Prospectus dated 18 November 2015

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 mobilieres*) (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, including by Directive 2010/73/EU), and includes any relevant implementing measure in a 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 applicable 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 41) 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 depositary on behalf of Euroclear and Clearstream, Luxembourg (the "**Common Depositary**") or (b) such other clearing system as agreed between the Bank and the relevant Dealer. Interests in temporary Global Notes will be exchangeable for interests in permanent Global Notes, or if so stated in the applicable Final Terms, definitive Notes ("**Definitive Notes**"), after the date falling 40 days after the completion of the distribution of such Tranche (as defined in "*General Description of the Programme*") upon certification as to non-U.S. beneficial ownership. Interests in permanent Global Notes will be exchangeable for Definitive Notes in whole but not in part as described under "*Summary of Provisions Relating to the Notes while in Global Form*". Notes of each Tranche of each Series to be issued in registered form ("**Registered Notes**") and which are sold in an "offshore transaction" within the meaning of Regulation S ("**Unrestricted Notes**") under the U.S. Securities Act of 1933 (the "**Securities Act**") will initially be represented by a permanent registered global certificate (each an "**Unrestricted Global Certificate**"), without interest coupons, which may be deposited on the issue date (a) in the case of a Tranche intended to be cleared through Euroclear and/or Clearstream, Luxembourg, with a common depositary on behalf of Euroclear and Clearstream, Luxembourg and (b) in the case of a Tranche intended to be cleared through a clearing system other than or in addition to Euroclear and/or Clearstream, Luxembourg, or delivered outside a clearing system, as agreed between the Bank and the relevant Dealer.

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

ARRANGER

BofA Merrill Lynch

DEALERS

BofA Merrill Lynch	**Bank of Cyprus**
Barclays	**Citigroup**
Credit Suisse	**Deutsche Bank**
Goldman Sachs International	**HSBC**
J.P. Morgan	**Natixis**

UBS Investment Bank

*This Prospectus comprises a base prospectus for the purposes of Article 5.4 of 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 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.

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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**") and the Bank's audited consolidated financial statements as at and for the year ended 31 December 2014 (that includes comparative information for the year ended 31 December 2013) (the "**2014 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 Banks's independent auditor, Ernst & Young Cyprus Limited. The Banks's unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2015 (which includes comparative information for the six months ended 30 June 2014 in respect of income statement and other comprehensive income items and 31 December 2014 in respect of balance sheet items) (the "**June 2015 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 audit opinion in relation to the 2014 Audited Financial Statements is qualified with respect to 2013 comparative information as a result of the above mentioned qualifications and contains an emphasis of matter with respect to going concern. The auditor's report in relation to the June 2015 Unaudited Financial Statements contains an emphasis of matter with respect to going concern. For more information, see "*Risk Factors—The independent auditor's reports in respect of the Bank's consolidated financial statements for the year ended 31 December 2013 and 2014, respectively, are qualified and contain an emphasis of matter. The independent auditor's review conclusion in respect of the Bank's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2015 contains 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 Central Bank of Cyprus (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.

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. Unless otherwise stated, financial amounts and ratios are disclosed or computed inclusive of relevant items classified as held for sale.

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 Statistical Service of the Republic of Cyprus, 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 Statistical Service of the Republic of Cyprus, 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.

References to Laws, Rules and Regulations

Unless otherwise specified, all references made herein to any treaty, law, regulation, directive or rules are to it or them as amended or re-enacted from time and time and in force as of the date of this Prospectus.

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

As of 31 December 2014, 93.9 per cent. and 91.2 per cent. of the Bank's total assets and total liabilities, respectively, and 96.5 per cent. of the Bank's total income from continuing operations in 2014, were derived from its operations in Cyprus. As of 30 June 2015, 93.7 per cent. and 90.5 per cent. of the Bank's total assets and total liabilities, respectively, and 97.4 per cent. of the Bank's total income from continuing operations for the first half of 2015, 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' (the "**Government**") budget in the years to come.

The evolution of real gross domestic product ("**GDP**") in Cyprus changed from growth of 1.4 per cent. in 2010 to a decline of 2.4 per cent. in 2012. The contraction in real GDP increased to 5.9 per cent. in 2013, with a decline in all components in domestic demand. The recession continued through 2014, with the decline in real GDP of 2.5 per cent. The Cyprus economy has shown signs of stabilisation in the first half of 2015 with real GDP in the second quarter of 2015 increasing by 0.9 per cent. over the corresponding quarter of 2014 on a seasonally adjusted basis (Statistical Service of the Republic of Cyprus, 14 August 2015). In the labour market, unemployment remains high, with an average unemployment rate of 16.1 per cent. in 2014 and an average of 15.8 per cent. in the first half of 2015 on a seasonally adjusted basis according to Eurostat.

While the Cypriot economy has shown signs of stabilisation in the first half of 2015, 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, GDP growth is expected to remain at around 2 per cent over the medium term which is below pre-economic crisis levels, reflecting subdued private consumption and investment growth as a result of these factors (IMF Country Report for Cyprus No. 15/271, September 2015).

In addition, the recovery of the Cypriot economy is significantly dependent on its compliance with an Economic Adjustment Programme ("**EAP**") with the European Commission, the IMF and the European Central Bank ("**ECB**") (together, the "**Troika**"). In its seventh review report of the EAP in July 2015, the European Commission sets out the following downside risks for Cyprus:

- delays in the restructuring of the large stock of non-performing loans in the domestic banking system could lead to a slower than expected return of confidence in the banking sector and thereby call into question the sustainability of the stabilisation of the banking system;

- further negative spillovers stemming from Russia and Greece, which could weigh on economic activity;
- a prolonged period of tight credit supply conditions could weigh on the economic recovery;
- a potentially weaker economic recovery, particularly in the medium term, related to slower than expected private sector balance sheet adjustment, worsening of labour market conditions and subdued real estate price developments;
- inability to reach the agreed primary surplus targets established in the EAP, due to reform fatigue, insufficient policy measures, implementation shortcomings or adverse macroeconomic and financial developments;
- insufficient implementation of structural reforms, including in particular the implementation of the privatisation agenda, potentially leading to lower than expected privatisation proceeds; and
- lack of success in regaining market access at a reasonable borrowing cost, once the EAP comes to its conclusion.

Accordingly, should the recovery of the Cypriot economy falter or decline as a result of any of the above or other factors, this 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 the EAP with 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 has addressed, and continues to address, both short and medium term financial, fiscal and structural challenges facing Cyprus through, among other things, the restructuring of financial institutions in Cyprus, correcting the governmental deficit by reducing expenditure and enhancing revenue collection, and implementing 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 which is periodically reassessed and amended by the Troika. 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 and the pension and welfare systems 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. For example, the adoption of insolvency and foreclosure law reforms was delayed until the beginning of 2015 as a result of opposition political parties passing a series of separate supplementary bills which conflicted with the main objectives of these reforms. In particular, as a result of the Cypriot parliament's decision to suspend, in September 2014, the entry into force of the foreclosure law reforms until 30 January 2015, the IMF decided to postpone its decision to release its contribution of funds under the EAP. Accordingly, any failure to comply with the conditions, requirements and timetable of the MoU could lead to the Troika withholding the release of funds by the ESM and IMF, which could 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. 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.

While it is expected that the austerity measures and reforms promulgated under the MoU 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 appear on a sustained basis, 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.

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.

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 2015, the Group accounted for 38.5 per cent. of gross loans in the Cypriot banking system (based on the CBC data) and the Group's loans and advances to customers in Cyprus accounted for 88.6 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. In addition, the Group's loans and advances to customers (net of provisions and fair value adjustment on initial recognition and excluding held for sale loans and advances) declined from €21.8 billion as at 31 December 2013 to €18.2 billion as at 31 December 2014 and €18.1 billion as at 30 June 2015. 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. It should be noted that 90+DPD loans decreased to €12.7 billion as at 31 December 2014 and then to €12.6 billion as at 30 June 2015. The ratio of loans that were 90+DPD to gross loans (the "**90+DPD Ratio**") was 53.2 per cent. and 52.9 per cent. as at 31 December 2014 and 30 June 2015, respectively.

Similarly, the Bank's Non Performing Exposures (calculated on the basis of the definition contained in Commission Implementing Regulation (EU) 2015/227 of 9 January 2015, "**NPEs**") show a decrease from €15.0 billion as at 31 December 2014 to €14.8 billion as at 30 June 2015. For an explanation of the definition of NPEs, see "*Regulation and Supervision of Bank in Cyprus—CBC Credit Risk Directives—Directive on Loan Impairment and Provisioning Procedures of 2014 and 2015*". As the decrease in both 90+DPD loans and NPEs from 31 December 2014 is relatively small and mostly a result of the Bank's disposal of non-core assets, there can be no assurance that the Group will be able to maintain a decrease in the Group's delinquent loans. 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 deteriorate further 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 declines in real estate prices in 2013 and 2014 on an annual basis. The residential property price index maintained by the CBC recorded an 8.8 per cent. annual average decrease in 2014 following an annual average decrease of 6.5 per cent. in 2013. In the first half of 2015, the residential property price index recorded a further average decrease of 5.8 per cent. (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 €580.4 million as of 30 June 2015 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 122 trillion cubic feet. 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 is exposed to, and may be adversely affected by, economic and political events in Russia, Ukraine and Romania*."); and
- taxation and other political, economic or social developments affecting Cyprus, Russia, the United Kingdom or the EU. For example, on 1 January 2015, a new law in Russia came into force 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. This new law may 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. In particular, there could be a material negative impact on the financial and political resources of Cyprus and the European Union as a result of the recent Syrian war and the related refugee crisis, the resolution of which remains subject to divergent political debate between the member states of the European Union and, consequently, uncertain.

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 some countries have begun to recover, this recovery may not be sustainable and could be impacted by deteriorations in emerging market economies which have been particularly affected by a combination of economic events in 2015, including a significant drop in oil and other commodity prices, tighter external financial conditions, China's economic slowdown and other economic distress related to geopolitical factors. In its World Economic Outlook October 2015 update, the IMF reduced the global growth projections for 2015 to 3.1 per cent. which was mainly due to a further slowdown in emerging markets and a weaker recovery in advanced economies. The growth in the United States was weaker than expected in the first half of the year. The economic activity in some advanced emerging markets, such as Korea, was also weaker than expected. The economic recovery in the Eurozone appears broadly on track, with a recovery in domestic demand and inflation beginning to increase. However, this recovery is still substantially dependent on the continuing adoption by the ECB and the national banks of monetary easing policies and, consequently, the availability of monetary policy tools such as targeted longer-term refinancing operations ("**TLTROs**"), a third covered bond purchase programme ("**CBPP3**") and an asset-backed securities purchase programme ("**ABSPP**"). In January 2015, an expanded asset purchase programme ("**APP**") was launched. 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. The economic events in Greece during the first half of 2015 highlighted the weaknesses and deficiencies of the Eurozone's economic and monetary union in preventing the build-up of fiscal, financial and other macroeconomic risks in its member states.

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 is exposed to, and may be adversely affected by, economic and political events in Russia, Ukraine and Romania.

Although the Bank has recently completed the sale of the majority of its assets and operations in Russia, the Group's deposits and lending business in Cyprus remains significantly dependent on expatriate Russian businesses and persons. 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 2015, the Group's gross loans and advances to customers in Romania before fair value adjustments on initial recognition were €429.7 million. As of 30 June 2015, the Group's net exposure to Romania was €367.8 million, comprising of net customer loans and advances amounting to €208.0 million, investment property amounting to €40.8 million and other exposure amounting to €119.0 million which primarily included the funding amounting to €110.5 million to Laiki Bank's subsidiary in Romania (See "—*The Bank has significant exposures to subsidiaries of Laiki Bank*"). The Group's net exposure to Russia was €155.3 million as at 30 June 2015 and is expected to be reduced over time. The Bank's net lending exposures to Russian entities and persons in the normal course of business in Cyprus was €140.5 million as of 30 June 2015. In April 2014, the Group sold its business in Ukraine comprising its 99.8 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 (see "*Business Description of the Group—International Operations—Ukraine*").

Both Romania and Russia have been adversely affected by the global economic crisis and continue to face economic conditions which are challenging and volatile. According to the IMF World Economic Outlook October 2015 update, Russia's real GDP growth slowed to 1.3 per cent. in 2013 and to 0.6 per cent. in 2014. As a result of recent declines in oil and commodity prices, the devaluation of the Russian rouble and the imposition of economic sanctions against Russia in connection with the continuing unrest in Ukraine, Russia's real GDP is expected to contract by 3.8 per cent. in 2015. While Romania's GDP growth was 3.4 per cent. in 2013, this was preceded by GDP growth of 0.6 per cent. in 2012 according to the IMF and GDP growth slowed down to 2.8 per cent. in 2014. 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.

The adverse economic situation in Russia was 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 EU and the United States have imposed and maintained economic sanctions against Russia and certain Russian citizens and entities. This unrest in Ukraine has had a significant negative impact on Ukraine's economy which contracted by 6.8 per cent. in 2014 and is expected to contract further by 9 per cent. in 2015 according to the IMF World Economic Outlook October 2015 update. As mentioned above, the imposition of economic sanctions against Russia is one of the significant factors behind the current adverse economic situation in Russia. 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, Ukraine 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 assets in Russia, Ukraine and Romania and could restrict the ability of Russian, Ukrainian and Romanian customers to make deposits and transact with the Bank in Cyprus.

The Group is exposed to, and may be adversely affected by, recent deteriorations in economic, social and political conditions in Greece and the Greek fiscal position.

Although the Group has exited Greece through the disposal of loans, own-use properties and deposits of its banking and leasing operations in Greece to Piraeus Bank S.A. ("**Piraeus Bank**") pursuant to a decree, issued by the Resolution Authority (as defined in "*—Regulatory action in the event of a bank failure could materially adversely affect the Group and the value of securities issued by the Bank*.") on 26 March 2013, the sale of the Greek operations of Bank of Cyprus Public Company Ltd. Decree of 2013 (the "**Greek Operations Decree**"), it still maintains an exposure to Greece, mainly as a result of a legacy foreclosed property portfolio. There are also close geographical, political and social ties between Greece and Cyprus. As at 30 June 2015, the net exposure of the Group to Greece comprised (a) net on-balance sheet exposures (excluding foreclosed properties) totalling €56.1 million, (b) 637 foreclosed properties with a book value of €198.9 million, (c) off-balance sheet exposures totalling €133.3 million and (d) lending exposures to Greek entities in the normal course of business in Cyprus totalling €74.3 million and lending exposures in Cyprus with collaterals in Greece totalling €65.9 million.

The political, economic and budgetary challenges faced by Greece with respect to the public debt burden and weakening economic prospects have led to sequential ratings downgrades during 2010, 2011 and 2012 by international rating agencies. In February 2015, uncertainty over Greece's prolonged negotiations with its creditors and increasing fears of a sovereign debt default by the Greek government caused further ratings downgrades. In late June 2015, the Greek government announced that a referendum would be held on 5 July 2015 to approve or reject the latest economic programme proposals from the Troika and its creditors. The rejection of these proposals in the referendum precipitated a fall in stock exchange indices worldwide as investors' fears of Greece's exit from the European Union and the potential contagion resulting from the collapse of the Greek financial sector and economy increased. On 13 July 2015, Greece reached an agreement with its creditors to begin negotiations for a third bailout programme. On 11 August 2015, Greece and its creditors reached an agreement on the terms of a third three-year programme, which was worth €86 billion, including €25 billion for bank recapitalisation. Greece's third bail-out programme was approved by Eurozone finance ministers on 14 August 2015 and was further ratified by the German parliament on 19 August 2015. Greek Prime Minister Alexis Tsipras resigned soon after and called an early election for 20 September 2015. The election returned the Syriza party, a left wing coalition with a small right wing party, the Independent Greeks.

