning of the accrual period and the Discount Note's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Note allocable to the accrual period. The "adjusted issue price" of a Discount Note at the beginning of any accrual period is the issue price of the Note increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Note that were not qualified stated interest payments.

#### *Acquisition Premium*

A U.S. Holder that purchases a Discount Note for an amount less than or equal to the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, but in excess of its adjusted issue price (any such excess being **acquisition premium**) and that does not make the election described below under "Election to Treat All Interest as Original Issue Discount", is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder's adjusted basis in the Note immediately after its purchase over the Note's adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, over the Note's adjusted issue price.

#### *Market Discount*

A Note, other than a Short-Term Note, generally will be treated as purchased at a market discount (a **Market Discount Note**) if the Note's stated redemption price at maturity or, in the case of a Discount Note, the Note's "revised issue price", exceeds the amount for which the U.S. Holder purchased the Note by at least 0.25 per cent. of the Note's stated redemption price at maturity or revised issue price, respectively, multiplied by the number of complete years to the Note's maturity (or, in the case of a Note that is an instalment obligation, the Note's weighted average maturity). If this excess is not sufficient to cause the Note to be a Market Discount Note, then the excess constitutes "*de minimis* market discount". For this purpose, the "revised issue price" of a Note generally equals its issue price, increased by the amount of any OID that has accrued on the Note and decreased by the amount of any payments previously made on the Note that were not qualified stated interest payments.

Under current law, any gain recognised on the maturity or disposition of a Market Discount Note (including any payment on a Note that is not qualified stated interest) will be treated as ordinary income to the extent that the gain does not exceed the accrued market discount on the Note. Alternatively, a U.S. Holder of a Market Discount Note may elect to include market discount in income currently over the life of the Note. This election will apply to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies. This election may not be revoked without the consent of the IRS. A U.S. Holder of a Market Discount Note that does not elect to include market discount in income currently generally will be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Note that is in excess of the interest and OID on the Note includible in the U.S. Holder's income, to the extent that this excess interest expense does not exceed the portion of the market discount allocable to the days on which the Market Discount Note was held by the U.S. Holder.

Under current law, market discount will accrue on a straight-line basis unless the U.S. Holder elects to accrue the market discount on a constant-yield method. This election applies only to the Market Discount Note with respect to which it is made and is irrevocable.

#### *Election to Treat All Interest as Original Issue Discount*

A U.S. Holder may elect to include in gross income all interest that accrues on a Note using the constant-yield method described above under “Original Issue Discount – General,” with certain modifications. For purposes of this election, interest includes stated interest, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium (described below under “Notes Purchased at a Premium”) or acquisition premium. This election generally will apply only to the Note with respect to which it is made and may not be revoked without the consent of the IRS. If the election to apply the constant-yield method to all interest on a Note is made with respect to a Market Discount Note, the electing U.S. Holder will be treated as having made the election discussed above under “Market Discount” to include market discount in income currently over the life of all debt instruments with market discount held or thereafter acquired by the U.S. Holder. U.S. Holders should consult their tax advisers concerning the propriety and consequences of this election.

#### *Variable Interest Rate Notes*

Notes that provide for interest at variable rates (**Variable Interest Rate Notes**) generally will bear interest at a “qualified floating rate” and thus will be treated as “variable rate debt instruments” under Treasury regulations governing accrual of OID. A Variable Interest Rate Note will qualify as a “variable rate debt instrument” if (a) its issue price does not exceed the total non-contingent principal payments due under the Variable Interest Rate Note by more than a specified *de minimis* amount, (b) it provides for stated interest, paid or compounded at least annually, at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate, and (c) it does not provide for any principal payments that are contingent (other than as described in (a) above).

A “qualified floating rate” is any variable rate where variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Variable Interest Rate Note is denominated. A fixed multiple of a qualified floating rate will constitute a qualified floating rate only if the multiple is greater than 0.65 but not more than 1.35. A variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate, will also constitute a qualified floating rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Variable Interest Rate Note (e.g. two or more qualified floating rates with values within 25 basis points of each other as determined on the Variable Interest Rate Note’s issue date) will be treated as a single qualified floating rate. Notwithstanding the foregoing, a variable rate that would otherwise constitute a qualified floating rate but which is subject to one or more restrictions such as a maximum numerical limitation (i.e., a cap) or a minimum numerical limitation (i.e., a floor) may, under certain circumstances, fail to be treated as a qualified floating rate.

An “objective rate” is a rate that is not itself a qualified floating rate but which is determined using a single fixed formula and which is based on objective financial or economic information (e.g. one or more qualified floating rates or the yield of actively traded personal property). A rate will not qualify as an objective rate if it is based on information that is within the control of the Bank (or a related party) or that is unique to the circumstances of the Bank (or a related party), such as dividends, profits or the value of the Bank’s stock (although a rate does not fail to be an objective rate merely because it is based on the credit quality of the Bank). Other variable interest rates may be treated as objective rates if so designated by the IRS in the future.

Despite the foregoing, a variable rate of interest on a Variable Interest Rate Note will not constitute an objective rate if it is reasonably expected that the average value of the rate during the first half of the Variable Interest Rate Note's term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Variable Interest Rate Note's term. A "qualified inverse floating rate" is any objective rate where the rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. If a Variable Interest Rate Note provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period and if the variable rate on the Variable Interest Rate Note's issue date is intended to approximate the fixed rate (e.g. the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 25 basis points), then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be.

A qualified floating rate or objective rate in effect at any time during the term of the instrument must be set at a "current value" of that rate. A "current value" of a rate is the value of the rate on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

If a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof qualifies as a "variable rate debt instrument", then any stated interest on the Note which is unconditionally payable in cash or property (other than debt instruments of the Bank) at least annually will constitute qualified stated interest and will be taxed accordingly. Thus, a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof and that qualifies as a "variable rate debt instrument" generally will not be treated as having been issued with OID unless the Variable Interest Rate Note is issued at a "true" discount (i.e., at a price below the Note's stated principal amount) in excess of a specified *de minimis* amount. OID on a Variable Interest Rate Note arising from "true" discount is allocated to an accrual period using the constant yield method described above by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate, the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate, or (ii) in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note. In general, any other Variable Interest Rate Note that qualifies as a "variable rate debt instrument" will be converted into an "equivalent" fixed rate debt instrument for purposes of determining the amount and accrual of OID and qualified stated interest on the Variable Interest Rate Note. Such a Variable Interest Rate Note must be converted into an "equivalent" fixed rate debt instrument by substituting any qualified floating rate or qualified inverse floating rate provided for under the terms of the Variable Interest Rate Note with a fixed rate equal to the value of the qualified floating rate or qualified inverse floating rate, as the case may be, as of the Variable Interest Rate Note's issue date. Any objective rate (other than a qualified inverse floating rate) provided for under the terms of the Variable Interest Rate Note is converted into a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note. In the case of a Variable Interest Rate Note that qualifies as a "variable rate debt instrument" and provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate, the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Variable Interest Rate Note provides for a qualified inverse floating rate). Under these circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of the Variable Interest Rate Note as of the Variable Interest Rate Note's issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the qualified floating rate or qualified inverse floating rate rather than the fixed rate. Subsequent to converting the fixed rate into either



a qualified floating rate or a qualified inverse floating rate, the Variable Interest Rate Note is converted into an “equivalent” fixed rate debt instrument in the manner described above.