Greece's economic growth has been, and is expected to continue to be, volatile and subject to significant risks as a result of the above ongoing challenges. According to the IMF's World Economic Outlook database published in October 2015, Greece's GDP declined by 3.9 per cent. overall in 2013, before increasing by 0.8 per cent. in 2014. Greece's real GDP is expected to contract further by 2.3 per cent. The unemployment rate remained high at 26.5 per cent. in 2014 and is expected to remain fairly unchanged in 2015.

Negative macroeconomic trends are expected to continue in the near future and to affect the levels of disposable income and spending of individuals and corporations in Greece. It remains uncertain whether the third economic programme and any measures to be adopted in the future in connection with the programme will be successful in the medium- or long-term in reversing the negative macroeconomic trends prevailing in Greece, or whether the programme will be supported or implemented at all by the new Greek government. If Greece is required to adopt further restrictive fiscal measures or is unable to ease current fiscal measures, it may have a further adverse impact on prospects for economic growth and disposable income in Greece, and no assurance can be given that Greece will be able to serve its sovereign debt. Any further deterioration of macroeconomic conditions in Greece may have a material adverse effect on the Bank's remaining operations and assets in Greece and its business in Cyprus from Greek individuals and corporations, as well as the Bank's ability to access the international capital markets because of Cyprus' close geographical, political and social ties with Greece.

Risks Relating to the Group's Business

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

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. For example, the CBC, as the macroprudential supervisory authority, with the power to establish the requirements for the capital buffers required by banks such as the countercyclical capital buffer, systemic risk buffer, buffers for systemically important institutions, buffers for other systemically important institutions and reserves for changes in macro or systemic risk. 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*".

Moreover, from November 2014, the Bank came under the supervision of the ECB following the latter's assumption of its supervisory responsibilities under Regulation (EU) No 1024/2013 (the "**ECB Regulation**"), adopted on 15 October 2013 with the goal of establishing a single supervisory mechanism to oversee and unify credit institutions in the Eurozone. Accordingly, the Group's compliance with the prudential requirements of CRD IV/CRR is significantly dependent on the ECB's interpretation and decisions in relation to these requirements following its periodic inspections of the Group within the scope of the ECB Regulation. In particular, the ECB is currently in the process of conducting the Supervisory Review and Evaluation Process ("**SREP**") and onsite inspections on the Group. SREP is a holistic assessment of, amongst other things: the Group's business model, internal governance and institution-wide control arrangements, risks to capital and adequacy of capital to cover these risks and risks to liquidity and adequacy of liquidity resources to cover these risks. The onsite inspections focused on an assessment of the Group's liquidity coverage, risk management and credit and counterparty risks. The final outcomes of the SREP and the onsite inspections are expected to be communicated to the Bank before the end of 2015.

The ECB, as the Bank's competent authority, has power, among others, to apply a specific provisioning policy or treatment of assets in terms of own funds requirements for the purposes of CRD IV as well as requirements in relation to capital and liquidity. Accordingly, additional capital and other requirements could be imposed on the Group as a result of these supervisory processes, including a revision of the level of Pillar II add-ons as the Pillar II add-on capital requirements are a point-in-time assessment and therefore subject to change over time. Additional capital and/or liquidity requirements 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. In addition, there can be no assurance that the Bank will be able to raise the additional capital required 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.

Furthermore, the assumption by the ECB of its supervisory responsibilities under the ECB Regulation and 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. 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 Caa3 with a stable outlook, and a long-term issuer default rating from Fitch Ratings Ltd. ("**Fitch**") of CCC. These ratings reflect in part the sovereign ratings of Cyprus (B1 from Moody's, BB- from Standard and Poor's and B+ from Fitch). 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*"), a 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, with negative effects on the cost of funding and credit ratings for Cypriot banks. A downgrade of the Bank's credit rating (including as a result of any 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. 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. 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 2014 and 30 June 2015, 37.3 per cent. and 30.7 per cent., respectively, of the Group's funding was comprised of funding from central banks, of which, €7.4 billion and €5.9 billion, respectively, was ELA funding.

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, own issued Government guaranteed securities and retained covered bonds as well as 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. Moreover, the EAP will expire in March 2016. If no backstop facility or other arrangement is put in place, it is likely that the Cypriot government bonds will cease to be eligible collateral for Eurosystem monetary operations as of that date, and they will only be eligible 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 "*Risk Management—Funding and Liquidity Sources*".

In the case of a loss of deposits and/or a need for additional central bank funding, there may be an 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.

One of the Bank's principal sources of funds are customer deposits. As of 31 December 2014 and 30 June 2015, customer deposits accounted for 59.2 per cent. and 65.4 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, any significant 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. By way of example, the uncertain state of the Cyprus economy and the bail-in of depositors of the Bank pursuant to the recapitalisation of the Bank effected by the Resolution Authority through the issue of the Bail-in Decrees ("**Recapitalisation**") in 2013 resulted in losses suffered by depositors which would have likely resulted in significant deposit outflows from Cyprus if the Government had not imposed capital controls on the withdrawal of funds. Although all capital control measures in Cyprus were fully lifted in April 2015, any future deterioration in the Cypriot economy or resolution of the Bank could precipitate another loss of confidence by depositors in the Bank, 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, which it may be unable to secure.

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 2014 and 30 June 2015, 53.2 per cent. and 52.9 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 2015, 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 47.7 per cent. and 30.9 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 overall increase in past due loans and significant changes in the fair values of the Bank's financial assets. The increase in unemployment during the economic crisis, which in the first half of 2015 averaged 16.2 per cent. on a seasonally adjusted basis according to Eurostat, aggravated the situation, with mortgage delinquencies increasing further.

Adverse developments could be triggered by any 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 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 ECB 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. On 9 March 2015, the ECB commenced its public sector purchase programme ("**PSPP**") of marketable debt instruments issued by euro area central governments, certain agencies located in the euro area or certain international or supranational institutions located in the euro area. Countries under financial assistance programme are eligible for the PSPP subject to certain conditions. The minimum rating condition of the PSPP is suspended as long as the country remains on track with the financial assistance programme (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*"). The window of purchases opens only when a positive review is granted and approved by the boards of the ruling bodies (i.e. the ECB, IMF and ESM) and closes when the next review on the ground commences.

In the event that the Group is unable to obtain liquidity by pledging suitable collateral to central banks or as a result of changes in the eligibility criteria for such collateral, 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.

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 2015, the Group had recognised deferred tax assets of €449.0 million, mainly as a result of Laiki Bank's tax losses transferred to the Bank in accordance with the Laiki Transfer Decrees (as defined in "*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 independent auditor's reports in respect of the Bank's 2013 Audited Financial Statements and 2014 Audited Financial Statements, respectively, are qualified and contain an emphasis of matter. The independent auditor's review conclusion in respect of the Bank's June 2015 Unaudited Financial Statements contains 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 for the bail-in of uninsured deposits and debt securities pursuant to the Recapitalisation due to the specific conditions and uncertainties that existed at the time of the transaction and (b) any adjustments that could have been determined to be necessary to the consolidated income statement had the auditors been able to satisfy themselves as to the fair value of the ordinary shares issued for the Group's Recapitalisation through the bail-in of uninsured deposits and debt securities and for the consideration transferred for the acquisition of certain assets and liabilities of the Laiki Bank. The Group's equity and financial position were not affected by the accounting of these transactions giving rise to these qualifications. For 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 fair value of the consideration paid (i.e., shares issued by the Bank), should have been recognised in profit or loss. Because the Bank was not able to establish a reliable measure of the fair value of the ordinary shares issued pursuant to the Recapitalisation as a result of the suspension from trading of the ordinary shares of the Bank, the unavailability of financial information and the continued negotiations between the Government and the Troika that resulted in the MoU and EAP, the Bank assigned a fair value to the ordinary shares issued by reference to the carrying value of uninsured deposits, subordinated securities and other products of the Bank extinguished pursuant to the Recapitalisation.

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

The independent auditor's report in respect of the Bank's 2014 Audited Financial Statements is qualified with respect to the possible effects on the 2013 comparative information contained in these financial statements as a result of the matters described above in relation to the independent auditor's report in respect of the Bank's 2013 Audited Financial Statements.

In addition, the independent auditor's report in respect of the Bank's 2013 Audited Financial Statements contains 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 are set out and discussed in detail in the notes to these financial statements. The independent auditor's report in respect of the Bank's 2014 Audited

Financial Statements contains an emphasis of matter in relation to the significant judgments, estimates and assumptions used in the preparation of these financial statements on a going concern basis. The independent auditor's review conclusion in respect of the Bank's June 2015 Unaudited Financial Statements contains an emphasis of matter in relation to the significant judgments, estimates and assumptions used in the preparation of these financial statements on a going concern basis and the ongoing regulatory reviews of the ECB which could affect the future capital requirements of the Group.

The emphasis of matter is not a qualification to the audit opinions contained in the independent auditor's reports for the 2013 Audited Financial Statements and 2014 Audited Financial Statements or the review conclusion contained in the independent auditor's review report for the June 2015 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 year 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 that event, the Bank's credit rating and risk profile may lead to the Bank having to provide higher amounts of collateral, particularly cash collateral, to secure its transactions with international counterparties. This may 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 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 2015, the Group had a €0.9 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 lending rates in the event of an increase in interest rates. From the funding perspective, even in the event of decreasing interest rates, competitive pressures may still restrict the Group's ability to decrease its deposit interest rates.

Although the Group carries out hedges with the aim of minimising the risk of interest rate fluctuations by either using on-balance sheet instruments or entering into derivative contracts, this hedging may be inadequate. As a result, changes in interest rates may 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. 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 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. 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.

Further, failure to manage trade union relationships effectively 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.

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 Cyprus Stock Exchange ("**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 anti-money laundering and counter-terrorism financing ("**AML/CTF**") policies and procedures which aim to ensure compliance with applicable legislation, it may not be able to comply at all times with all rules applicable to money laundering and terrorism financing as extended to the whole Group and applied to its workers in all circumstances. 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. As of 30 June 2015, the Bank's total net exposure (net of the fair value adjustment on initial recognition and of impairments) to subsidiaries of Laiki Bank was €226.7 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 is exposed to insurance and reinsurance risks.

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

For a portfolio of life insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that Eurolife, 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 occurrence of a claim. Therefore, the level of risk is determined by the frequency of such claims, the severity and the evolution of claims from one year to another. The main risks for the general insurance business arise from major catastrophic events including 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. The Bank is also 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. In addition, CNP Cyprus Insurance Holdings Ltd ("**CNP**") has instituted arbitration proceedings in London against the Bank for claims amounting to approximately €240 million. Some actions have also been instituted against the Bank by borrowers who obtained loans in foreign currency (mainly Swiss Francs), alleging that the Bank misled these borrowers and/or misrepresented matters, in violation of applicable law. 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. Furthermore, Parliament is currently considering the provision of loans by banks in foreign currencies, mostly Swiss Francs, and discussing the possibility to enact legislation in this respect. Under the Constitution of Cyprus, the State has no power to interfere with freedom of contract nor can it enact retrospective legislation (with a few very limited exceptions). Should such retrospective legislation be enacted, it may have a material adverse impact on the Bank's financial condition. For a discussion of these mis-selling and bail-in proceedings, the CySEC and HCMC investigations and certain other legal proceedings and related matters 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**"). From November 2014, the ECB has assumed the supervision of the Bank as a significant credit institution for the purposes of the ECB Regulation. 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 the Common Reporting Standard (see "*Regulation and Supervision of banks in Cyprus—Common Reporting Standard*"), formally referred to as the Standard for Automatic Exchange of Financial Account Information, released by the Organisation for Economic Co-operation and Development (the "**OECD**") may have a significant impact on 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 (the "**Resolution Law**") was enacted to provide a regime to allow the resolution authority (currently comprised of the Governor of the CBC, together with the appointed executive directors of the CBC, the "**Resolution Authority**"), to resolve failing banks in Cyprus.

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";
- 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; and
- the power to impose fines and specific criminal sanctions.

However, the Resolution Authority is required to obtain the consent of the Cypriot Minister of Finance for any decision which may affect the Cypriot economy or is of a systemic nature.

The Resolution Law contains general principles in the context of the adoption and implementation of resolution measures which include the principle that the shareholder of a bank should bear any losses resulting from the implementation of the resolution measures and the creditors of a bank under resolution should bear losses after shareholders. The Resolution Law powers apply regardless of any contractual restrictions. Although the Resolution Law does provide that there should be appropriate protection of security, title transfer financial collateral and set-off and netting arrangements, the form of such protection is subject to the Resolution Law's provision that the implementation of any resolution measures shall not activate, amongst other things (i) any contractual clause or statutory provision that would be activated in case of bankruptcy or insolvency or upon the occurrence of another event, which may qualify as a credit event or an event equivalent to insolvency, or (ii) the rights, contractual or statutory of secured creditors of the bank concerned over assets and rights used as a collateral for their claims against the bank. Any member state of the EU (each a "**Member State**") which has nationally implemented the 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.

The Resolution Law has implemented some of the main provisions of the Directive 2014/59/EU of the European Parliament of 15 May 2014 and of the Council of the EU (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**"), including, in particular, the power to bail-in creditors. While the Resolution Law is compatible in many respects with the BRRD, as at the date of this Prospectus, the BRRD has not been fully implemented in Cyprus. It is expected that the Resolution Law will be further amended towards the end of 2015 to reflect the provisions of the BRRD.

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. 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 issued and/or amended a number of directives which have negatively impacted the Bank's ability to originate new loans and imposed stringent requirements and processes in terms of its management of non-performing loans, see "*Regulation and Supervision of Banks in Cyprus—CBC Credit Risk Directives*". See also "*—The Bank is subject to certain regulatory and legal constraints in originating new loans and managing existing loans*" below.

Furthermore, on 12 November 2015, the Law Regulating the Sale of Credit Facilities and Related Matters (the "**Sale of Credit Facilities Law**") relating to the sale of loans was approved by Parliament. It will become effective from the date of publication in the Cyprus Government Gazette. While the Sale of Credit Facilities Law is intended to assist Cypriot banks with the management of their delinquent loans, the law is new and untested and includes certain provisions which could potentially restrict its ability to sell delinquent loans to purchasers (see "*Regulation and Supervision of Banks in Cyprus – Sale of Credit Facilities Law*").

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 December 2014, the CBC concluded its audit with regards to the Bank's compliance with the Directive on the Prevention of Money Laundering and Terrorism Financing for the period commencing January 2012 until September 2014. The CBC has not yet released the report in connection with the audit. 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 ECB and 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 ECB, 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.

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 the Bank and other credit institutions, investment firms, and 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 (each as defined in "*Regulation and Supervision of banks in Cyprus—MiFID (the Markets in Financial Instruments Directive (Directive 2004/39/EC))*" below) 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, the BRRD entered into force on 2 July 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 that 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" tool, most of which have already been implemented into Cypriot law by way of the Resolution Law. It is expected that the Resolution Law will be further amended in due course to reflect other provisions of the BRRD (see "*Regulation and Supervision of Banks in Cyprus—Resolution Law*"). Among the broader powers granted to the Resolution Authority under the Resolution Law is the power to amend the maturity date and/or the amount of interest payable under debt instruments or other eligible liabilities of the relevant financial institution and/or impose a temporary suspension of payments.