Once the Variable Interest Rate Note is converted into an “equivalent” fixed rate debt instrument pursuant to the foregoing rules, the amount of OID and qualified stated interest, if any, are determined for the “equivalent” fixed rate debt instrument by applying the general OID rules to the “equivalent” fixed rate debt instrument and a U.S. Holder of the Variable Interest Rate Note will account for the OID and qualified stated interest as if the U.S. Holder held the “equivalent” fixed rate debt instrument. In each accrual period, appropriate adjustments will be made to the amount of qualified stated interest or OID assumed to have been accrued or paid with respect to the “equivalent” fixed rate debt instrument in the event that these amounts differ from the actual amount of interest accrued or paid on the Variable Interest Rate Note during the accrual period.

If a Variable Interest Rate Note, such as a Note the payments on which are determined by reference to an index, does not qualify as a “variable rate debt instrument”, then the Variable Interest Rate Note will be treated as a contingent payment debt obligation. The proper U.S. federal income tax treatment of Variable Interest Rate Notes that are treated as contingent payment debt obligations will be more fully described in the applicable Final Terms.

#### *Short-Term Notes*

In general, an individual or other cash basis U.S. Holder of a Short-Term Note is not required to accrue OID (as specially defined below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Notes on a straight-line basis or, if the U.S. Holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realised on the sale or retirement of the Short-Term Note will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or retirement. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Notes will be required to defer deductions for interest on borrowings allocable to Short-Term Notes in an amount not exceeding the deferred income until the deferred income is realised.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Note are included in the Short-Term Note’s stated redemption price at maturity. A U.S. Holder may elect to determine OID on a Short-Term Note as if the Short-Term Note had been originally issued to the U.S. Holder at the U.S. Holder’s purchase price for the Short-Term Note. This election will apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

#### *Notes Purchased at a Premium*

A U.S. Holder that purchases a Note for an amount in excess of its principal amount or, for a Discount Note, its stated redemption price at maturity, may elect to treat the excess as “amortisable bond premium”, in which case the amount required to be included in the U.S. Holder’s income each year with respect to interest on the Note will be reduced by the amount of amortisable bond premium allocable (based on the Note’s yield to maturity) to that year. Any election to amortise bond premium will apply to all bonds (other than bonds the interest on which is excludable from gross income for U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. See also “*Original Issue Discount – Election to Treat All Interest as Original Issue Discount*”.

### ***Purchase, Sale and Retirement of Notes***

A U.S. Holder's tax basis in a Note generally will be its cost, increased by the amount of any OID or market discount included in the U.S. Holder's income with respect to the Note and the amount, if any, of income attributable to *de minimis* OID and *de minimis* market discount included in the U.S. Holder's income with respect to the Note, and reduced by (i) the amount of any payments that are not qualified stated interest payments, and (ii) the amount of any amortisable bond premium applied to reduce interest on the Note.

A U.S. Holder generally will recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and the tax basis of the Note. The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. Except to the extent described above under "Original Issue Discount – Market Discount" or "Original Issue Discount – Short Term Notes" or attributable to changes in exchange rates (as discussed below), gain or loss recognised on the sale or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder's holding period in the Notes exceeds one year. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source.

### ***Foreign Currency Notes***

#### ***Interest***

If an interest payment is denominated in, or determined by reference to, a foreign currency (i.e. a currency other than U.S. dollars), the amount of income recognised by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

Upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Note) denominated in, or determined by reference to, a foreign currency, the U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

#### ***OID***

OID for each accrual period on a Discount Note that is denominated in, or determined by reference to, a foreign currency, will be determined in the foreign currency and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above. Upon receipt of an amount attributable to OID (whether in connection with a payment on the Note or a sale or disposition of the

Note), a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

#### *Market Discount*

Market discount on a Note that is denominated in, or determined by reference to, a foreign currency, will be accrued in the foreign currency. If the U.S. Holder elects to include market discount in income currently, the accrued market discount will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. Holder's taxable year). Upon the receipt of an amount attributable to accrued market discount, the U.S. Holder may recognise U.S. source exchange gain or loss (which will be taxable as ordinary income or loss) determined in the same manner as for accrued interest or OID. A U.S. Holder that does not elect to include market discount in income currently will recognise, upon the disposition or maturity of the Note, the U.S. dollar value of the amount accrued, calculated at the spot rate on that date, and no part of this accrued market discount will be treated as exchange gain or loss.

#### *Bond Premium*

Bond premium (including acquisition premium) on a Note that is denominated in, or determined by reference to, a foreign currency, will be computed in units of the foreign currency, and any such bond premium that is taken into account currently will reduce interest income in units of the foreign currency. On the date bond premium offsets interest income, a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) measured by the difference between the spot rate in effect on that date, and on the date the Notes were acquired by the U.S. Holder. A U.S. Holder that does not elect to take bond premium (other than acquisition premium) into account currently will recognise a market loss when the Note matures.

#### *Sale or Retirement*

As discussed above under "Purchase, Sale and Retirement of Notes", a U.S. Holder generally will recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and its tax basis in the Note. A U.S. Holder's tax basis in a Note that is denominated in a foreign currency will be determined by reference to the U.S. dollar cost of the Note. The U.S. dollar cost of a Note purchased with foreign currency generally will be the U.S. dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase.

The amount realised on a sale or retirement for an amount in foreign currency will be the U.S. dollar value of this amount on the date of sale or retirement or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

A U.S. Holder will recognise U.S. source exchange rate gain or loss (taxable as ordinary income or loss) on the sale or retirement of a Note equal to the difference, if any, between the U.S. dollar values of the U.S. Holder's purchase price for the Note (i) on the date of sale or retirement and (ii) the date on which the U.S. Holder acquired the Note. Any such exchange rate gain or loss will be realised only to the extent of total gain or loss realised on the sale or retirement (including any exchange gain or loss with respect to the receipt of accrued but unpaid interest).