The Bank is subject to certain regulatory and legal constraints in originating new loans and managing existing loans.

As part of its restructuring of the financial sector of Cyprus, the CBC issued and/or amended:

- the Directive on Loan Origination Processes and Processes of Reviewing Existing Loans of 2013 (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 of 2015 (the "**Arrears Management Directive**").
- Directive on Loan Impairment and Provisioning Procedures of 2014 and 2015 issued by the CBC (the "**Loan Provisioning Directive**").

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.

While the Bank believes that the implementation of latest amendments to the Transfer and Mortgage of Immovable Property Law of 1965, in conjunction with the Insolvency Framework Laws (as defined in "*Regulation and Supervision of Banks in Cyprus—Insolvency Framework Laws*"), is likely to improve its ability to recover from borrowers who have defaulted on their loans and shorten the recovery period, both the Foreclosure Law and the Insolvency Framework Laws are new and untested and it is not clear how some of their provisions are meant to operate or work together in practice. In particular, the significant guarantor and debtor protections under the Insolvency Framework Laws could make it difficult for the Bank to recover from defaulting borrowers and the guarantors of their debt. Accordingly, there can be no assurance that the reforms implemented by the Foreclosure Law and the Insolvency Framework Laws will be effective in improving the Bank's ability to recover from borrowers or guarantors in Cyprus and, thereby, reduce its portfolio of non-performing loans, or that further supplements or amendments to these laws, some of which may increase or extend the current guarantor or debtor protections, will not be made.

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, an amendment to the Liberalisation of Interest Rate and Related Matters Law of 1999 (the "**Interest Rate Law**"), 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. On 7 May 2015, a further amendment to the Interest Rate Law entered into force imposing a burden on credit institutions to prove that, in connection with all credit facility agreements in force or terminated on or before 7 May 2015, the default interest levied on a borrower represents the actual amount of damages suffered by them and an obligation on credit institutions to pay compensation to borrowers in the event that they are unable to provide such proof. 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.

There are risks in relation to the ordinary shares of the Bank

The ordinary shares of the Bank were suspended from trading on the Cyprus Stock Exchange ("**CSE**") and the Athens Exchange ("**ATHEX**") from 19 March 2013 to 16 December 2014, mainly as a result of the economic crisis in Cyprus and the subsequent Recapitalisation. Even though trading has resumed, liquidity in the ordinary shares of the Bank remains limited and is subject to significant volatility. In particular, as a result of the emergency measures implemented by the Greek government as a result of its recent economic crisis, the Bank's ordinary share price was negatively impacted and the ordinary shares listed on ATHEX were suspended from trading from 29 June to 3 August 2015. Any adverse impact on the Bank's ordinary share price could make it difficult for the Bank to raise equity 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. The Resolution Authority has appointed the Investment Bank of Greece, a Greek subsidiary of Laiki Bank, to evaluate and assist with the potential sale of Laiki Bank's assets. 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.

Withholding under the EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the "**EU Savings Directive**"), EU Member States are required to provide to the tax authorities of other EU Member States details of certain payments of interest or similar income paid or secured by a person established in an EU Member State to or for the benefit of an individual resident in another EU Member State or certain limited types of entities established in another EU Member State.

For a transitional period, Austria is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

However, on 10 November 2015 the Council of the European Union adopted a Council Directive repealing the EU Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other EU Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the EU Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The new regime under Council Directive 2011/16/EU (as amended) is in accordance with the Global Standard released by the Organisation for Economic Co-operation and Development in July 2014. Council Directive 2011/16/EU (as amended) is generally broader in scope than the EU Savings Directive, although it does not impose withholding taxes.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent (as defined in the Conditions of the Notes) 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 Issuer is required to maintain a Paying Agent in an EU Member State that is not obliged to withhold or deduct tax pursuant to the EU Savings Directive.

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 the new reporting regime and potential withholding tax imposed by sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended ("**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 advisers 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. For further information about the BRRD, see "*Regulation and Supervision of banks in Cyprus – The Regulatory Framework*".

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 in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case a Noteholder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, a Noteholder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may 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 at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination.

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("**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 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 2013 (the "**2013 Audited Financial Statements** ");

(b) the audited consolidated annual financial statements of the Bank as at and for the financial year ended 31 December 2014 (that includes comparative information for the financial year ended 31 December 2013) (the "**2014 Audited Financial Statements**", and together with the 2013 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 2015 (that includes comparative information for the six month period ended 30 June 2014) (the "**June 2015 Unaudited Financial Statements**") together with the review report thereon; and

(d) the Terms and Conditions of the Notes contained in the 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).*

The table below sets out the relevant page references for the 2014 and 2013 Audited Financial Statements as set out in the Group's Annual Financial Report 2013 and the Group's Annual Financial Report 2014 and June 2015 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.

Audited consolidated annual financial statements of the Bank	**2014**	**2013**
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Consolidated Income Statement	17	19
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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.

Issuer	Bank of Cyprus Public Company Limited
Description	Euro Medium Term Note Programme
Size	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.
Arranger	Merrill Lynch International
Dealers	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 J.P. Morgan Securities plc Merrill Lynch International Natixis UBS Limited 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.
Trustee	Deutsche Trustee Company Limited
Issuing and Paying Agent and Calculation Agent	Deutsche Bank AG, London Branch
Method of Issue	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.

Currencies

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

Maturities

Subject to compliance with all relevant laws, regulations and directives, Notes may be issued with any maturity.

Specified Denomination

Definitive Notes will be in such denominations as may be specified in the applicable 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).

Fixed Rate Notes

Fixed interest will be payable in arrear on the date or dates in each year specified in the applicable Final Terms.

Floating Rate Notes

Floating Rate Notes will bear interest determined separately for each Series as follows:

(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

(ii) by reference to LIBOR or EURIBOR as adjusted for any applicable margin.

Interest periods will be specified in the applicable Final Terms.

Zero Coupon Notes

Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.

Interest Periods and Interest Rates

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 applicable Final Terms.

Redemption

The applicable Final Terms will specify the basis for calculating the redemption amounts payable.

Redemption by Instalments

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.
Optional Redemption	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.
Status of Notes	Notes will constitute senior, unsubordinated and unsecured obligations of the Bank, as described in "Terms and Conditions of the Notes – Status".
Negative Pledge	See "*Terms and Conditions of the Notes – Negative Pledge*".
Cross Default	See "*Terms and Conditions of the Notes – Events of Default*".
Ratings	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 applicable 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.
Early Redemption	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*".
Withholding Tax	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".
Governing Law	English
Approval and Listing and Admission to Trading	Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to list Notes issued under the Programme on the Official List and to admit them to trading on the Luxembourg Stock Exchange Regulated Market or as otherwise specified in the applicable Final Terms and references to listing shall be construed accordingly. As specified in the applicable Final Terms, a Series of Notes may be unlisted.
Selling Restrictions	The United States, the Public Offer Selling Restriction under the

Prospectus Directive (in respect of Notes having a specified denomination of less than €100,000 or its equivalent in any other currency as at the date of issue of the Notes), the United Kingdom, Cyprus, Greece, Japan 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 applicable 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 applicable 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 subparagraph (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:

Day Count Fraction = $\frac{[360\times(Y_2-Y_1)+[30\times(\mathrm{M}_2-\mathrm{M}_1)]+(D_2-D_1)]}{360}$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"$\mathbf{D_2}$" 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 D1 is greater than 29, in which case D2 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:

Day Count Fraction = $\frac{[360\times(Y_2-Y_1)+[30\times(\mathrm{M}_2-\mathrm{M}_1)]+(D_2-D_1)]}{360}$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"$\mathbf{D_2}$" 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 D2 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:

Day Count Fraction = $\frac{[360\times(Y_2-Y_1)+[30\times(\mathrm{M}_2-\mathrm{M}_1)]+(D_2-D_1)]}{360}$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" 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 D1 will be 30; and

"$\mathbf{D_2}$" 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 D2 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 Depositary Trust Company ("**DTC**"), on the fifteenth DTC business day before the due date for payment thereof (each a "**Record Date**"). For the purpose of this Condition 7(b), "**DTC business day**" means any day on which DTC is open for business. Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.

(iii) Registered Notes, if specified in the relevant Final Terms, will be issued in the form of one or more Restricted Global Certificates and may be registered in the name of, or in the name of a nominee for, DTC. Payments of principal and interest in respect of Registered Notes denominated in U.S. dollars will be made in accordance with Conditions 7(b)(i) and 7(b)(ii). Payments of principal and interest in respect of Registered Notes registered in the name of, or in the name of a nominee for, DTC and denominated in a Specified Currency other than U.S. dollars will be made or procured to be made by the Issuing and Paying Agent in the Specified Currency in accordance with the following provisions. The amounts in such Specified Currency payable by the Issuing and Paying Agent or its agent to DTC or DTC's nominee with respect to Registered Notes held by DTC or DTC's nominee will be received from the Bank by the Issuing and Paying Agent who will make payments in such Specified Currency by wire transfer of same day funds, in the case of Notes registered in the name of DTC's nominee, to such nominee, or otherwise to the designated bank account in such Specified Currency of those DTC participants entitled to receive the relevant payment who have made an irrevocable election to DTC, in the case of interest payments, on or prior to the third DTC business day after the Record Date for the relevant payment of interest and, in the case of payments or principal, at least twelve DTC business days prior to the relevant payment date, to receive that payment in such Specified Currency. The Issuing and Paying Agent, after the Exchange Agent has converted amounts in such Specified Currency into U.S. dollars, will cause the Exchange Agent to deliver such U.S. dollar amount in same day funds to DTC's nominee for payment through the DTC settlement system to those DTC participants entitled to receive the relevant payment who did not elect to receive such payment in such Specified Currency. The Agency Agreement sets out the manner in which such conversions are to be made.

(c) Payments in the United States

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

(d) Payments subject to Fiscal Laws

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*) 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 applicable 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 applicable 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 applicable 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) 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 depositary 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 (the "**Income Tax Law**").

The Group is the leading banking and financial services group in Cyprus. As at 31 December 2014 and 30 June 2015, the Group's total assets amounted to €26.8 billion and €25.4 billion, respectively. As at 30 June 2015, gross loans and advances to customers in Cyprus before fair value adjustments on initial recognition accounted for 92.1 per cent. of the Group's total gross loans and advances to customers before fair value adjustments on initial recognition, excluding loans and advances held for sale. The Group recorded a total loss after tax attributable to its owners of €261.2 million for the year ended 31 December 2014 and a total profit after tax attributable to its owners of €60.2 million for the six months ended 30 June 2015. The Group currently operates through a total of 135 branches, of which 129 operate in Cyprus, four in the United Kingdom, one in Romania and one in the Channel Islands. The Group has representative offices in Russia, Ukraine and China. As at the date of the Prospectus, the Group employed 4,600 staff worldwide. In September 2015, the Group completed the sale of the majority of its Russian operations, comprising its holding of 80 per cent. of its Russian banking subsidiary, its holding of 80 per cent. of its Russian leasing subsidiary and certain other Russian loan exposures (see "*—International Operations—Russia*"). The Group's former Russian operations accounted for 31 per cent. of the Group's staff and 47 per cent. of the Group's branches as at 30 June 2015.

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, and the second largest based on deposits, with a market share (based on CBC data) in loans in Cyprus of 38.5 per cent. and a market share (based on CBC data) in Cyprus in deposits of 25.7 per cent. at 30 June 2015. 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 prices. The recession in Cyprus has proven less severe than expected. During 2014, credit ratings for the Republic of Cyprus were upgraded by Moody's, Standard & Poor's and Dominion Bond Rating Service ("**DBRS**") while in 2015 were upgraded by Standard & Poor's, Fitch and Moody's. Cyprus returned to the capital markets with three bond issues in June 2014, in April 2015 and October 2015, respectively, issuing €2.75 billion in total. The Cyprus economy has shown signs of stabilisation in the first half of 2015. According to an estimate published by the Statistical Service of the Republic of Cyprus on 14 August 2015, real GDP in the second quarter of 2015 increased by 0.9 per cent. over the corresponding quarter of 2014 on a seasonally adjusted basis. This was the second consecutive quarterly increase after fourteen quarters of continuous decline. See "*The Macroeconomic Environment in Cyprus*".

Aggressive management of delinquent loans

The Bank has made significant changes to its management and operational structure to improve the management of its delinquent loans. The Restructuring and Recoveries Division of the Bank (the "**RRD**") centralises the management and recovery of delinquent loans across the Cyprus portfolio 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 €11.5 billion. Since the RRD's set up, the Bank 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, branches, 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 corporate units of RRD have been set up to focus entirely on the larger customers. The adoption of the new insolvency and foreclosure framework in the first half of 2015 is expected to facilitate RRD's management and resolution of the Bank's delinquent loan portfolio.

A strengthened capital structure as a result of the Capital Raising

In September 2014, the Bank raised total gross proceeds of €1 billion through the Capital Raising (as defined in "*—History and Development of the Group—Capital Raising*"). The Capital Raising was an important milestone after the Bank's exit from resolution in July 2013. Not only has it strengthened the Bank's capital structure, it enabled the Bank to pass the ECB's Comprehensive Assessment (which consisted of both an AQR and an EU-wide stress test) in October 2014 and prompted the relisting of its shares in December 2014. After adjusting for the €1 billion gross proceeds of the Capital Raising in September 2014, the AQR Adjusted CET 1 ratio (based on transitional arrangements as of 1 January 2014) of the Bank was 11.53%, the Adjusted CET 1 ratio after the baseline scenario was 11.62% and the Adjusted CET 1 ratio after the adverse scenario was 5.85%, resulting in a theoretical aggregated capital surplus of €81 million. As at 30 June 2015, the Bank's CET 1 ratio was 14.9 per cent. which exceeds its Pillar I and its Pillar II add-on capital requirements under CRD IV/CRR, providing a loss–absorbing buffer to the Group. In recognition of the Group's improved capital structure, amongst other factors, Fitch further improved the Group's rating of long-term issuer default rating from "CC to "CCC" in April 2015.

The Bank believes that its strengthened capital position has improved stakeholders' confidence and will facilitate wider funding options and position the Bank to stimulate, and benefit from, the recovery of the Cypriot economy.

Strategy

The Group continues to focus on implementing its restructuring and its strategic objective to become a stronger, more focused institution capable of supporting the recovery of the Cypriot economy through the following measures:

Shrink to strength

The Group has been disposing of non-core assets and operations in order to focus on its core business in Cyprus. It has exited its businesses in Greece and Ukraine, and completed the sales of certain assets in Romania and the majority of its Russian operations.

In particular, as of the date of this Prospectus, the Group has implemented the disposal of its non-core assets as follows:

- its equity stake in Banca Transilvania, a Romanian bank, and the Group's Ukrainian business in April 2014 (representing €85.0 million and €264.5 million, respectively, in carrying value as at the disposal date);
- a loan portfolio in Serbia in May 2014 (representing €137.8 million in carrying value);
- a UK loan portfolio in October 2014 (representing €361.0 million in nominal value);
- certain assets in Romania in September 2014 (representing €96.0 million in carrying value);
- its investment in Marfin Diversified Strategy Fund in April 2015 and in Byron Capital Partners Ltd in August 2015 (representing €84.0 million and €5.3 million, respectively, in carrying value); and
- the Group's Russian subsidiary, Uniastrum, and certain other assets in Russia in September 2015 (representing a negative carrying value of €9.5 million as at the disposal date).