### *Disposition of Foreign Currency*

Foreign currency received as interest on a Note or on the sale or retirement of a Note will have a tax basis equal to its U.S. dollar value at the time the foreign currency is received or at the time of the sale or retirement. Foreign currency that is purchased generally will have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

### *Backup Withholding and Information Reporting*

In general, payments of interest and accruals of OID on, and the proceeds of a sale, redemption or other disposition of, the Notes, payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding will apply to these payments, including payments of OID, if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

### *Reportable Transactions*

A U.S. taxpayer that participates in a “reportable transaction” will be required to disclose this participation to the IRS. Under the relevant rules, if the Notes are denominated in a foreign currency, a U.S. Holder may be required to treat a foreign currency exchange loss from the Notes as a reportable transaction if the loss exceeds the relevant threshold in the regulations (U.S.\$50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amounts for other non-individual U.S. Holders), and to disclose its investment by filing Form 8886 with the IRS. A penalty in the amount of U.S.\$10,000 in the case of a natural person and U.S.\$50,000 in all other cases generally is imposed on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules to the acquisition, holding or disposition of Notes.

### *Foreign Financial Asset Reporting*

U.S. taxpayers that own certain foreign financial assets, including debt of foreign entities, with an aggregate value in excess of \$50,000 at the end of the taxable year or \$75,000 at any time during the taxable year (or, for certain individuals living outside the United States and married individuals filing joint returns, certain higher thresholds) may be required to file an information report with respect to such assets with their tax returns. The Notes are expected to constitute foreign financial assets subject to these requirements unless the Notes are held in an account at a financial institution (in which case the account may be reportable if maintained by a foreign financial institution). U.S. Holders should consult their tax advisors regarding the application of the rules relating to foreign financial asset reporting.

### *FATCA Withholding*

FATCA imposes a withholding tax of 30 per cent. on (i) certain U.S. source payments and (ii) payments of gross proceeds from the disposition of assets that produce U.S. source interest or dividends made to persons that fail to meet certain certification or reporting requirements. In order to avoid becoming subject to this withholding tax, non-U.S. financial institutions must enter into agreements with the IRS (**IRS Agreements**) (as described below) or otherwise be exempt from the requirements of FATCA. Non-U.S. financial institutions that enter into IRS Agreements or become subject to provisions of local law (**IGA legislation**) intended to implement an IGA entered into pursuant to FATCA, may be required to identify “financial

accounts” held by U.S. persons or entities with substantial U.S. ownership, as well as accounts of other financial institutions that are not themselves participating in (or otherwise exempt from) the FATCA reporting regime. In addition, in order (a) to obtain an exemption from FATCA withholding on payments it receives and/or (b) to comply with any applicable IGA legislation, a financial institution that enters into an IRS Agreement or is subject to IGA legislation may be required to (i) report certain information on its U.S. account holders to the government of the United States or another relevant jurisdiction and (ii) withhold 30 per cent. from all, or a portion of, certain payments made to persons that fail to provide the financial institution information, consents and forms or other documentation that may be necessary for such financial institution to determine whether such person is compliant with FATCA or otherwise exempt from FATCA withholding.

Under FATCA, withholding is required with respect to payments to persons that are not compliant with FATCA or that do not provide the necessary information, consents or documentation made on or after (i) 1 July, 2014 in respect of certain U.S. source payments, (ii) 1 January, 2017 in respect of payments of gross proceeds (including principal repayments) on certain assets that produce U.S. source interest or dividends and (iii) 1 January, 2017 (at the earliest) in respect of “foreign passthru payments” and then, for “obligations” that are not treated as equity for U.S. federal income tax purposes, only on such obligations that are issued or materially modified after the date that is six months after the date on which the final regulations applicable to “foreign passthru payments” are filed in the Federal Register.

Whilst the Notes are in global form and held within Euroclear Bank S.A./N.V. or Clearstream Banking, *société anonyme* (together, the **ICSDs**), it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Bank, any paying agent and the Common Depositary or Common Safekeeper, given that each of the entities in the payment chain between the Bank and the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an intergovernmental agreement will be unlikely to affect the Notes. The documentation expressly contemplates the possibility that the Notes may go into definitive form and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA-compliant holder could be subject to withholding. However, definitive Notes will only be printed in remote circumstances.

If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes as a result of FATCA, none of the Bank, any paying agent or any other person would, pursuant to the Terms and Conditions of the Notes be required to pay additional amounts as a result of the deduction or withholding. As a result, investors may receive less interest or principal than expected.

The application of FATCA to Notes issued or materially modified on or after the date that is six months after the date on which the final regulations applicable to “foreign passthru payments” are filed in the Federal Register, (or whenever issued, in the case of Notes treated as equity for U.S. federal tax purposes) may be addressed in the relevant Final Terms, as applicable.

**FATCA IS PARTICULARLY COMPLEX AND ITS APPLICATION TO THE BANK, THE NOTES AND THE HOLDERS IS SUBJECT TO CHANGE. EACH HOLDER OF NOTES SHOULD CONSULT ITS OWN TAX ADVISOR TO OBTAIN A MORE DETAILED EXPLANATION OF FATCA AND TO LEARN HOW FATCA MIGHT AFFECT EACH HOLDER IN ITS PARTICULAR CIRCUMSTANCE.**

### **EU Savings Directive**

The EU Savings Directive requires Member States to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual resident in or certain limited types of entity established in another Member State, except that Austria and Luxembourg may instead apply a withholding system for a transitional period unless during such period they elect otherwise (subject to

a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). A number of third countries and territories including Switzerland have adopted similar measures to the EU Savings Directive (a withholding system in the case of Switzerland).

The Luxembourg government has announced its intention to elect out of the withholding system in favour of an automatic exchange of information with effect as from 1 January 2015.

On 24 March 2014, the Council adopted a directive amending the EU Savings Directive to extend its scope to cover additional types of income payable on securities. The directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the EU. Member States have until 1 January 2016 to adopt domestic legislation to give effect to these changes, which must be applied from 1 January 2017.

### **The FTT**

The European Commission has published a proposal for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the participating Member States).

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (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 participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a 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. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

### **Luxembourg taxation**

*The comments below are intended as a basic summary of certain withholding tax consequences in relation to the purchase, ownership and disposition of the Notes under Luxembourg law. Persons who are in any doubt as to their tax position should consult a professional tax adviser.*

#### **Withholding tax**

Under Luxembourg tax law currently in effect and with the possible exception of interest paid to certain individual Noteholders and to certain entities, there is no Luxembourg withholding tax on payments of interest (including accrued but unpaid interest). There is also no Luxembourg withholding tax, with the possible exception of payments made to certain individual Noteholders and to certain entities, upon repayment of principal in case of reimbursement, redemption, repurchase or exchange of the Notes.

### *Luxembourg non-resident individuals*

Under the Luxembourg laws dated 21 June 2005, as amended, implementing the EU Savings Directive and several agreements concluded between Luxembourg and certain dependent or associated territories of the EU, a Luxembourg based paying agent (within the meaning of the EU Savings Directive) is required since 1 July 2005 to withhold tax on interest and other similar income paid by it to (or under certain circumstances, to the benefit of) an individual or “residual entities” resident or established in another Member State or in certain EU dependent or associated territories, unless the beneficiary of the interest payments elects for the procedure of exchange of information or, in case of an individual beneficiary, for the tax certificate procedure. “Residual entities” within the meaning of Article 4.2 of the EU Savings Directive are entities established in a Member State or in certain EU dependent or associated territories (i.e., entities which are not legal persons (the Finnish and Swedish companies listed in Article 4.5 of the EU Savings Directive are not considered legal persons for this purpose), whose profits are not taxed under the general arrangements for the business taxation and that are not and have not opted to be treated as UCITS recognised in accordance with the Council Directive 85/611/EEC as replaced by the Council Directive 2009/65/EC or similar collective investment funds located in Jersey, Guernsey, the Isle of Man, the Turks and Caicos Islands, the Cayman Islands, Montserrat or the British Virgin Islands.

The current withholding tax rate is 35 per cent. Responsibility for withholding such tax will be assumed by the Luxembourg paying agent. The withholding tax system will only apply during a transitional period, the ending of which depends on the conclusion of certain agreements relating to information exchange with certain third countries.

The Luxembourg government has announced its intention to elect out of the withholding system in favour of an automatic exchange of information with effect as from 1 January 2015.

The Council has adopted certain amendments of the EU Savings Directive which will, upon implementation, amend or broaden the scope of the requirements described above.

### *Luxembourg resident individuals*

Pursuant to the Luxembourg law of 23 December 2005 as amended by the law of 17 July 2008, interest payments made by Luxembourg paying agents (defined in the same way as in the EU Savings Directive) to Luxembourg individual residents or to certain residual entities that secure interest payments on behalf of such individuals (unless such entities have opted either to be treated as UCITS recognised in accordance with the Council Directive 86/611/EEC as replaced by the Council Directive 2009/65/EC or the exchange of information regime) are subject to a 10 per cent. withholding tax. Responsibility for withholding such tax will be assumed by the Luxembourg paying agent.

## SUBSCRIPTION AND SALE

### Summary of Dealer Agreement

Subject to the terms and on the conditions contained in an amended and restated dealer agreement dated 14 October 2014 (the **Dealer Agreement**) between the Bank, the Permanent Dealers and the Arranger, the Notes will be offered on a continuous basis by the Bank to the Permanent Dealers. However, the Bank has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Bank through the Dealers, acting as agents of the Bank. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The Bank will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Bank has agreed to reimburse the Arranger for its expenses incurred in connection with the update of the Programme and the Dealers for certain of their activities in connection with the Programme. The commissions in respect of an issue of Notes on a syndicated basis will be stated in the relevant Final Terms.

The Bank has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Bank.

### Selling Restrictions

#### *United States*

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each Dealer has agreed that except as permitted by the Dealer Agreement, they have not offered, sold or delivered and will not offer, sell or, in the case of Bearer Notes, deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of which such Notes are a part, as determined and certified to the Issuing and Paying Agent by such Dealer (or, in the case of an identifiable tranche of Notes sold to or through more than one Dealer, by each of such Dealers with respect to Notes of an identifiable tranche purchased by or through it, in which case the Issuing and Paying Agent shall notify such Dealer when all such Dealers have so certified), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period (other than resales pursuant to Rule 144A) a confirmation or other notice setting out the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S.

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. The Dealer Agreement provides that the Dealers may directly or through their respective U.S.



broker-dealer affiliates arrange for the offer and resale of Notes within the United States only to qualified institutional buyers in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of any identifiable tranche of Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of such tranche of Notes) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

This Prospectus has been prepared by the Bank for use in connection with the offer and sale of the Notes outside the United States and for the resale of the Notes in the United States. The Bank and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States or to any U.S. person, other than any qualified institutional buyer within the meaning of Rule 144A to whom an offer has been made directly by one of the Dealers or its U.S. broker-dealer affiliate. Distribution of this Prospectus by any non-U.S. person outside the United States or by any qualified institutional buyer in the United States to any U.S. person or to any other person within the United States, other than any qualified institutional buyer and those persons, if any, retained to advise such non-U.S. person or qualified institutional buyer with respect thereto, is unauthorised and any disclosure without the prior written consent of the Bank of any of its contents to any such U.S. person or other person within the United States, other than any qualified institutional buyer and those persons, if any, retained to advise such non-U.S. person or qualified institutional buyer, is prohibited.

#### *Public Offer Selling Restriction Under the Prospectus Directive*

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (i) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (ii) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors, as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Bank for any such offer; or
- (iii) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (i) to (iii) above shall require the Bank or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression “an offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and the expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression **2010 PD Amending Directive** means Directive 2010/73 EU.

### *United Kingdom*

Each Dealer has represented and agreed that:

- (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA would not, if the Bank was not an authorised person, apply to the Bank; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### *Cyprus*

Each Dealer has represented and agreed that:

- (a) it has not made and will not make an offer for sale or sell any Securities to any person within the Republic of Cyprus other than to qualified investors within the meaning of the Public Offer and Prospectus Law, Law 114(I)/2005 (as amended) (the **Prospectus Law**) or to other persons to whom such an offer may be lawfully made pursuant to the provisions of the Prospectus Law;
- (b) it has complied and will comply with all applicable provisions of the Prospectus Law with respect to anything done by it in relation to the Securities in, from or otherwise involving Cyprus;
- (c) it has complied and will continue to comply with the provisions of the Investment Services and Activities and Regulated Markets Law, Law 144(I)/2007 (as amended) with respect to any offer or sale of the Securities in Cyprus.

### *Greece*

Each Dealer has represented and agreed that it has not publicly offered or sold and will not publicly offer or sell any Notes, in, or to persons in, the Hellenic Republic, or engage in advertisements, notices, statements or other actions in the Hellenic Republic, with a view to attracting resident investors in the Hellenic Republic to acquire Notes. All applicable provisions of law 3401/2005 must be complied with in respect of anything done with regard to the public offering of Notes in, from or otherwise involving the Hellenic Republic.

### *Japan*

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the **Financial Instruments and Exchange Act**). Accordingly, each Dealer has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

### *The Republic of Italy*

The offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* (**CONSOB**) pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this Prospectus or of any other document relating to any Notes be distributed in Italy, except, in accordance with any Italian securities, tax and other applicable laws and regulations.

Each Dealer has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver any Notes or distribute any copy of this Prospectus or any other document relating to the Notes in the Italy except:

- (a) to qualified investors (*investitori qualificati*), as referred to in Article 100 of Legislative Decree no. 58 of 24 February 1998 (the **Financial Services Act**) and Article 34-ter, paragraph 1, letter (b) of CONSOB regulation No. 11971 of 14 May 1999 (**Issuers Regulation**), all as amended from time to time; or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and the Issuers Regulation.