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 improve the quality of its loan portfolio. In December 2013, the Group established the RRD to manage the Group's delinquent loans, pro-actively restructuring, collecting or selling delinquent loans and managing all large exposures. The recent adoption of the foreclosure law and insolvency framework, coupled with the improved fundamentals of the Cypriot economy, are significant steps in enabling the Bank to tackle delinquent loans in Cyprus and to improve the quality of the Bank's loan portfolio. The Group's sale of its Russian subsidiary is also expected to reduce its exposure to the challenging macroeconomic conditions in Russia which had a significant negative impact on the quality of its loan portfolio in Russia during 2014.

While delinquent loans still represent a high proportion of the Group's gross loans, the total amount of delinquent loans has decreased from 31 December 2013 to 30 June 2015 and the provision coverage ratio has increased. 90+DPD loans decreased from €12.7 billion as at 31 December 2014 to €12.6 billion at 30 June 2015. The ratio of loans that were 90+DPD to gross loans was 53.2 per cent. and 52.9 per cent. as at 31 December 2014 and 30 June 2015, respectively. The provision coverage ratio of 90+ DPD loans has increased from 40.6 per cent. as at 31 December 2014 to 42.5 per cent. as at 30 June 2015. 90+ DPD loans are fully covered, when taking into account tangible collateral at fair value. NPEs (as defined in the ITS) declined from €15.0 billion as at 31 December 2014 to €14.8 billion at 30 June 2015, accounted for 62.9 per cent. and 61.9 per cent. of the gross loans, respectively. The provision coverage ratio of NPEs totalled 36.3 per cent. at 30 June 2015, compared to 34.4 per cent. as at 31 December 2014. The Group has implemented a new lending policy with tighter credit approval requirements and remains focused on growth in lower-risk retail products and customers, as well as targeted business sectors for SME and corporate customers, such as tourism, trade, manufacturing, education, health, agriculture, 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 further during 2014 from €15.0 billion as at 31 December 2013 to €12.6 billion as at 31 December 2014. Customer deposits stood at €13.0 billion as at 30 June 2015. The Group is currently reliant on central bank funding, which comprised 30.7 per cent. of its funding as at 30 June 2015.

Customer deposits, however, remain the Group's primary source of funding, with their contribution to the Group's total funding gradually increasing. Customer deposits accounted for 53.7 per cent. of total assets as at 30 June 2015, compared to 49.2 per cent. as at 31 December 2014 and a low of 47.9 per cent. as at 31 March

2014. Despite the abolition in April 2015 of capital control measures in Cyprus, the Bank's customer deposits in Cyprus remain relatively stable and stood at €11.6 million as at 30 June 2015 compared to €11.3 million as at 31 December 2014.

The increased contribution by customer deposits to the Group's total funding is mostly the result of the Group's efforts to steadily reduce its central bank funding, both in absolute terms and as a percentage of total funding. The Group has already repaid approximately €7.1 billion of central bank funding since April 2013. The Bank currently has €4.3 billion of ELA funding and €0.9 billion of ECB funding.

As part of its funding strategy going forward, the Group intends to restore its access to the wholesale markets either through bilateral transactions or by 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 increasing its efforts with respect to international transaction services while simultaneously strengthening its deposit base. 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 further strengthen its bancassurance operation. The Wealth, Brokerage and Asset Management division generates the majority 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, the Wealth, Brokerage and Asset Management division 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**").

Following a restructuring in August 1999, the Bank became the holding company of the place of Bank of Cyprus (Holdings) Limited ("**BOCH**"). Under the terms of the restructuring plan, the share capital of BOCH was cancelled and all assets and liabilities of BOCH were transferred to the Bank. As part of the restructuring, the Bank's ordinary shares were listed on the Cyprus Stock Exchange, replacing the shares of BOCH.

In November 2000, the Bank became the first non-Greek company to have its shares listed on the Athens Stock Exchange.

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 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 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. In 2015, the settlement terms of the deferred consideration and the related interest rate have been amended. The deferred consideration will be paid to the Group under a repayment programme which extends until 1 June 2019 (see "*—International Operations—Ukraine*"); 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 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.

On 11 September 2014, the Group disposed of its interest in Grand Hotel Enterprises Society Ltd ("**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 was approximately €1 million. The sale had a positive impact of approximately €7 million on the Bank's capital position.

On 18 September 2014, the Bank completed the first two phases of the Capital Raising, in which it raised total gross proceeds of €1 billion. On 14 January 2015, the Bank completed the third and final phase of its Capital Raising with the completion of the Retail Offer. For a more detailed description of the Capital Raising, see "—*Capital Raising*", below.

On 26 October 2014, the Bank announced the results of the ECB's Comprehensive Assessment, which consisted of both an asset quality review ("**AQR**") and an EU-wide stress test. The AQR involved a review of the quality of banks' assets, including the adequacy of asset and collateral valuation and related provisions. The stress test examined the resilience of banks' balance sheets to different stress scenarios using a common methodology developed by the EBA and applied across all participating banks. The Comprehensive Assessment was based on a capital benchmark of 8% Common Equity Tier 1 ("**CET 1**") ratio, including transitional arrangements of CRR/CRD IV, for both the AQR and the baseline stress test scenario. For purposes of the stress test, the minimum ratios applied across all participating banks were set at 8% CET 1 ratio for the baseline scenario and 5.5% CET 1 ratio for the adverse scenario. As a result of the application of the AQR and the stress test, before giving effect to the Capital Raising, the AQR Adjusted CET 1 ratio (based on transitional arrangements as of 1 January 2014) of the Bank is estimated at 7.28%, the Adjusted CET 1 ratio after the baseline scenario is estimated at 7.73% and the Adjusted CET 1 ratio after the adverse scenario is estimated at 1.51%, resulting in a theoretical aggregated capital shortfall of the Comprehensive Assessment of an estimated €919 million. However, after giving effect to the €1 billion gross proceeds of the Capital Raising in September 2014, the AQR Adjusted CET 1 ratio (based on transitional arrangements as of 1 January 2014) of the Bank increases to 11.53%, the Adjusted CET 1 ratio after the baseline scenario increases to 11.62% and the Adjusted CET 1 ratio after the adverse scenario increases to 5.85%, resulting in a theoretical aggregated capital surplus of €81 million.

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

From 4 November 2014, the ECB fully assumed its role as supervisor for all the banks in the Eurozone area and as a result, the Group's operations are supervised by the ECB as well as the CBC. In light of this change and in an effort to safeguard regulators' and other supervisory authorities' confidence and trust in the Group, the Bank has established a regulatory steering group, comprising seven senior executives of the Bank chaired by the CEO. The regulatory steering group is responsible for overall oversight of the Group's compliance with its regulatory obligations.

On 30 January 2015, the AGM of the shareholders of Laiki Financial Services Ltd approved the disposal of the shares of Laiki Financial Services Ltd to the Bank for a consideration of €3 million.

As of 31 January 2015, all of the New Deposits issued by the Bank pursuant to the Recapitalisation, and which were subject to restrictive measures pursuant to the Capital Controls Decree (as defined in "*Regulation and Supervision of banks in Cyprus—Capital Control Measures*"), were fully released. As of 6 April 2015, these restrictive measures were fully lifted.

During the first quarter of 2015, the Group completed the transfer of the legal ownership of its subsidiary, Kyprou Leasing SA to Piraeus Bank, following the disposal of the Group's leasing operations in Greece to Piraeus Bank pursuant to the Greek Operations Decree.

In April 2015, the Bank sold its investment in Marfin Diversified Strategy Fund Plc for a consideration of US$92 million. The sale had a positive impact of approximately 0.1 percentage points on the Group's CET 1 capital ratio due to the reduction of risk weighted assets. The gain was approximately €10 million and represented the recycling of the related foreign currency reserves into the income statement (for further information, see "—*Recent Developments*" below).

On 21 April 2015, the Board of Directors announced that the GCEO, Mr. John Patrick Hourican, had submitted his notice of resignation, effective four months from that date. As of the date of the Prospectus, however Mr. Hourican continues to act in the capacity of GCEO and remains at the disposal of the Board of Directors. The Board of Directors is actively considering the issue of succession and has appointed a professional recruitment agency to perform an executive search for the identification of possible candidates for the GCEO role.

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 was the "**Retail Offer**" in which the Bank offered up to 416,666,667 new ordinary shares (which was in addition to those sold in the Placing and the Open Offer) for subscription by existing shareholders of the Bank (which did 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 was 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).

On 16 December 2014, the trading suspension on the Bank's existing ordinary shares, which had been in place since 19 March 2013, was lifted and the shares issued pursuant to the Recapitalisation and the Capital Raising were admitted to listing and to trading on the CSE and ATHEX.

The Retail Offer was completed on 14 January 2015, as a result of which €136,125 of capital was issued. The ordinary shares that resulted from the Retail Offer were listed, and commenced trading, on the CSE and ATHEX on 2 February 2015.

Recent Developments

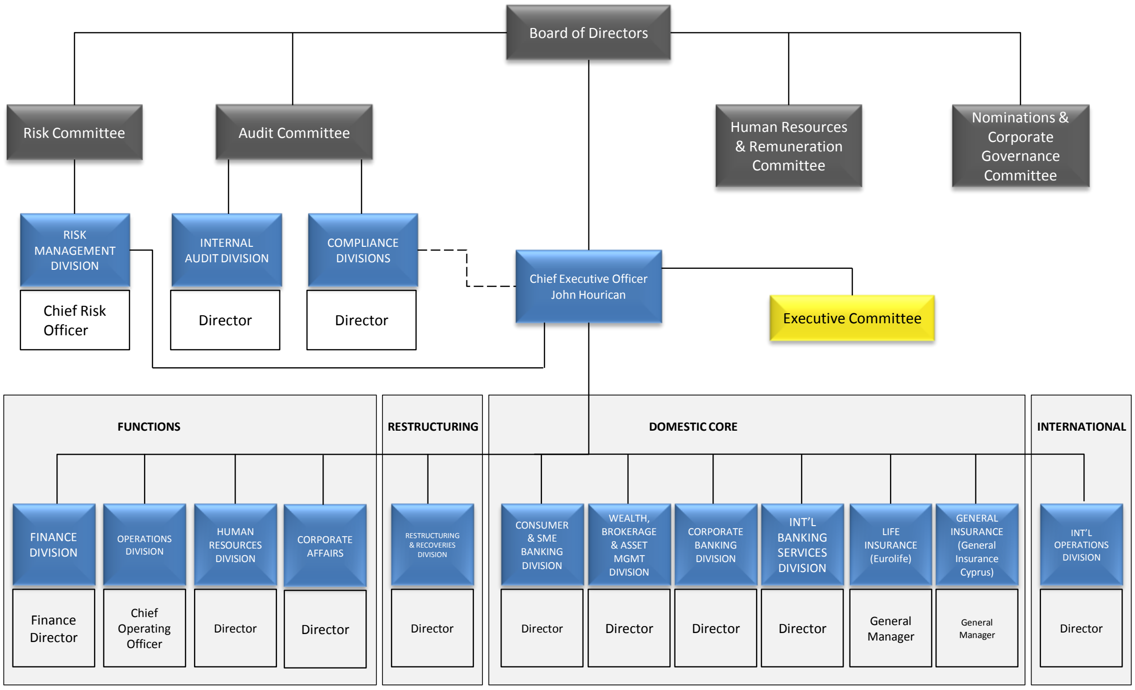
On 9 June 2015, the Government partially repaid a Cypriot sovereign bond held by the Bank by an amount of €750 million. The Government had made an earlier partial repayment of €950 million on this bond on 1 July 2014. The bond was transferred to the Bank in March 2013 as part of the acquisition of assets 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 and ELA funding. The remaining outstanding principal amount of the bond was €340 million and it was replaced on its maturity on 1 July 2015 with a €340 million 2.75 per cent. Cypriot sovereign bond due 1 July 2016. The Government has the following options: (i) to prepay the replacement bond with a 30 day notice and (ii) to extend its maturity until 1 July 2017.

On 31 August 2015, the Bank disposed of its investment in Byron Capital Partners Ltd (a former subsidiary of Laiki Bank which was transferred to the Issuer pursuant to the Laiki Transfer Decrees) through a share buyback agreement with Byron Capital Partners Ltd in return for consideration of £3.85 million.

On 28 September 2015, the Bank announced the completion of the sale of the majority of its Russian operations, comprising (i) its holdings of 80 per cent. in its Russian banking subsidiary, Uniastrum, and of 80 per cent. in its Russian leasing subsidiary, Leasing Company Uniastrum Leasing LLC, and (ii) certain other Russian loan exposures. With the disposal of this significant overseas banking subsidiary, the Group has reached another milestone in its deleveraging and de-risking strategy, and has reduced future potential risks relating to its Russian banking operations, including any liquidity risks. For further information, see "*—International Operations—Russia*".

Group Management Structure

The structure chart below sets out the key officers, committees and divisions of the 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 €892.3 million divided into 8,922,944,533 ordinary shares of a nominal value of €0.10 each. Laiki Bank, Lamesa Holding S.A. (an affiliate of the Renova Group), TD Asset Management Inc. and the European Bank of Reconstruction and Development ("**EBRD**"), each hold, directly or indirectly, 9.62 per cent., 6.23 per cent., 5.23 per cent. and 5.02 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 2015:

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
Cytrustees Investment Public Company Ltd	Cyprus	Closed-end investment company	53
BOC Russia (Holdings) Ltd*	Cyprus	Intermediate holding company	80
Finerose Properties Ltd	Cyprus	Financing services	100
Hydrobius Ltd	Cyprus	Special purpose entity	—
LCP Holdings and Investments Public Ltd (former Laiki Capital Public Co Ltd)	Cyprus	Holding company	67
Laiki Financial Services Ltd	Cyprus	Investment banking, asset management and brokerage	100
JCC Payment Systems Ltd	Cyprus	Card processing transaction services	75
CLR Investment Fund Public Ltd	Cyprus	Investment banking asset management and brokerage	20
Auction Yard Ltd	Cyprus	Auction company	100
Bank of Cyprus Public Company Ltd (branch of the Bank)	Greece	Administration of guarantees and holding of real estate properties	N/A
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	N/A
Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd)	Greece	General insurance	N/A
Bank of Cyprus UK Ltd	United Kingdom	Commercial bank	100
BOC Financial Services Ltd	United Kingdom	Financial advisory services	100
Bank of Cyprus (Channel Islands) Ltd	Channel Islands	Commercial bank	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 LLC*	Russia	Leasing	80
MC Investment Assets Management LLC	Russia	Problem asset management company	—
Kyprou Finance (NL) B.V.	Netherlands	Financing services	100

* *Entities disposed of after 30 June 2015*

In addition to the above companies, as at 30 June 2015, 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, Fairford Properties Ltd, Citlali Properties Ltd, Endar Properties Ltd, Ramendi Properties Ltd, Ligisimo Properties Ltd, Thames Properties Ltd, Moonland Properties Ltd, Polkima Properties Ltd, Nalmosa Properties Ltd, Smooland Properties Ltd, Emovera Properties Ltd, Estaga Properties Ltd, Skellom Properties Ltd, Blodar Properties Ltd, Spaceglowing Properties Ltd, Threefield Properties Ltd, Lepidoland Properties Ltd, Stamoland Properties Ltd, Ecunaland Properties Ltd, Tebane Properties Ltd, Cranmer Properties Ltd, Calomland Properies Ltd, Vieman Ltd, Les Coraux Estates Ltd, Natakon Company Ltd, Karmazi (Apartments) Ltd, Kermia Palace Enterprises Ltd, Oceania Ltd, Dominion Industries Ltd, Ledra Estates Ltd, Eurolife Properties Ltd, Laiki Lefkothea Center Ltd, Labancor Ltd, Paneuropean Ltd, Philiki Ltd, Cyprialife Ltd, Imperial Life Assurance Ltd, Philiki Management Services Ltd, Nelcon Transport Co. Ltd, Steparco Ltd, Joberco Ltd, Zecomex Ltd, Domita Estates Ltd, Memdes Estates Ltd, Obafemi Holdings Ltd, Pamaco Platres Complex Ltd, Gosman Properties Ltd, Odaina Properties Ltd, Vameron Properties Ltd, Thryan Properties Ltd, Icecastle Properties Ltd, Otoba Properties Ltd, Edoric Properties Ltd, Belvesi Properties Ltd, Ingane Properties Ltd, Indene Properties Ltd, Canosa Properties Ltd, Silen Properties Ltd, Kernland Properties Ltd, Unduma Properties Ltd, Iperi Properties Ltd, Warmbaths Properties Ltd, Danoma Properties Ltd, Kimrar Properties Ltd, Jobelis Properties Ltd, Tavoni Properties Ltd, Metin Properties Ltd, Pekiro Properties Ltd, Melsolia Properties Ltd, Nimoland Properties Ltd, Lozzaria Properties Ltd, Koralmon Properties Ltd, Petrassimo Properties Ltd, Kedonian Properties Ltd, Lasteno Properties Ltd and Armozio Properties Ltd.

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

In addition, as at 30 June 2015, 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, Frozenport Properties Ltd, Imoreth Properties Ltd, Inroda Properties Ltd, Melgred Properties Ltd, Tantora Properties Ltd, Zunimar Properties Ltd, Selilar Properties Ltd, Mirodi Properties Ltd, Nallora Properties Ltd, Nikaba Properties Ltd and Allioma Properties Ltd.

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

The Group also holds 100% of the following companies which are inactive:

Cyprus: Bank of Cyprus Mutual Funds Ltd, Laiki Bank (Nominees) Ltd and Laiki EDAK Ltd.

In addition, the Bank holds 75% of the following companies, which were acquired as part of the Aphrodite group, which owns and manages a tourist resort and owns, develops and manages real estate properties in Cyprus.

Malta: Aphrodite Holdings Ltd* and Thalassa Holdings Ltd*.

Cyprus: Aphrodite Hills (Lakkos tou Frangou) Ltd*, Aphrodite Hills Resort Ltd*, Aphrodite Hotels Ltd*, Aphrodite Hills Property Management Ltd*, The Aphrodite Tennis And Spa Ltd* and Aphrodite Hills Services Ltd*.

* *Entities disposed of after 30 June 2015*

Investments in associates and joint ventures

The following table sets out the Group's associates and joint ventures as at 30 June 2015 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.

Name	Country of incorporation	Interest held by Group (%)	Reported book value (€000)
CNP Cyprus Insurance Holdings Ltd	Cyprus	49.9	111,842

Name	Country of incorporation	Interest held by Group (%)	Reported book value (€000)
Byron Capital Partners Ltd[(1)]	United Kingdom	70.0	5,322
Interfund Investments Plc	Cyprus	23.1	2,348
Aris Capital Management LLC	United States	30.0	—
Rosequeens Properties SRL	Romania	33.3	—
Rosequeens Properties Limited	Cyprus	33.3	—

(1) On 31 August 2015, the Bank disposed of its investment in Byron Capital Partners Ltd through a share buyback agreement with Byron Capital Partners Ltd.

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 €16.1 million as at 30 June 2015.

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. (effective shareholding) 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.

Rosequeens Properties Limited

The Group owns 33.3 per cent. (effective shareholding) of the share capital of Rosequeens Properties Limited which is the holding company of Rosequeens Properties SRL.

Banking and financial services

Overview

The majority of the Group's revenue is derived from banking and financial services, which accounted for 96.4 per cent. and 94.1 per cent. of total revenue from continuing operations for the years ended 31 December 2014 and 2013, respectively, and 97.5 per cent. of total revenue from continuing operations for the six months ended 30 June 2015. Gross loans and advances to customers before fair value adjustments on initial recognition represented 88.7 per cent. and 88.1 per cent. of the Group's total assets as at 31 December 2014 and 2013, respectively, and 94.3 per cent. of the Group's total assets as at 30 June 2015. As of 31 December 2014 and 31 December 2013, the Group's gross loans and advances to customers before fair value adjustments on initial recognition was €23.8 billion and €26.7 billion, respectively. As of 30 June 2015, the Group's gross loans and advances to customers before fair value adjustments on initial recognition was €23.9 billion. As of 31 December 2014 and 2013, the Group's customer deposits were €13.2 billion and €15.0 billion, respectively, reflecting a 12.0 per cent. decrease which was primarily attributable to customer deposit outflows. As of 30 June 2015, the Group's customer deposits were €13.6 billion reflecting a 3.5 per cent. increase from 31 December 2014, despite the full abolishment of the capital controls in April 2015.. The Group's net loans (excluding loans and advances classified as held for sale) to deposits (excluding deposits classified as held for sale) ratio decreased from 145.4 per cent. as at 31 December 2013 to 143.9 per cent. as at 31 December 2014 and 139.2 per cent. as at 30 June 2015. The 90+DPD Ratio increased from 48.6 per cent. as at 31 December 2013 to 53.2 per cent. as at 31 December 2014 and slightly decreased to 52.9 per cent. as at 30 June 2015, mainly as a result of the improving but still challenging economic environment in Cyprus and Russia, particularly in the Cypriot construction and real estate sectors.

Customer Deposits

Group customer deposits totalled €13.6 million as at 30 June 2015, compared to €13.2 million as at 31 December 2014 and €15.0 million as at 31 December 2013. Despite the full abolition of capital controls in April 2015, customer deposits in Cyprus increased from €11.3 million as at 31 December 2014 to €11.6 million as at 30 June 2015. As at 30 June 2015, customer deposits in Cyprus and the United Kingdom accounted for 85.3 per cent., and 10.2 per cent., respectively, of the Group's total customer deposits.

Customer deposits remain the Group's primary source of funding, with their contribution towards the Group's overall funding gradually increasing. Customer deposits accounted for 65.4 per cent. of the Group's funding as at 30 June 2015, compared to 59.2 per cent. as at 31 December 2014.

The following table shows a breakdown of the Group's customer deposits by type and geographical area at the dates indicated.

	31 December 2014 (€000)	**30 June 2015 (€000)**
Customer deposits		
By type of deposit		
Demand	4,237,590	4,355,589
Savings	955,556	1,024,647
Time or notice	7,430,412	7,647,074
	12,623,558	13,027,310
By geographical area		
Cyprus	11,314,137	11,630,583
United Kingdom	1,304,844	1,390,963
Romania	4,577	5,764
	12,623,558	13,027,310

The Russian operations were classified as a disposal group held for sale as at 30 June 2015 and 31 December 2014. Customer deposits within the liabilities of the disposal group amounted to €601.8 million and €545.6 million, as at 30 June 2015 and 31 December 2014, respectively.

Loans and advances to customers

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

	31 December 2014		**30 June 2015**	
	€ billion	*% of total*	*€ billion*	*% of total*
Retail	5.4	23.6	5.3	23.3
SME	2.1	9.4	2.0	8.5
Corporate	3.1	13.6	3.5	15.1

	31 December 2014		30 June 2015	
	€ billion	*% of total*	*€ billion*	*% of total*
	10.6	46.6	10.8	46.9
Restructuring and recovery				
of which:				
- Corporate	5.3	23.2	5.2	22.6
- SME	1.4	6.2	1.4	6.0
- Recoveries	4.8	21.0	5.0	21.8
Total restructuring and recovery	11.5	50.4	11.6	50.4
International banking services	0.6	2.7	0.5	2.4
Wealth management	0.1	0.3	0.1	0.3
Total	22.8	100.0	23.0	100.0

Additionally, as at 30 June 2015, €928.8 million of loans and advances to customers before fair value adjustment on initial recognition were classified as held for sale, consisting of €503.9 million of loans and advances to corporate customers, €175.2 million of loans and advances to SME customers and €249.7 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 2014		30 June 2015	
	€ billion	*% of total*	*€ billion*	*% of total*
Retail..	5.3	25.2	5.3	25.0
SME...	1.7	8.1	1.7	7.9
Corporate	2.0	9.6	2.0	9.9
	9.0	42.9	9.0	42.8
Restructuring and recovery				
of which:				
- Corporate	5.3	25.1	5.1	24.2
- SME	1.4	6.6	1.4	6.6
- Recoveries	4.8	22.3	5.0	23.5
Total restructuring and recovery	11.5	54.0	11.5	54.3
International banking services	0.6	2.8	0.6	2.6
Wealth management	0.1	0.3	0.1	0.3
Total	21.2	100.00	21.2	100.0

The 90+DPD Ratio for retail loans in Cyprus was 34.5 per cent. and 34.2 per cent., for SME loans in Cyprus was 66.1 per cent. and 66.7 per cent. and for corporate loans in Cyprus was 61.6 per cent. and 61.7 per cent., as at 31 December 2014 and 30 June 2015, respectively. As of 30 June 2015, 88.1 per cent. of the Group's credit portfolio was funded and 11.9 per cent. was unfunded (87.8 per cent. and 12.2 per cent. respectively, as at 31 December 2014). 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 2014 and 30 June 2015, retail customers accounted for 55.7 per cent. and 57.3 per cent., respectively, of the Group's total deposits in Cyprus and 59.0 per cent. and 58.8 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. 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 million, 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 129 retail branches located in key towns and regions of Cyprus. These include current accounts, deposits, home loans, student loans, personal loans, business loans for micro business, hire purchase finance for new and used cars and all types of finance cards (including credit, debit and prepaid 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.

Consumer banking contributed 24.8 per cent. of the Bank's total income in Cyprus for the six months ended 30 June 2015.

The Bank has developed a detailed consumer banking strategy, 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 a top priority and is continuously monitored through call centre collection of customer feedback and market research. The consolidation and rationalisation of information technology systems has further improved the efficiency of customer service through the Bank's traditional and 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. It also offers paperless electronic products (such as "e-instant access current account", "e-notice" and "e-fixed deposit accounts") which can be opened over the internet. The Bank is the only bank in Cyprus which provides mobile person-to-person payment services under its platform "Quickpay".

- *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 renewed strength. Following the consolidation and rationalisation of information technology systems, the Bank proceeded with 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. In September 2015, the Bank launched a customer relationship management project aimed at offering and targeting the right customer at the right time with the right deposit product.

- *Manage and improve quality of loan portfolio*. The consumer loan portfolio is closely 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. The consumer banking division is also incentivised through targets, campaigns and contests to improve the quality of consumer loan portfolios.

- *Prudent new lending*. 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. This strategy entails prudent lending to customers with proven repayment ability and sufficient assets to collateralise the loan. 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.

- *Improve retail branch network effectiveness and efficiency*. In order to improve its operational efficiency, the Bank has rationalised its branch network and decreased the total number of branches in Cyprus to 129 as of 30 June 2015 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 2014. The Bank's customer segmentation into "premier", "mass affluent" and "mass" allows the Bank to assign relationship officers with the right level of experience and knowledge of the appropriate deposit and investment products for each segment to each customer.

- *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 and used cars and all types of finance cards (including credit, debit and prepaid cards). The Bank is the only financial institution that offers American Express local currency card products in Cyprus.

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 Executive Committee.

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.

SME banking contributed 7.9 per cent. of the Bank's total income in Cyprus for the six months ended 30 June 2015.

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 systems and processes that have improved the speed at which client requests are authorised and approved.

- *Enhance the policy of low-risk 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 through 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 tourism, trade, manufacturing, education, health, agriculture, energy, green project and information and communication technology. The analysis of promising sectors will involve discussions with the economic research and finance division on economic and industry performance indicators, such as NPE 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 both 90+DPD and 30+DPD targets for each business centre. The main tools to achieve these targets are restructuring and collections on arrears. 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 and increase deposit balances while managing costs*. Targeted marketing campaigns use mass and social media, mail and the internet to communicate the Bank's 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 has recently introduced the SME business tools for the Bank's website, providing templates such as cash flow forecast and interest/instalment calculator to support Cypriot businesses. The European relations and products department was jointly created by the directors of the consumer and SME divisions, 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 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 the CYPEF are made available through the EIB and the 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 61.4 per cent. and 26.5 per cent. equity stake, respectively, in the EIF. The European relations and products department has developed products backed by the CYPEF. As of 30 June 2015, the Bank had €28.3 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. The Bank has facilitated €10.8 million in loans under CYPEF and over €35 million under EIB loans.

- *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, term loans, asset finance or hire purchase facilities and project 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 profile. 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 banking division focuses on servicing credit-worthy corporate groups with exposures of more than €6 million or with an annual turnover of above €10 million and on attracting new customers / projects in promising sectors. The Group's corporate lending and other services in Cyprus are 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 the second quarter of 2014, the number of corporate banking centres in Cyprus has been reduced to four. The eight dedicated relationship management teams (with a total of approximately 60 employees) in these four corporate banking centres serve approximately three thousand five hundred credit-worthy corporate clients across Cyprus as of 30 June 2015, mainly in sectors such as tourism, trade, manufacturing, services and real estate.

The responsibility for all corporate exposures greater than €100 million (whether performing or non-performing) lies with 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 25 per cent. of the group exposure and 30 days past due, are assigned to dedicated teams of credit officers supervised by the RRD for restructuring. To the extent the RRD is able to rehabilitate any corporate clients successfully, these corporate clients have been transferred back to the corporate banking division. For a discussion on the collection process for these corporate loan portfolios, see "*—Restructuring and Recoveries Division—Collection process for delinquent loans*" below.

Corporate banking contributed 8.5 per cent. of the Bank's total income in Cyprus for the six months ended 30 June 2015.

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

- *Adopting a customer-centric culture to provide high quality service*. In order to provide high-quality service, the corporate banking division has implemented a relationship management model at all levels. Its most experienced relationship managers have been assigned 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 "prime" clients' 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. A series of initiatives are in place to streamline procedures and improve customer experiences, such as the paperless corporate and client relationship management projects.

- *Targeted new lending to promising sectors of the domestic economy*. The corporate banking division monitors the general economic and industry performance indicators and develops internal tools for assessing the growth potential and the risks of promising economic sectors such as tourism, trade, manufacturing, professional services, education, health, agriculture, energy, green project and information and communication technology. The analysis of promising sectors involves discussions with the economic research department and finance division on economic and industry performance indicators, such as NPE 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. 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 and corporate banking centres are assisting customers in dealing proactively with their financial issues. In addition, a comprehensive "early warning" system is currently being developed with the Credit Risk Reporting & Control department of the Group ("**CRR&C**") to enhance proactive portfolio monitoring and handling by the corporate banking centres. 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.

- *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 are being actively promoted to large corporate customers with high credit turnover and with a need for specialised electronic services. New products are being introduced to cater for liquidity management, payments and reporting. Furthermore, corporate finance services are promoted in cooperation with CISCO (as defined in "*—The Cyprus Investment and Securities Corporation Ltd ("CISCO")*" below) and the cross selling of credit cards and insurance products in conjunction with the consumer business line is also being undertaken.