In any event, any offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in Italy under paragraphs (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the **Banking Act**) and CONSOB Regulation No. 16190 of 29 October 2007, all as amended from time to time;
- (ii) in compliance with Article 129 of the Banking Act, as amended from time to time, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the offering or issue of securities in Italy; and
- (iii) in compliance with any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time by CONSOB or the Bank of Italy or other competent authority.

#### *Switzerland*

Each Dealer has represented and agreed that it has not offered or sold and will not offer or sell any Notes to the public in Switzerland and each Dealer has represented and agreed that Notes denominated in Swiss Francs will be offered and sold in accordance with practices and documentation customary in Switzerland.

#### **General**

These selling restrictions may be modified by the agreement of the Bank and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Prospectus.

No representation is made that any action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that it will, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Prospectus, any other offering material or any Final Terms and neither the Bank nor any other Dealer shall have responsibility therefor.

## TRANSFER RESTRICTIONS

### Rule 144A Notes

Each Purchaser of Restricted Notes within the United States pursuant to Rule 144A, by accepting delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged that:

- (1) It is (a) a qualified institutional buyer within the meaning of Rule 144A (**QIB**), (b) acquiring such Notes for its own account or for the account of a QIB and (c) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.
- (2) The Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any State of the United States.
- (3) Such Notes, unless the Bank determines otherwise in compliance with applicable law, will bear a legend to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144A UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.

- (4) It understands that the Bank, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.
- (5) It understands that the Notes offered in reliance on Rule 144A will be represented by one or more Restricted Global Certificates. Before any interest in a Restricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

- (6) Distribution of this Prospectus, or disclosure of any of its contents to any person other than such purchaser and those persons, if any, retained to advise such purchaser with respect thereto is unauthorized, and any disclosure of any of its contents, without the prior written consent of the Bank, is prohibited.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

## **Regulation S Notes**

Each purchaser of Registered Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) It is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Bank or a person acting on behalf of such an affiliate.
- (2) It understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of a QIB or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
- (3) It understands that such Notes, unless otherwise determined by the Bank in accordance with applicable law, will bear a legend to the following effect:
- “THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.”
- (4) It understands that the Bank, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.
- (5) It understands that the Notes offered in reliance on Regulation S will be represented by one or more Unrestricted Global Certificates. Prior to the expiration of the distribution compliance period, before any interest in an Unrestricted Global Certificate representing Notes issued by the Bank may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Restricted Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.
- (6) It is expected that delivery of the Notes may be made against payment therefor on or about a date which will occur more than three business days after the date of pricing of the Notes which date may be specified in the Final Terms. Pursuant to Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes on the date of

pricing or the next succeeding business day will be required, by virtue of the fact that the Notes may initially settle on or about a date which will occur more than three business days after the date of pricing of the Notes, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of Notes who wish to trade Notes on the date of pricing or the next succeeding business day should consult their own advisor.

## FORM OF FINAL TERMS

### Final Terms dated [●]

#### BANK OF CYPRUS PUBLIC COMPANY LIMITED (the “Bank”)

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

under the **€4,000,000,000 Euro Medium Term Note Programme**

#### PART A – CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 14 October 2014 [and the supplement(s) to it dated [●]] which [together] constitute[s] a base prospectus (the “Prospectus”) for the purposes of the Directive 2003/71/EC, as amended (the “Prospectus Directive”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus. Full information on the Bank and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus. The Prospectus has been published on the website of the Luxembourg Stock Exchange at [www.bourse.lu](http://www.bourse.lu).]

*The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date.*

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “Conditions”) contained in the Trust Deed dated 17 May 2011 and set forth in the Prospectus dated 17 May 2011 2014 which is incorporated by reference in the Prospectus dated 14 October 2014. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Directive 2003/71/EC, as amended (the “Prospectus Directive”) and must be read in conjunction with the Prospectus dated 14 October 2014 [and the supplement(s) to it dated [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. Full information on the Bank and the offer of the Notes is only available on the basis of the combination of these Final Terms, the Prospectus [and the supplement(s) to it dated [●]]. The Prospectus has been published on the website of the Luxembourg Stock Exchange at [www.bourse.lu](http://www.bourse.lu).]

*[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs (in which case the sub-paragraphs of the paragraphs which are not applicable can be deleted). Italics denote guidance for completing the Final Terms.]*

- |   |  |   |
|---|--|---|
| 1 | [(i)] Series Number:                             | [●]   |
|   | [(ii)] Tranche Number:                           | [●]   |
|   | [(iii)] Date on which the Notes become fungible: | [Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the <i>[insert description of the Series]</i> on <i>[insert date]</i> /the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 20 below [which is expected to occur on or about <i>[insert date]</i> ]].] |
| 2 | Specified Currency or Currencies:                | [●]   |

3	Aggregate Nominal Amount:	[●]
	[(i)] Series:	[●]
	[(ii)] Tranche:	[●]
4	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
5	(i) Specified Denominations:	[●]  <i>(Note – where multiple denominations above €100,000 (or equivalent) are being used the following sample wording should be followed:</i>  <i>[€100,000] and integral multiples of [€1,000] in excess thereof [up to and including [€199,000], No notes in definitive form will be issued with a denomination above [€199,000]]</i>
	(ii) Calculation Amount:	[●] <i>(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor). (Note: There must be a common factor in the case of two or more Specified Denominations)</i>
6	[(i)] Issue Date:	[●]
	[(ii)] Interest Commencement Date	[[●]/Issue Date/Not Applicable]
7	Maturity Date:	[●]  <i>(Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year)</i>
8	Interest Basis:	[[●] per cent. Fixed Rate] [[●] month [LIBOR/EURIBOR] ] +/- • per cent. Floating Rate] [Zero Coupon] <i>(See paragraph 13/14/15 below)</i>
9	Redemption/Payment Basis:	Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at 100 per cent. of their nominal amount. [Instalment]
10	Change of Interest Basis:	[For the period from (and including) the Interest Commencement Date, up to (but excluding) [date] paragraph [13/14] applies and for the period from (and including) [date], up to (and including) the Maturity Date, paragraph [13/14] applies]/[Not Applicable]
11	Put/Call Options:	[Investor Put] [Issuer Call] [See paragraph [16/17/18] below)]



- 12 [Date [Board] approval for issuance of Notes obtained: [●]  
(N.B Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes)]

#### PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- 13 **Fixed Rate Note Provisions** [Applicable/Not Applicable]  
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate[(s)] of Interest: [●] per cent. per annum payable in arrear on each Interest Payment Date]
- (ii) Interest Payment Date(s): [●] in each year
- (iii) Fixed Coupon Amount[(s)]: [●] per Calculation Amount
- (iv) Broken Amount(s): [●] per Calculation Amount, payable on [●]
- (v) Day Count Fraction: [30/360/Actual/Actual (ICMA)/ISDA/ include any other option from the Conditions)]
- (vi) [Determination Dates: [●] in each year (insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))]
- 14 **Floating Rate Note Provisions** [Applicable/Not Applicable]  
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Interest Period(s): [[●] [, subject to adjustment in accordance with the Business Day Convention set out in (v) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]]
- (ii) Specified Interest Payment Dates: [[●] in each year[, subject to adjustment in accordance with the Business Day Convention set out in (v) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]]
- (iii) Interest Period Date: [Not Applicable]/ [[●] in each year[, subject to adjustment in accordance with the Business Day Convention set out in (v) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]]
- (iv) First Interest Payment Date: [●]
- (v) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention][Not Applicable]

- (vi) Business Centre(s): [●]
- (vii) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination]
- (viii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Calculation Agent): [●]
- (ix) Screen Rate Determination: [Applicable/Not Applicable]
- Reference Rate: [[●] month [LIBOR/EURIBOR]]
  - Interest Determination Date(s): [●]
  - Relevant Screen Page [●]
- (x) ISDA Determination: [Applicable/Not Applicable]
- Floating Rate Option: [●]
  - Designated Maturity: [●]
  - Reset Date: [●]
- (xi) Linear Interpolation [Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
- (xii) Margin(s): [+/-][●] per cent. per annum
- (xiii) Minimum Rate of Interest: [●] per cent. per annum
- (xiv) Maximum Rate of Interest: [●] per cent. per annum
- (xv) Day Count Fraction: [Actual/Actual]  
[Actual/Actual – ISDA]  
[Actual/365 (Fixed)]  
[Actual/365 (Sterling)]  
[Actual/360]  
[30/360], [360/360] or [Bond Basis]  
[30E/360] or [Eurobond Basis]  
[30E/360 (ISDA)]  
[Actual/Actual-ICMA]  
[Not applicable]
- 15 **Zero Coupon Note Provisions** [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Amortisation Yield: [●] per cent. per annum

- (ii) [Day Count Fraction in relation to Early Redemption Amounts:
- [Actual/Actual]
  - [Actual/Actual – ISDA]
  - [Actual/365 (Fixed)]
  - [Actual/365 (Sterling)]
  - [Actual/360]
  - [30/360], [360/360] or [Bond Basis]
  - [30E/360] or [Eurobond Basis]
  - [30E/360 (ISDA)]
  - [Actual/Actual-ICMA]
  - [Not applicable]

## PROVISIONS RELATING TO REDEMPTION

- 16 **Call Option** [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [●]
  - (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [[●] per Calculation Amount]/[Condition 6(b) applies]
  - (iii) If redeemable in part:
    - (a) Minimum Redemption Amount: [●] per Calculation Amount
    - (b) Maximum Redemption Amount: [●] per Calculation Amount
  - (iv) Notice period: [●] days
- 17 **Put Option** [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [●]
  - (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [[●] per Calculation Amount]/[Condition 6(b) applies]
  - (iii) Notice Period: [●] days
- 18 **Final Redemption Amount of each Note** [●][Par] per Calculation Amount
- 19 **Early Redemption Amount**
- Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption: [●]/[Par] per Calculation Amount

## GENERAL PROVISIONS APPLICABLE TO THE NOTES

20	Form of Notes:	<p><b>Bearer Notes:</b></p> <p>[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]</p> <p>[Temporary Global Note exchangeable for Definitive Notes in accordance with its terms]</p> <p>[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]</p> <p><b>[Registered Notes:</b></p> <p>[Restricted Global Certificate registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg]/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is held under the New Safekeeping Structure (NSS)]</p> <p>[Unrestricted Global Certificate registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg]]]</p>
21	[New Global Note] / [Notes held under the New Safekeeping System]:	[Yes][No]
22	Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable/give details. Note that this paragraph relates to the date of payment, and not the end dates of interest periods for the purposes of calculating the amount of interest, to which sub-paragraph 14(vi) relates]
23	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[No/Yes. As the Notes have more than 27 coupon payments, talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made.]
24	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	[Not Applicable]
	(i) Instalment Amount:	[●]
	(ii) Instalment Date(s):	[●]
	(iii) Minimum Instalment Amount:	[●]
	(iv) Maximum Instalment Amount:	[●]

### **THIRD PARTY INFORMATION**

[(*Relevant third party information*) has been extracted from (*specify source*). The Bank confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by (*specify source*), no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Bank

By: \_\_\_\_\_  
Duly authorised

## PART B – OTHER INFORMATION

### 1 LISTING AND ADMISSION TO TRADING

- (i) Listing: [Official List of the Luxembourg Stock Exchange/other (*specify*)/None]
- (ii) Admission to trading: [Application has been made by the Bank (or on its behalf) for the Notes to be admitted to trading on [the regulated market of the Luxembourg Stock Exchange] [*insert other relevant regulated market*] with effect from [ ].] [Application is expected to be made by the Bank (or on its behalf) for the Notes to be admitted to trading on [*insert relevant regulated market*] with effect from [ ].] [Not Applicable.]  
*(Where documenting a fungible issue need to indicate that original Notes are already admitted to trading.)*
- (iii) Estimate of total expenses related to admission to trading: [●]

### 2 RATINGS

- Ratings: [[The Notes to be issued [have been/are expected to be] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]]::  
[S & P: [●]]  
[Moody's: [●]]  
[Fitch: [●]]  
[[Other]: [●]]  
[[*Name of credit rating agency(ies)*][is/is not] established in the European Union and [has not/has applied to be/is/is not] registered under the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies [, although the result of such application(s) has not yet been determined].]<sup>1</sup>  
*(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

### 3 INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER

*(Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the statement:)*

[Save for any fees payable to the Managers, so far as the Bank is aware, no person involved in the offer of the Notes has an interest material to the offer. The Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Bank and its affiliates in the ordinary course of business. *(Amend as appropriate if there are other interests)*]

*[(When adding any other description, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]*

#### 4 **REASONS FOR THE OFFER**

[(i) Reasons for the offer: [ ]  
*(See [“Use of Proceeds”] wording in Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]*

#### 5 **[Fixed Rate Notes only – YIELD**

Indication of yield: [●]

#### 6 **OPERATIONAL INFORMATION**

ISIN: [●]

Common Code: [●]

[CUSIP: [●]]

[CINS: [●]]

Any clearing system(s) other than DTC, Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s) and address(s)]

Delivery: Delivery [against/free of] payment

Names and addresses of initial Paying Agent(s): [●]

Names and addresses of additional Paying Agent(s) (if any): [●]

[Names (and addresses) of Calculation Agent(s): [Deutsche Bank AG, London Branch, Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom]/[Specify other]

Intended to be held in a manner which would allow Eurosystem eligibility:

[Yes. Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper)] [*include this text for registered notes*] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.] /

[No. Whilst the designation is specified as “no” at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper)] [*include this text for registered notes*]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

## 7 DISTRIBUTION

- |  |   |
|--|---|
| (i) Method of distribution:              | [Syndicated/Non-syndicated]   |
| (ii) If syndicated:                      |   |
| (A) Names of Managers:                   | [Not Applicable/ <i>give names</i> ]  |
| (B) Stabilisation Manager(s) (if any):   | [Not Applicable/ <i>give names</i> ]  |
| (iii) If non-syndicated, name of Dealer: | [Not Applicable/ <i>give name</i> ]   |
| (iv) U.S. Selling Restrictions:          | [Reg. S Compliance Category [1/2/3]; [Rule 144A;] TEFRA C/ TEFRA D/ TEFRA not applicable] |



## GENERAL INFORMATION

- (1) Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to the Official List and traded on the Luxembourg Stock Exchange Regulated Market.
- (2) The Bank has obtained all necessary consents, approvals and authorisations in Cyprus in connection with the establishment of the Programme. The establishment of the Programme was authorised by resolution of the Board of Directors passed on 4 September 2003. The resolution of the Board of Directors passed on 4 September 2003, authorising the establishment and subsequent updates of the Programme, was amended by resolutions of the Board of Directors passed on 24 May 2005 and on 9 March 2006. The update and increase in the size of the Programme from €1,500,000,000 to €2,000,000,000 was authorised by a resolution of the Board of Directors passed on 12 April 2007, the update and increase in the size of the Programme from €2,000,000,000 to €4,000,000,000 was authorised by a resolution of the Board of Directors passed on 14 February 2008 and the update of the Programme was authorised by a resolution of the Board of Directors passed on 8 April 2011 and thereafter on 30 May 2014.
- (3) Save as disclosed on pages 93, 94 and 151, there has been no significant change in the financial or trading position of the Bank or of the Group since 30 June 2014 and no material adverse change in the prospects of the Bank or of the Group since 31 December 2013.
- (4) Save as disclosed on pages 123 and 126, neither the Bank nor any of its respective subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Group.
- (5) Where information in this Prospectus has been sourced from third parties this information has been accurately reproduced and as far as the Bank is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.
- (6) Each Bearer Note having a maturity of more than one year, Receipt, Coupon and Talon will bear the following legend: “Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code”.
- (7) Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems. In addition, the Bank may make an application with respect to any Restricted Notes of a Registered Series to be accepted for trading in book-entry form by DTC. Acceptance by DTC of Registered Notes of each Tranche of a Registered Series issued by the Bank will be confirmed in the applicable Final Terms. The Common Code, the International Securities Identification Number (ISIN), the Committee on the Uniform Security Identification Procedure (CUSIP) number and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg and the address of DTC is 55 Water Street, New York, New York 10041. The address of any alternative clearing system will be specified in the applicable Final Terms.

- (8) The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms of each Tranche, based on the prevailing market conditions. The Bank will not provide any post-issuance information, except if required by any applicable laws and regulations.
- (9) For so long as Notes may be issued pursuant to this Prospectus, the following documents (or copies thereof) will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the specified offices of each of the Paying Agents:
- (i) the Trust Deed (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons, the Receipts and the Talons);
  - (ii) the Dealer Agreement and the Agency Agreement;
  - (iii) the Memorandum and Articles of Association of the Bank;
  - (iv) the 2013 and 2012 Audited Financial Statements and the June 2014 Unaudited Financial Statements;
  - (v) each Final Terms (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Bank and the Issuing and Paying Agent as to its holding of Notes and identity);
  - (vi) a copy of this Prospectus together with any Supplement to this Prospectus; and
  - (vii) all reports, letters and other documents, balance sheets, historical financial information, valuations and statements by any expert any part of which is extracted or referred to in this Prospectus.

The Prospectus and the Final Terms for Notes that are listed on the Official List and admitted to trading on the Luxembourg Stock Exchange Regulated Market will be published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

- (10) The Bank is a corporation organised under the laws of Cyprus. None of the directors and executive officers of the Bank are residents of the United States, and all or a substantial portion of the assets of the Bank and such persons are located outside the United States.
- (11) Ernst & Young Cyprus Limited, member of the Institute of Chartered Accountants in England and Wales and the Institute of Certified Public Accountants of Cyprus, has audited, and rendered an unqualified audit report on the accounts of the Group for the year ended 31 December 2012 and a qualified audit report on the accounts of the Group for the year ended 31 December 2013, as disclosed on page 6.
- (12) The yield of any Fixed Rate Notes will be included in the applicable Final Terms. The yield will be calculated at the relevant Issue Date on the basis of the relevant Issue Price. It will not be an indication of future yield.