- *Increase deposits while managing costs.* The corporate banking division is focused on increasing its deposit base with long-term fixed deposits, departing from the short-term periods previously requested by customers. Towards this goal, relationship managers are closely monitoring customer fund inflows and outflows with a view to establishing comprehensive relationships that span the whole spectrum of transactional and cash management customer needs. For specific segments such as high-net-worth individuals, promotion of specialised products and services is also pursued in cooperation with wealth management, treasury sales and premier banking. This strategy has so far resulted in positive results as manifested in an increase of total corporate customer deposit balances from €639.1 million as at 31 December 2014 to €800.3 million as at 30 June 2015 and, especially in connection with longer-term deposits for the period between January and August 2015.

- *Compliance with anti-money laundering ("**AML**") policies and procedures*. The corporate banking division is actively promoting a compliance culture across all levels and placing emphasis on comprehensive operational risk identification and assessment in line with the Group's AML policies and procedures. Campaigns are closely monitored and attention is given to the implementation of the customer complaints policy on the front-line.

International Banking Services ("IBS")

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 and Chinese speakers. IBS also manages four representative offices outside of Cyprus (two in Russia and one in each of Ukraine and China) which support business relations. The Bank has long-standing arrangements with a wide network of 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 as well as fee and commission income generated from international payments, foreign exchange transactions and trade finance instruments. As of 31 December 2014 and 30 June 2015, IBS accounted for 30.6 per cent. and 27.7 per cent., respectively, of the Group's total deposits in Cyprus. 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 contributed 8.1 per cent of the Bank's total revenue in Cyprus for the six months ended 30 June 2015.

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, which is based on:

- *Enhancing customer service based on customer characteristics.* Through its experienced and dedicated personal bankers, IBS's objective is to offer high-quality customer service based on its understanding of the needs and characteristics of each particular customer segment. IBS utilises information technology based service channels and products to offer fast, reliable, cost effective and customised banking solutions based on each customer segment's needs.

- *Rebuilding relationships with, increasing the deposits of and income from transaction with, 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 and superior service.

- *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 2015 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 342 as of 30 June 2015.

- *Increasing business from non-traditional markets*: IBS is continuously evaluating new opportunities for attracting business from new markets by expanding its international network of business associates, mainly in countries which maintain double taxation treaties with Cyprus.

Reflecting the emphasis of the Eurogroup Statement on Cyprus (as defined in "*The Macroeconomic Environment in Cyprus—The Cypriot Economic Crisis*") on the improvement of Cyprus' AML framework and given the nature of IBS's business with international clients, a dedicated AML risk management department has been established within IBS in order to enhance "know-your-customer" procedures and controls.

Restructuring and Recoveries Division

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 25 per cent. of the group exposure and is 30 days past due. A key component of the Group's strategy for addressing its significant delinquent loan portfolio was the establishment of the RRD which is comprised of independent, centralised and specialised restructuring units. Through these RRD units, the Group aims to proactively and efficiently manage large and/or delinquent loans in order to contain the further deterioration of its loan portfolio and the subsequent rise of impairment provisions in the improving but still challenging economic environment in Cyprus. As at the date of this Prospectus, it manages a large and delinquent loan portfolio of €11.5 billion.

RRD Structure

As of 30 June 2015, the RRD is staffed by 505 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 and four retail arrears management units cover the retail loans while eight business support units focus on debt collection and restructuring in relation to SME loans. As of 30 June 2015, the business support units were responsible for managing a SME portfolio of €1.4 billion.

- *Corporate management services*. All corporate exposures greater than €100 million are managed by the major corporate management team. As of 30 June 2015, the major corporate management team was responsible for managing a total corporate loan portfolio of €3.2 billion. The major corporate management team is supported by external 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 corporate management team.

In addition, all other corporate exposures are managed by two corporate management teams. An action plan has been prepared for each corporate group. As of 30 June 2015, these corporate management teams were responsible for managing a total corporate loan portfolio of €2.0 billion.

- *Debt recovery services*. Centralised and regional teams dedicated to the execution of debt collection and legal repossession.

- *Other supporting departments:* The financial solutions department provides advanced technical support on restructuring solutions and other related projects. The strategy and analytics department engages in analysing and defining delinquent portfolio segments based on the status of the borrower and the size of exposure and 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 7 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 30 days (and up to 60 days, in the case of smaller amounts with loans below €150,000), responsibility for the collection and the provision of more sophisticated restructuring solutions is assumed by the retail arrears management units. At any stage during the process, the client account can be transferred to a retail arrears management unit for restructuring; however, the front-line customer relationship always remains with the branch. In addition, for smaller loans below €150,000, the retail arrears management units are focused on industrialising the restructuring process in a cost and time efficient manner. The unit is responsible for rehabilitating this client segment through collection and restructuring.

- *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 (of an amount between €2 million to €6 million) 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 (e.g. client requiring restructuring when a previous restructuring has been performed in the last 18 months). 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. Once the client relationship is rehabilitated, the client may , depending on certain factors, be returned to the SME division.

- *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, if at least 25 per cent. of the loan (of any amount of €6 million or more) concerned is 30 days past due, it is transferred to a corporate management team at which point meetings are scheduled with the customer to discuss restructuring solutions. The RRD maintains a flexible approach to restructuring corporate accounts and delinquent loans may be transferred to a corporate management team 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. The Group has developed and deployed sustainable restructuring solutions, which are suitable for the borrower and acceptable for the Group.

Short-term restructuring solutions are defined as restructured repayment solutions of a duration of 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 new financing to a distressed borrower.

- *Debt consolidation*: the combination of multiple exposures into a single loan or limited number of loans.

- *Debt/equity swaps*: partial set-off of the debt and obtaining of an equivalent amount of equity by the Group, with the remaining debt right-sized to the cash flows of the borrower to allow repayment to the Group from repayment on the re-sized debt and from the eventual sale of the equity stake in the business. This solution is used only in exceptional cases and only where all other efforts for restructuring are exhausted and after ensuring compliance with the Business of Credit Institutions Law of 1997 (the "**Banking Law**").

- *Debt write-off*: cancellation of part or the whole of the amount of debt outstanding by the borrower. The Group applies the debt forgiveness solution only as a last resort and in remote cases having taken into consideration the ability of the borrower to repay the remaining debt in the agreed timeframe and the moral hazard.

In the case of large corporate exposures, restructuring solutions involving more complex techniques such as mezzanine financing 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 2014 and 2013, the wealth, brokerage and asset management division contributed 2.9 per cent. and 2.9 per cent., respectively, of the Group's total fee and commission income. For the six months ended 30 June 2015 and 2014, the wealth, brokerage and asset management division contributed 2.6 per cent. and 1.6 per cent., respectively, of the Group's total fee and commission income. As of 31 December 2014 and 30 June 2015, the wealth, brokerage and asset management division accounted for 2.5 per cent. and 2.7 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 €1,299.7 million, €1,240.8 million, €1,258.4 million and €1,456.3 million as at 31 December 2013, 31 December 2014, 30 June 2014 and 30 June 2015, 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 2015, the institutional wealth management department had a client list of 80 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 a department responsible for processing new clients and management of back office and other internal processes.

Investment and Energy Strategy

Investment and energy strategy 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 21.60 per cent. in the first half of 2015 (2014: 18.41 per cent.).

CISCO's investment banking sub-division provides a range of services in the field of corporate finance and capital markets which include listings on organised stock exchanges in Cyprus and abroad, debt and equity issues, mergers and acquisitions, company valuations, capital restructuring, financial planning and feasibility studies.

The asset management department provides discretionary and advisory portfolio management services to a local and international investor base. It specialises in the provision of asset management services to retirement (provident funds and pension funds) funds, as well as to insurance companies, investment companies and high-net worth individuals. Utilising an advanced fund selection process and investing in institutional share class funds, the asset management department provides a bespoke portfolio management and client service including continuous monitoring, reporting and communication. 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 20,000 investors.

Laiki Financial Services Ltd

Pursuant to the Laiki Transfer Decrees, the Bank acquired a 66.6 per cent. equity stake, which has increased to 67.5 per cent. since 30 June 2015, in LCP Holdings and Investments Public Ltd (former Laiki Capital Public Co Ltd), which is the listed parent holding company for Laiki Financial Services Ltd ("**LFS**"). LFS provides investment banking, asset management and brokerage services.

On 30 January 2015, the shareholders of LFS approved the disposal of the shares of LFS to the Bank for a consideration of €3 million. On 2 February 2015, the Bank acquired, from Laiki Capital Public Company Limited, the full 100% shareholding in LFS. LFS and CISCO are expected to be merged both legally and operationally before the end of 2015.

Strategic Objectives

The Bank has developed a detailed wealth, brokerage and asset management division strategy 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.

Insurance Services

Insurance services accounted for 3.3 per cent. and 5.5 per cent. of the Group's total revenue in Cyprus for the year ended 31 December 2014 and 2013, respectively, and 2.5 per cent. and 3.1 per cent. of the Group's total revenue in Cyprus for the six months ended 30 June 2015 and 2014, respectively. The Group's life assurance business in Cyprus is conducted by EuroLife, while the Group's general insurance business in Cyprus is conducted by General Insurance of Cyprus Ltd ("**GIC**"), both wholly-owned subsidiaries of the Bank.

Life Assurance

For the year ended 31 December 2014, EuroLife's total operations generated an income net of claims, commissions and expenses of €16.7 million (€11.0 million for the year ended 31 December 2013) and for the six months ended 30 June 2015, EuroLife's total operations generated an income net of claims, commissions and expenses of €4.1 million (€9.3 million for the six months ended 30 June 2014). As of 30 June 2015, EuroLife's net asset value and value of in-force was €58.0 million and €98.2 million, respectively. According to the preliminary statistical information of the Insurance Association of Cyprus, EuroLife had a 25.2 per cent. share of premium income of the Cypriot life assurance market for the year ended 31 December 2014 and a 24.5 per cent. share of premium income of the Cypriot life assurance market for the six months ended 30 June 2015.

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 190 tied agents and the Bank's branch network. For the year ended 31 December 2014 and the six months ended 30 June 2015, the Bank estimates that approximately 81.1 per cent. and 70.6 per cent., respectively, of EuroLife's new business was exclusively attributable to its agency network and that referrals from the Bank accounted for approximately 18.9 per cent. and 29.4 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 2015, EuroLife had total funds of €483.3 million, of which €377.0 million represented funds attributable to unit linked policies where the investment risk is passed on to policyholders. A further €90.6 million represented the deficiency reserve of EuroLife which is invested in short-term money market instruments, corporate bonds and government bonds. In addition, €4.7 million represented funds attributable to group pension contracts under EuroLife's management. The remaining €11.0 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 2013 and 2014, GIC's operations generated income net of claims, commissions and expenses of €9.6 million and €13.2 million, respectively, and for the six months ended 30 June 2014 and 2015, GIC's operations generated income net of claims, commissions and expenses of €7.1 million and €5.5 million, respectively. For the years ended 31 December 2013 and 2014, GIC's net claims ratio in Cyprus was 40.4 per cent. and 41.7 per cent., respectively, and GIC's combined ratio in Cyprus was 89.7 per cent. and 82.2 per cent., respectively. For the six months ended 30 June 2014 and 2015, GIC's net claims ratio in Cyprus was 36.3 per cent. and 36.9 per cent., respectively, and GIC's combined ratio in Cyprus was 74.3 per cent. and 77.8 per cent., respectively. For the year ended 31 December 2013 and 2014, GIC ranked first in terms of premiums generated in the general insurance market in Cyprus, with a market share of 12.7 per cent. and 12.2 per cent., respectively, according to the official statistical information of the Insurance Association of Cyprus. According to the preliminary statistical information of the Insurance Association of Cyprus for the six months ended 30 June 2015, GIC ranked first in terms of premiums generated in the general insurance market in Cyprus, with a market share of 14.1 per cent.

GIC offers its products through the Bank's branch network (53.1 per cent.), by direct channels (25.2 per cent.) and through agents (21.6 per cent.). GIC has 171 agents and brokers who are paid on a commission basis and also employs a salaried sales force of 31 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 2014 accounted for approximately 43.0 per cent. of gross premium income (43.2 per cent. during the year ended 31 December 2013) and during the six months ended 30 June 2015 accounted for approximately 35.4 per cent. of gross premium income (35.3 per cent. during the six months ended 30 June 2014).

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 71.7 per cent. of GIC's fire policies as of 30 June 2015 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.

GIC’s investments amounted to €57.1 million as at 30 June 2015, of which approximately €0.6 million was invested in equities and mutual funds, €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’s branch in Greece, Kyprou Asfalistiki, is in a run-down status, pursuant to the portfolio transfer agreement with an insurance provider in Greece, following the sale of the Group’s Greek banking operations to Piraeus Bank.

CNP Cyprus Insurance Holdings Ltd (“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 2015, CNP held deposits with companies within the Group amounting to €16.1 million.

CNP is a major competitor to GIC and EuroLife. As of 30 June 2015, according to the preliminary statistical information of the Insurance Association of Cyprus, CNP ranked second in terms of premiums generated in the general insurance market in Cyprus with a market share of 11.0 per cent. and ranked second in terms of premiums generated in the life insurance market in Cyprus with a market share of 21.4 per cent. CNP Assurances S.A. (“**CNP France**”), a French insurance company, owns the other 50.1 per cent. of CNP.

CNP France has 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 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 (see “*—United Kingdom—United Kingdom branch of Laiki Bank*” below);
- the winding-down and disposal of the Group’s remaining loan portfolio and related collateral in Romania and Russia;
- the management of several international exposures and loans; and
- supporting the Group’s Treasury division in the management of funding gaps associated with Laiki 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 operated in the Russian market primarily through Uniastrum and also provided leasing services through a Russian subsidiary.

On 28 September 2015, the Bank announced the completion of the sale of the majority of its Russian operations, comprising (i) its equity holdings of 80 per cent. in Uniastrum, and of 80 per cent. in its Russian leasing subsidiary, Leasing Company Uniastrum Bank LLC, and (ii) certain other Russian loan exposures, to Mr. Artem

Avetisyan (the "**Buyer**"), the majority shareholder in Bank Regional Credit, and to entities under the control of the Buyer. The Russian operations sold accounted for 31.0 per cent. of the Group's staff and 47.5 per cent. of the Group's branches as at 30 June 2015. This sale allowed the Group to de-risk its balance sheet by approximately €600 million and allowed the release of risk weighted assets of approximately €550 million. The sale improved the Group's regulatory capital position, with a positive impact of approximately 30 basis points on its CET 1 capital ratio. Based on the June 2015 Unaudited Financial Statements, the transaction resulted in an accounting loss of €23.3 million, comprising a loss of €28 million caused by the technical unwinding of a foreign currency translation reserve and a profit of €5 million against the net book value of the assets. As a result of the transaction, the remaining net exposure (on and off balance sheet) of the Group in Russia was €155.3 million as at 30 June 2015 and is expected to be reduced over time. As a result of the final agreement, the remaining exposure includes €41.8 million arising from the deferred component of an asset swap arrangement, but benefits from the removal of an off-balance sheet exposure amounting to €34.0 million.

The transaction has received all necessary regulatory approvals. This transaction does not affect the Bank's presence in Russia through its two representative offices in Moscow and St. Petersburg.