## GLOSSARY OF SELECTED TERMS

€ and euro	The common legal currency of the 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: 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
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 are 90+DPD to gross loans for any period
ALCO	The Assets and Liabilities Committee of the Group
AML/CTF	Anti-money laundering and counter-terrorism financing
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
Assessment and Collection of Taxes Law	The Assessment and Collection of Taxes Law of 4/1978 as amended with 79(I)/2014
ATHEX	The Athens Exchange
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 of the Bank 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
BRRD	Directive 2014/59/EU of the European Parliament of 15 May 2014 and of the Council 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
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
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
CRA Regulation	Regulation (EC) No 1060/2009 (as amended) on credit rating agencies
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
CRP	The Credit Risk Policy department of the Group
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
CRSA	The Credit Risk Systems & Analytics department of the Group
CSE	The Cyprus Stock Exchange
CYPEF	The Cyprus Entrepreneurship Fund
CySEC	The Cyprus Securities and Exchange Commission
DBRS	Dominion Bond Rating Service
Deposit Protection Scheme	The Deposit Protection and Resolution of Credit and Other Institutions Scheme 2013
Diluted Shares	Diluted Existing Shares and ordinary shares issued to bailed in holders of Capital Securities
EAP	The Economic Adjustment Programme agreed between the Government and the Troika on 2 April 2013
EBA	The European Banking Authority
EBRD	The European Bank of Reconstruction and Development
ECB	The European Central Bank
ECB Assessment	The comprehensive assessment to be conducted in preparation of the ECB assuming full supervisory responsibility for Eurozone banks and other credit institutions as part of the SSM
ECB Regulation	Regulation (EU) No 1024/2013
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
EMTN	Euro Medium Term Note
ESM	The European Stability Mechanism
EU	The European Union
EU Savings Directive	Council Directive 2003/48/EC on the taxation of savings income
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 EU that have adopted the euro as their national currency in accordance with the Treaty on EU signed at Maastricht on 7 February 1992
Existing Shares	The ordinary shares of the Bank in issue as of 29 March 2013
FATCA	The U.S. Foreign Account Tax Compliance Act
FATF	The Financial Action Task Force
FCs	Financial counterparties
FFI	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
Fitch	Fitch Ratings Ltd.
Foreclosure Law	The Transfer and Mortgage of Immovable Property Law (Amending) (No 4) Law of 2014
FTT	The Financial Transactions Tax, a legislative proposal published by the European Commission on 14 February 2013
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
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
IAS	International Accounting Standards
IBS	The International Banking Services division of the Group
ICB	The International Corporate Banking unit of the Group
ICSD	Euroclear Bank S.A./N.V. or Clearstream Banking, <i>société anonyme</i>
IFRS	International Financial Reporting Standards as adopted by the EU
IGA	Intergovernmental agreements
IGA legislation	Provisions of local law intended to implement an IGA entered into pursuant to FATCA
IMF	The International Monetary Fund
Income Tax Law	The Cyprus Income Tax Law 118(I)/2002 as amended by 27(I) of 2013
Information Memorandum	The information memorandum dated 4 July 2014 issued by the Bank in relation to the Placing
IO division	The International Operations division of the Group
IRS	The U.S. Internal Revenue Service
IRS Agreements	Agreements entered into by non-U.S. financial institutions with the IRS
JCC	JCC Payment Systems Limited
Laiki Bank	Cyprus Popular Bank Public Co Ltd
Laiki Shares	Ordinary shares of the Bank 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
LFS	Laiki Financial Services Ltd
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
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
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
Nominal Value Reduction	The reduction of the nominal value each Ordinary Share to €0.10
NPL	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
Open Offer	The invitation to eligible existing shareholders of the Bank to subscribe for up to a total of 833,333,333 new ordinary shares of the Bank at the Placing Price
Open Offer Shares	The 433,042,768 new ordinary shares clawed back from the Placing pursuant to the Open Offer
OTC	Over-the-counter
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	The price per Placing Share which will be at a discount in respect of the current nominal value of the Ordinary Shares
Placing Shares	€0.24 per Placing Share
Prospectus Directive	Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State)
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
Rail Offer	The offer of up to 416,666,667 new ordinary shares (in addition to those sold in the Placing and the Open Offer) for subscription by existing shareholders of the Bank at the Placing Price
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
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
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
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 Bank
RUB and Rouble	The lawful currency of the Russian Federation
RWA	Risk-weighted assets
SCDF Law	Special Contribution for the Defence Fund of the Republic Laws, Law 117(I) of 2002 (as amended)
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
SMEs	Small and medium-sized enterprises
Solvency II	Directive 2009/138/EC of 25 November 2009
SRB	The single resolution board
SRF	The Single Banking Resolution Fund
SRM	The Single Resolution Mechanism

SRM Regulation	The proposal for a regulation on the SRM adopted by the European Parliament on 15 April 2014
SSM	The ECB's single supervisory mechanism for Eurozone banks and other credit institutions
Standard & Poor's	Standard & Poor's Credit Market Services
Supreme Court	The Supreme Court of Cyprus
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 a purchase agreement entered into by the Bank on 17 September 2014
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

**REGISTERED OFFICE OF THE BANK**

**Bank of Cyprus  
Public Company Limited**

51 Stassinou Street  
Ayia Paraskevi  
Strovolos  
2002 Nicosia  
Cyprus

**DEALERS**

**Bank of Cyprus Public Company Limited**

51 Stassinou Street  
Ayia Paraskevi  
Strovolos  
2002 Nicosia  
Cyprus

**Barclays Bank PLC**

5 The North Colonnade  
Canary Wharf  
London E14 4BB  
United Kingdom

**Citigroup Global Markets Limited**

Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

**Credit Suisse Securities (Europe) Limited**

One Cabot Square  
London E14 4QJ  
United Kingdom

**Deutsche Bank AG, London Branch**

Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

**Goldman Sachs International**

Peterborough Court  
133 Fleet Street  
London EC4A 2BB  
United Kingdom

**HSBC Bank plc**

8 Canada Square  
London E14 5HQ  
United Kingdom

**ING Bank N.V.**

pothofstraat 7  
1102 BD Amsterdam  
The Netherlands

**J.P. Morgan Securities plc**

25 Bank Street  
Canary Wharf  
London E14 5JP  
United Kingdom

**Merrill Lynch International**

2 King Edward Street  
London EC1A 1HQ  
United Kingdom

**Natixis**

30 avenue Pierre Mendès France  
75013 Paris  
France

**UBS Limited**

1 Finsbury Avenue  
London EC2M 2PP  
United Kingdom

**UniCredit Bank AG**

Arabellastrasse 12  
D-81925 Munich  
Federal Republic of Germany

**TRUSTEE**

**Deutsche Trustee Company Limited**

Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

**ISSUING AND PAYING AGENT AND CALCULATION AGENT**

**Deutsche Bank AG, London Branch**

Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

**PAYING AGENT, TRANSFER AGENT AND REGISTRAR**

**Deutsche Bank Luxembourg S.A.**

2 boulevard Konrad Adenauer  
L-1115 Luxembourg

**EXCHANGE AGENT, REGISTRAR, TRANSFER AGENT AND PAYING AGENT**

**Deutsche Bank Trust Company Americas**

60 Wall Street  
Corporate Trust and Agency Services  
New York, NY 10005  
United States of America

**LUXEMBOURG LISTING AGENT**

**Deutsche Bank Luxembourg S.A.**

2 boulevard Konrad Adenauer  
L-1115 Luxembourg

**AUDITORS**

**Ernst & Young Cyprus Limited**

Nicosia Tower Centre  
36 Byron Avenue  
1511 Nicosia  
Cyprus

---

**LEGAL ADVISERS**

**To the Bank**

*As to Cyprus law*

**Chryssafinis & Polyvious LLC**

8 Michael Karaolis Street  
Anemomylos Office Building  
4th Floor  
Nicosia  
Cyprus

*As to English law*

**Sidley Austin LLP**

Woolgate Exchange  
25 Basinghall Street  
London, EC2V 5HA  
United Kingdom

**Chryssafinis & Polyvious LLC**

8 Michael Karaolis Street  
Anemomylos Office Building  
4th Floor  
Nicosia  
Cyprus

**To the Dealers and the Trustee**

*As to Cyprus law*

**Keane Vgenopoulou & Associates**

2 Makarios Ave.  
Atlantis Building, 2nd Floor, Office 201  
Mesa Geitonia  
Limassol 4000  
Cyprus

*As to English law*

**Linklaters LLP**

One Silk Street  
London EC2Y 8HQ  
United Kingdom

---