United Kingdom

Bank of Cyprus UK Ltd

The Bank has operated in the United Kingdom since 1955. On 25 June 2012, the banking business carried out by the United Kingdom branch of the Bank, was transferred to BOC UK, a wholly owned subsidiary of the Bank which is incorporated in the United Kingdom and is authorised and regulated by the Prudential Regulation Authority and regulated by the Financial Conduct Authority. Furthermore, under the SSM framework, the ECB effectively supervises BOC UK along with the Prudential Regulation Authority and the Financial Conduct Authority and, therefore, may issue joint decisions with the UK regulators in terms of BOC UK's capital requirements. 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 2014 and 30 June 2015, the BOC UK loan portfolio stood at €811.2 million and €1.0 billion, respectively, and comprised 3.4 per cent. and 4.4 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 2014 and 30 June 2015, customer deposits stood at €1.2 billion and €1.3 billion, respectively.

United Kingdom branch of Laiki Bank

On 1 April 2013, £717.4 million 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. Through redemptions and refinancing, the Bank significantly reduced its exposure to these loans and advances to £317.1 million as at 30 June 2014. In line with the Group'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. On 31 October 2014 the Bank completed the sale of the UK Loan Portfolio to purchasers selected through a competitive process. As of 31 December 2014 and 30 June 2015, the remaining gross customer loans and advances amounted to €69.5 million and €54.5 million, respectively. These customer loans and advances are administered by BOC UK under a service level agreement with the Bank. 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.

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 2014 and 30 June 2015, BOC CI had total assets of £133.9 million and £129.8 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 had operated for 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 maintenance of insurance services through the Greek branch of EuroLife, the management of a €133.3 million, as at 30 June 2015, 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 related 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.

The Group's net exposure to Greece as at 30 June 2015 is limited to: (a) net on-balance sheet exposures (excluding foreclosed properties) totalling €56.1 million, (b) 637 foreclosed properties with a book value of €198.9 million, (c) off-balance sheet exposures totalling €133.3 million, and (d) lending exposures to Greek entities in the normal course of business in Cyprus totalling €74.3 million and lending exposures in Cyprus with collaterals in Greece totalling €65.9 million.

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 Group'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 €657.4 million as at 31 December 2013 to €518.2 million as at 31 December 2014, before decreasing to €429.7 million as at 30 June 2015 mainly as a result of loan disposals, repayments and write-offs.

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.

As of 30 June 2015, the Group had a real estate portfolio in Romania with a book value of €262.9 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. On 30 May 2015, the settlement terms of the deferred consideration and the related interest rate were amended. The deferred consideration will be paid to the Group under a repayment programme which extends until 1 June 2019.

International Corporate Banking

The ICB was established in September 2013 and is responsible for cross-border loans of international corporate customers and syndications. The ICB follows the Bank's deleveraging strategy for non-core international assets and as a result the ICB loan portfolio has decreased from €667.4 million as at 31 December 2014 to €552.0 million as at 30 June 2015.

The ICB also assists the Group's international banking subsidiaries in the management of their corporate clients and large projects as well as the Group's deleveraging strategy and actions.

Property

As of the date of this Prospectus, 12 of the Group's retail branch premises are owned by the Group while the remaining 117 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, Greece and Romania 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; and
- the Group's property development companies in Cyprus, Kermia Ltd (including its subsidiary, Kermia Hotels Ltd) (together, "**Kermia**") and Kermia Properties & Investments group companies (together, "**KPI**").

As of 30 June 2015, the Group had own use and investment properties in Greece with a total book value of €198.9 million and in Romania with a total book value of €44.2 million. As of 30 June 2015, the Group had own use and investment properties in Cyprus, including the properties owned by Kermia and KPI, with a total book value of €580.4 million.

Kermia and KPI are both wholly-owned subsidiaries of the Group with total assets as at 30 June 2015 of €35.6 million and €17.3 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.

The Group's operations division is focused on the disposal of the Group's real estate portfolio in Greece, Romania 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 Unit 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;

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

  (iii) The Money Laundering Third Party Risk Assessment Unit performs due diligence on new and existing client accounts, reviews of introducers and reviews of politically exposed persons;

  (iv) The Money Laundering Customer Risk Assessment Unit performs reviews of high/significant risk clients, sanctions monitoring, correspondent banks assessments and handling of correspondent banks' inquiries; and

  (v) The Operations Unit administers information technology systems and the policy and procedural framework of the department, as well as the required reporting to the CBC. The Operations Unit 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;
- MiFID obligations on personal transactions;
- Regulatory Governance Compliance policy;
- Fit and Probity policy;
- Conflict of Interest policy;
- Corporate Governance Compliance policy;
- FATCA policy;
- Nominations Policy; and
- Diversity 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, 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 investors and those purchasers who had received investment advice from independent investment advisers before proceeding with the purchase. 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.

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. The Bank has filed a recourse before the Supreme Court against the CBC's ruling and the fine.

The Hellenic Capital Market Commission Investigation

In 2014, the Bank was under investigation in Greece by the HCMC in relation to the issue of 2009 Convertible Capital Securities and CECS and; more specifically, whether the Bank had 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 the Greek law which transposes the EU Directive on Markets in Financial Instruments and the implementing regulation.

The HCMC investigation was concluded at the end of 2014. According to its decision issued in February 2015, the Bank provided accurate and sufficient information to potential investors through the prospectuses for the CCS and CECS regarding the characteristics and particularities of such securities and the risk factors for an investment thereof. However, the HCMC also held that the Bank provided investment advice to potential investors when promoting such securities and omitted to comply with its obligation to perform a suitability assessment for such investors, according to the provisions of the law and related regulations. For this violation, a fine of €10,000 was imposed upon the Bank. In April 2015, the Bank filed a petition before the competent Administrative Court challenging HCMC's decision. 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.

In addition to the above, the HCMC is currently in the process of investigating matters concerning the Group's investment in Greek Government bonds.

The Cyprus Securities and Exchange Commission Investigations

On 2 August 2013, CySEC published its conclusions regarding an investigation into the failure by the Bank in June 2012 to disclose material information to investors concerning the amount of a capital shortfall to meet the requirements of the European Banking Authority ("**EBA**"). CySEC came to the conclusion that the Bank was in breach of the 'Insider Dealing and Market Manipulation (Market Abuse) Law 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. The recourses that the Bank has filed before the Supreme Court challenging CySEC's decision are still pending.

CySEC has also 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 administrative fines upon the Bank of a 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 recourses before the Supreme Court regarding the decisions of CySEC and the fines imposed upon it. CySEC has meanwhile filed legal actions against the Bank for the non-payment of the fines imposed.

During 2014, 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 only a reprimand.

CySEC has also conducted an investigation in relation to the level of goodwill of Uniastrum in the interim financial statements of the Group in 2012. In October 2014, the Bank and certain of its former officers and members of the Board were invited to submit written addresses in respect of this investigation which have since been submitted. The matter is now before the CySEC. There is information obtained from CySEC that it has referred the matter to the Attorney-General for consideration of any criminal issues or matters arising therefrom, and will take no action itself in respect of the matter (at least in the foreseeable future).

In November 2014, CySEC reprimanded the Bank for the non timely publication of mid-year financial report for the six months ended 30 June 2013. The Bank has filed a recourse before the Supreme Court.

In addition to the above, CySEC is currently in the process of investigating:

- matters concerning the Bank's investment in Banca Transylvania;
- the non-disclosure of certain terms and conditions of the Group's ELA funding;
- the non-disclosure of the Bank's request to the Ministry of Finance for granting additional government guarantees of up to €3 billion, for bonds that the Bank could issue to enhance its liquidity position;
- the adequacy of provisions for impairment of loans and advances in years 2011 and 2012;

- the reclassification of Greek Government bonds on 1 April 2010; and
- the adequacy of provisions for impairment of loans and advances in year 2013 in light of the results of the AQR.

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, fresh proceedings must be brought against the Bank before the competent Courts of the Republic of Cyprus.

The above investigations are in progress and therefore it is not practical at this stage for the Bank to estimate reliably any possible liability that might arise.

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 grounds 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 and their objective is to obtain damages for the loss allegedly sustained by them as a result of the bail-in of their deposits effected by the relevant Decrees. In a number of those actions, interim orders were issued prohibiting the Bank from treating the deposits of the applicants in question as converted into shares of the Bank. The Bank took active steps and obtained the discharge and cancellation of the interim orders. In parallel, the Bank is defending the actions of depositors vigorously.

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 was to obtain the annulment (i.e. cancellation and setting aside) of the Decrees as unconstitutional and/or unlawful and/or irregular. The Bank appeared in these proceedings as an interested party and has supported the position that, as with depositors, the cases should be adjudicated upon in the context of private law. As of the date of the 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 (before the District Courts), thus accepting the position of the Bank, 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.

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.

Laiki Bank depositors and shareholders

The Bank has been joined as a defendant with regards 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.

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).

Legal position of the Group

All above claims are being vigorously disputed by the Group, in close consultation with the appropriate state and governmental authorities. The position of the Group 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 a 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.

There was also an allegation concerning the Bank's arrangements with American Express, namely that such exclusive arrangements violated competition law. The Bank vigorously defended the relevant proceedings but the CPC has concluded that the Bank (in common with other banks and institutions, namely JCC) has breached in respect of both matters the relevant provisions of the applicable law for the protection of competition. The CPC has invited further representations regarding the size of the administrative penalty to be imposed upon the Bank. The Bank will make the appropriate representations (but will also consider taking other steps in consultation with the Commission to remove those features of its operation which are regarded as anti-competitive) so that the administrative penalty to be imposed will not be significant (though the CPC has the power to impose a fine as a percentage of the Bank's turnover). In any event, the Bank will file a recourse before the Supreme Court challenging the CPC's decision. Such recourse will be filed upon the notification of the fine.

Laiki Transfer Decrees related actions

A customer sent a statutory demand to the Bank in January 2015 threatening to wind up the Bank if its claim for EUR350,000 under a letter of guarantee issued by Laiki Bank was not paid. The Bank believes that such claim is immaterial, unfounded and without merit because the letter of guarantee had not been transferred to the Bank under the Laiki Transfer Decrees. No action has been taken by the customer to file winding up proceedings against the Bank since the statutory demand was sent in January 2015 and the Bank will take all steps to defend itself against any further action taken in relation to such claim if necessary.

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). CNP France held 50.1% of the shares of CNP Cyprus and Laiki Bank held 49.9% of the shares. In the context of the total arrangement between the parties, two agreements were in place between CNP and Laiki Bank, a Shareholding Agreement (the "**Shareholding Agreement**") and a Distribution Agreement (the "**Distribution Agreement**" and, together with the Shareholding Agreement, the "**Agreements**"). As regards the Shareholding Agreement, the Bank (pursuant to the Resolution Law and the Decrees made thereunder) has succeeded to the shareholding of Laiki Bank, thus becoming a 49.9% shareholder of CNP Cyprus.

Following the resolution of Laiki Bank, CNP has instituted arbitration proceedings in London under the auspices of the International Chamber of Commerce, alleging that the Bank is a successor to Laiki Bank in respect of both Agreements and that the said Agreements (particularly the Distribution Agreement) have been violated. The claims of CNP amount to approximately €240 million (including interest and grossed-up for tax). The Bank considers 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, the Agreements as concluded between CNP and Laiki Bank cannot possibly operate in the context of the new realities. The hearing of the Arbitration is planned to take place in May 2016.

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.

Provident Fund Cases

Twenty three claims are pending before the Labour Disputes Tribunal by former employees with respect to their retirement benefits; judgment has been reserved. 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 approximately €24 million. A provision has been made based on management's best estimate of probable outflows.

Employment Litigation

Former Chief Executive Officer Andreas Eliades has instituted a claim before the Labour Disputes Tribunal against the Bank and the committee of the Provident Fund for his Provident Fund entitlement. The case is fixed for hearing of a preliminary objection advanced on behalf of respondents on 17 November 2015. Even if this objection succeeds, the claim may be reinstituted before the District Court.

Former senior officers of the Bank, Christis Hadjimitsis and Nicolas Karydas, have instituted claims for unfair dismissal against the Bank. These cases are fixed for hearing during 2016. The Bank does not consider that any results in the context of these cases will have a material impact upon the financial position of the Bank.

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 €38.0 million plus interest. Any related provisions were reversed as at 31 December 2014 following the dismissal of the said judgment by the Supreme Court in March 2015. The case may be sent for retrial. The Bank has indemnified Piraeus Bank (the acquirer of its Greek operations in March 2013) through a letter of guarantee, for any claim brought against it in connection with this case. The case relates to the discontinued operations of the Bank in Greece.

Private criminal prosecutions

Six private criminal prosecutions have been instituted by certain customers against the Bank and certain of its Directors and officers advancing their own grievances and complaints. These are proceedings instituted by individuals and not the State. Two of these concern allegations of failure to restructure loan obligations of clients, another two concern alleged misrepresentations in the financial statements, one concerns alleged conspiracy with respect to a claim under a guarantee and one refers to the registration of mortgages under false pretences. The Bank expects that these prosecutions will be dismissed. The Bank has asked the Attorney-General to discontinue the proceedings (*nolle prosequi*) but such request has been rejected. The Bank has renewed its request for a nolle prosequi in respect of such cases. The two private criminal prosecutions concerning alleged misrepresentations in the financial statements were withdrawn in September 2015.

Another private criminal prosecution has been instituted on 6th October 2015 by a certain customer against the Bank and certain of its Directors and officers. This concerns allegations regarding interest rates charged on a credit facility. The Bank has asked the Attorney-General to discontinue the proceedings (nolle prosequi).

On the basis of legal advice, the Bank considers these private criminal prosecutions to have been instituted for their "nuisance value". In any event, the said private criminal prosecutions will have no material bearing on the financial position of the Bank.

General criminal investigations

As part of the investigations and inquiries following and relating to the financial crisis which culminated in March 2013, the Attorney-General and the Police are conducting various investigations (confidentially). The Bank is fully cooperating with the authorities of the Republic of Cyprus and is providing all information requested of it. Based on the currently available information, the Bank is of the view that any further investigations or claims resulting from these investigations will not have a material impact on the financial position of the Bank.

The Attorney-General has filed a criminal case against the Bank and five former members of the Board of Directors for alleged breach of Article 302 (conspiracy to defraud) of Cyprus' criminal code and Article 19 of the Manipulation of Insider Information and Market Manipulation (Market Abuse) Law. The alleged offence refers to the non-publication in a timely manner of the increased capital shortfall of the Bank (i.e., €500 million instead of €200 million). The Bank denies all allegations. The hearing has commenced and the maximum penalty on the Bank, if found guilty, will be the imposition of a fine that is not expected to be significant.

The Attorney-General has filed another criminal case against the Bank and six former members of the Board of Directors for alleged breach of Article 19 of the Manipulation of Insider Information and Market Manipulation (Market Abuse) Law, with respect to the Greek Government Bonds. The case is scheduled for first appearance on 2 December 2015 and the alleged offence refers to the non-publication of the purchase and sale of the Greek Government Bonds during a specified period. The Bank denies all allegations. The hearing of the case has not yet commenced and the maximum penalty on the Bank, if found guilty, will be the imposition of a fine that is not expected to be significant.

House of Representatives

Occasionally, matters are brought before the House of Representatives (Cyprus' legislative assembly) and its Committees, either in order to consider and enact legislation or to investigate certain matters. An example of the former is the House's consideration of the provision of loans by banks in foreign currencies, mostly Swiss Francs. Under the Constitution of Cyprus, the State has no power to interfere with freedom of contract nor can it enact retrospective legislation (with a few very limited exceptions). There is pressure from the House upon other organs of Government to consider the alleged provision of investment advice from the banks to consumers. An example of the latter is the consideration by House's Committees of the Uniastrum acquisition, see "—*International Operations—Russia*". The Bank considers any discussion by the House Committee will have no material adverse impact on the Bank.

Swiss Francs loans Litigation

Some actions have been instituted against the Bank by borrowers who obtained loans in foreign currency (mainly Swiss Francs). Borrowers have seen their monthly loan repayments significantly increase due to the strengthening of the Swiss Franc during recent years and especially in 2015, and the interest rate and margin being charged by certain Cypriot banks (including the Bank). The central allegation in these cases is that the Bank misled these borrowers and/or misrepresented matters, in violation of applicable Law. The Bank intends to contest such proceedings vigorously.

Criminal Investigation regarding Uniastrum

Beyond the investigation by CySEC of certain matters relating to Uniastrum, certain aspects of its acquisition are being investigated (as we understand) by the Attorney-General. The Bank considers any such investigation will have no material adverse impact upon the Bank.

UK cases against the Bank

The Bank is the defendant in certain proceedings alleging that the Bank is legally responsible in respect of various alleged irregularities involving, inter alia, the advance and mis-selling of loans for the purchase by UK nationals of real property in Cyprus. The Bank's defence will vary depending on whether the purchasers can be categorised as consumers or investors. However, all the proceedings in the UK are currently stayed. The Bank does not expect that the results of these proceedings will have any material adverse impact on the Bank.

On 19 October 2015, a Ukrainian undertaking, Novy Biznes Poglyady LLC initiated legal proceedings against the Bank and others before the High Court in London asking, *inter alia*, for a declaration that the Bank has no title to or rights under a facility agreement entered into originally by Marfin Popular Bank Public Company Ltd and later transferred to the Alfa Group. Also, local/ancillary proceedings before the District Court of Nicosia in aid of the London proceedings were instituted on 3 November2015. The Bank vigorously contests the proceedings in both jurisdictions. In any event, whatever their outcome, such proceedings are not expected to 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 a few immaterial deviations during 2014 prior to the appointment of a new Board during the Bank's AGM on 20 November 2014.

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 seven non-executive directors, six of whom are independent, and two executive directors. Other than that the Human Resources and Remuneration Committee is operating with two members instead of three (the third member is expected to be appointed by the end of 2015), the Bank is currently in compliance with the Governance Directive.

Board of Directors

The Board of Directors, which is also the Group's main board of directors, is currently comprised of seven non-executive directors, six of whom are independent, and two executive directors. The primary role of the Board of Directors is to provide entrepreneurial leadership of the Group within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board of Directors sets the Group's strategic objectives, ensures that the necessary financial and human resources are in place for the Group to meet its objectives and reviews management performance. The Board of Directors also sets the Group's values and standards and ensures that its obligations towards its shareholders and other stakeholders are understood and met.

The Board of Directors meets on a regular basis and has a formal schedule of matters for consideration. During 2014, 27 meetings of the Board of Directors were held due to challenging events and circumstances prevailing following the Recapitalisation in 2013 and the Group's subsequently revised strategic objectives. The main areas of focus for the Board of Directors were the Bank's strategy, the implementation of the Restructuring Plan, liquidity and arrears management, the Recapitalisation, improvement of the risk management framework, the smooth integration of ex-Laiki information technology systems and the overall improvement of the Group's operational efficiency. All directors have access to the advice and services of the company secretary and Group Compliance officer in charge of corporate governance. 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 three non-executive directors, two of which are 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 17 meetings during 2014.

- *Human Resources and Remuneration Committee* – The human resources and remuneration committee as of the date of this Prospectus comprises two non-executive directors, both of which are independent. The human resources and remuneration 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 human resources and remuneration 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 human resources and remuneration committee held ten meetings during 2014.

- *Nominations and Corporate Governance Committee* – The nominations and corporate governance committee as of the date of this Prospectus comprises three 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 14 meetings during 2014.

- *Risk Committee* – The risk committee as of the date of this Prospectus comprises four 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 six meetings during 2014.

Directors

The business address of each of the directors in their capacity as directors of the Bank is 51 Stassinos Street, Ay. Paraskevi, Strovolos, 2002 Nicosia, Cyprus and their respective positions and date appointed to the Board of Directors are as follows:

Name	**Position**	**Committee Membership**	**Latest Appointment Date**
Josef Ackermann	Chairman and Independent Director	Nominations and Corporate Governance Committee	20 November 2014
Wilbur L. Ross, Jr.	Vice-Chairman and Independent Director	Nominations and Corporate Governance Committee Risk Committee	20 November 2014
Maksim Goldman	Vice-Chairman and Non-Independent Director	Nominations and Corporate Governance Committee Audit Committee	20 November 2014
Michael Spanos	Senior Independent Director	Human Resources and Remuneration Committee	
John Patrick Hourican	Chief Executive Officer		20 November 2014

	and Executive Director		
Christodoulos Patsalides	Finance Director and Executive Director		20 November 2014
Arne Berggren	Independent Director	Risk Committee Audit Committee	20 November 2014
Marios Kalochoritis	Independent Director	Risk Committee Human Resources and Remuneration Committee	20 November 2014
Ioannis Zographakis	Independent Director	Risk Committee Audit Committee	20 November 2014

Dr. Josef Ackermann. *Chairman and Independent Director*. Dr. Ackermann was born in 1948. He is the former chairman of the management board and the group executive committee at Deutsche Bank. Dr. Ackermann joined Deutsche Bank's board of managing directors in 1996, where he was responsible for the investment banking division. Under his leadership, this business unit developed into one of Deutsche Bank's principal revenue sources and entered the top group of global investment banks. Prior to Deutsche Bank, Dr. Ackermann was president of Schweizerische Kreditanstalt (SKA), today's Credit Suisse. Dr. Ackermann has held numerous board positions including sitting on the board of directors at Zurich Insurance Group, Royal Dutch Shell plc, Siemens AG and EQT Holdings AB among others. Today, he still holds numerous mandates, amongst them, as a member of the board of directors at Investor AB, and Renova Management AG. Dr. Ackerman also serves as honorary chairman of the St. Gallen Foundation for International Studies, honorary senate member of the Foundation Lindau Nobel Prizewinners Meetings at Lake Constance, vice chair and a member of the board of trustees of The Conference Board and advisory director at New York's Metropolitan Opera, among other posts. Dr. Ackerman also served as vice-chairman of the foundation board of the World Economic Forum. Dr. Ackermann studied economics and social sciences at the University of St. Gallen, where he earned his doctorate, and holds an honorary doctorate from the Democritus University of Thrace in Greece. Dr. Ackermann is also an honorary fellow of the London Business School, was visiting professor in finance at the London School of Economics, and was appointed honorary professor at the Johann Wolfgang Goethe University in Frankfurt.

Wilbur L. Ross, Jr. *Vice-Chairman and Independent Director*. Mr. Ross was born in 1937. He is the Founder, Chairman and Chief Strategy Officer of WL Ross & Co. LLC, a private equity firm. Mr. Ross was also formerly the Chief Executive Officer of WL Ross prior to 30 April 2014 when he became its Chairman and Chief Strategy Officer. In March 2014 Mr. Ross became the Chairman and Chief Executive Officer of WL Ross Holding Corp, a special purpose acquisition company. Mr. Ross is currently a member of the board of directors of Arcelor Mittal, the world's largest steel and mining company; EXCO Resources, Inc., a natural gas and oil exploration company; DSS Holdings LP, a shipping transportation company and Sun Bancorp, a bank holding company. Mr. Ross formerly served as a member of the board of directors of many banks, financial and other companies, including but not limited to The Governor and Company of the Bank of Ireland, a commercial bank in Ireland until June 2014, BankUnited, Inc., until March 2014; Talmer Bancorp., Assured Guaranty, an insurance company; International Textile Group; NBNK Investments PLC; PB Materials Holdings, Inc.; Ohizumi Manufacturing; Ocwen Financial Corp.; Navigator Holdings, a maritime transport company until November 2014; Plascar Participacoes SA, a manufacturer of automotive interiors, until 2014 and Air Lease Corporation, an aircraft leasing company from 2010 to December 2013; International Coal Group from April 2005 to June 2011, Montpelier Re Holdings Ltd., a reinsurance company, from 2006 to March 2010; The Greenbrier Companies, a supplier of transportation equipment and services to the railroad industry from June 2009 until January 2013. Mr. Ross was Executive Managing Director of Rothschild Inc. for 24 years before acquiring that firm's private equity partnerships in 2000. Mr. Ross is a graduate of Yale University and of Harvard Business School. Through the course of Mr. Ross' career, he has assisted in restructuring more than $400 billion of corporate liabilities. Mr. Ross is well qualified to serve as a director due to his over 35 years of experience in private equity, numerous public and private company directorship roles, and globally-recognised financial expertise having been elected to both the Private Equity Hall of Fame and the Turnaround Management Association Hall of Fame. Mr. Ross has been appointed by President Clinton to the Board of Directors of the U.S-Russia Investment Fund and has served as Privatization Advisor to New York City Mayor Guiliani. He was awarded a medal by President Kim Dae Jung for assisting Korea during its financial crisis and in 2014 was awarded the Order of the Rising Sun with Gold and Silver Stars by the Japanese Government.

Maksim Goldman. *Vice-Chairman and Non-Independent Director.* Mr. Goldman was born in 1971. He currently serves as Director of Strategic Projects at Renova where he is responsible for coordinating the business development of various significant assets under management of the Group. Previously, Mr. Goldman served as Deputy Chief Investment Officer of Renova Group, responsible for implementing the investment policy and support of key mergers and acquisitions transactions. During 2005 to 2007, he worked as Vice President and International Legal Counsel of Sual-Holding, which was the management company for OAO "SUAL", the second largest aluminium company in Russia, and also participated in the creation of UC Rusal through combination of the assets of Sual-Holding, Rusal and Glencore. From 1999 to 2005 Mr. Goldman worked as an associate at Chadbourne & Parke LLP in New York and in Moscow. Mr. Goldman holds a J.D. from the School of Law, University of California (Los Angeles). He also holds a Bachelor of Arts degree in History at the University of California (Los Angeles).

John Patrick Hourican. *Chief Executive Officer and Executive Director*. Mr. Hourican was born in 1970. He served as chief executive of The Royal Bank of Scotland Group's ("**RBS**") Investment Bank (Markets & International Banking) 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.

Michael Spanos. *Senior Independent Director*. Mr. Spanos was born in 1953. He is a Managing Director of M.S. Business Power Ltd, which provides consultancy services on strategic and business development (since 2008); non-Executive Chairman of Lanitis Bros Ltd (since 2008); founding Chairman of Green Dot (Cyprus) Public Co Ltd (since 2004); and a member of the board of directors of Coca-Cola Içecek (since 2012). Mr. Spanos worked at Lanitis Bros Ltd from 1981 to 2008 as Marketing Manager, General Manager and Managing Director. Between 2005 and 2009, Mr. Spanos served as vice-chairman of the board of directors of the Cyprus International Institute (Republic of Cyprus and Harvard School of Public Health). Mr. Spanos has also served on other boards, such as Heineken-Lanitis Cyprus Ltd (2005 to 2007), Lumiere TV Public Ltd (2000 to 2012), A. Petsas & Sons Public Ltd (2000 to 2007) and CypriaLife Insurance Ltd (1995 to 2000). Mr. Spanos is a former director of the CBC Board of Directors. Mr. Spanos holds a Master's degree in economics from North Carolina State University.

Marios Kalochoritis. *Independent Director*. Mr. Kalochoritis was born in 1973. He is a financial executive with experience in investment banking, hedge fund management, private equity, wealth management and as a chief financial officer. Geographically he has covered North and South America, Western and Eastern Europe and the Middle East. He is experienced in start-ups and turnout situations. He has recently moved to Dubai from Cyprus to set up a family office for an industrialist family as head of investments, after spending five and a half years in Cyprus where, as the managing director, he had set up and ran the operations and risk management of a global macro hedge fund. Prior to that he was senior vice president for Credit Suisse Bank in Zurich and he was heading 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. He had moved to Dubai following a couple of years in New York where he was the co-founder of a boutique investment bank. 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 & 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 holds an MBA from Harvard Business School and a BSc in Finance from Louisiana State University.

Arne Berggren. *Independent Director*. Mr. Berggren was born in 1958. He has been involved in corporate and bank restructurings, working for both the private sector as well as for international organisations since the early 90s staring with Nordea during the Swedish financial crisis. This was followed by bank crises management and bank restructuring assignments in numerous countries in Latin America, Eastern Europe and Asia, and more recently during the current financial crisis in the Baltics, Spain and Slovenia. He has been head of Financial Restructuring and Recovery at Carnegie Investment Bank AB and Swedbank AB and as CEO of Swedcarrier AB he led the restructuring of parts of Swedish Rail. Mr Berggren has held numerous board positions in the financial and corporate sector and currently serves on the board of directors at LBT Varlik Yönetim AS and DUTB Ldt. He is a graduate of the University of Uppsala, Sweden.

Ioannis Zographakis. *Independent Director*. Mr. Zographakis was born in 1963. He is a senior executive with a broad and diverse international experience in the banking industry. He has worked with Citibank for over 20 years, in the USA, UK and Greece. His line/business positions and divisional/corporate responsibilities, have provided him with an extensive background in corporate governance, business restructuring, re-engineering, crisis management, separation of businesses, business strategy, profit & loss management, finance, product and segment management, operations & technology management, and dealing with various regulatory bodies and industry related organisations. He started his career in 1990 with Citibank in Greece as a management associate for Europe, Middle-East & Africa (EMEA). He then worked as the deputy treasurer and treasurer for the Consumer Bank in Greece, before moving to the USA in 1996 as the director of finance for CitiMortgage. In 1997 he became the financial controller for Citigroup's consumer finance business in the US and then he was the chief financial officer for the consumer assets division. From 1998 until 2004 he worked in the Student Loan Corporation ("**SLC**"), a Citigroup subsidiary and a New York Stock Exchange traded company. He started as the chief financial officer, became the chief operations officer and in 2001 he was named the chief executive officer. In his four years as chief executive officer of SLC, he managed to almost triple the earnings and the stock price of the company, outperforming the markets. In 2005 he moved back to Europe as Citibank's consumer lending head for EMEA and UK Retail Bank Head. Deciding to move closer to home in 2006, he took the position as Citibank's Retail Bank Head in Greece where he stayed until 2011, before moving back to Cyprus consulting on financial services when requested. He has been a director for the SLC in the US, a director for Tiresias (Greek Credit Bureau) and the secretary of the audit committee, 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. He holds a Bachelor's degree in Civil Engineering from Imperial College in London and an MBA from Carnegie Mellon University in the USA.

Christodoulos Patsalides. *Finance Director and Executive Director*. Dr. Patsalides was born in 1962. He currently serves as Finance Director of the Bank. From 1989 to 1996, Dr. Patsalides worked for the CBC in the Management of Government External Debt and Foreign Exchange Reserves department. In 1996, Dr. Patsalides joined the Bank where he has held a number of positions in corporate banking, treasury and private banking, among others. In Dr. Patsalides' current capacity as Finance Director, he is responsible for Finance, Treasury, Investor Relations, Economics Research and Procurement. Dr. Patsalides holds a PhD in Economics from the London School of Economics.

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
Nick Smith	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
Michalis Persianis	Corporate Affairs Director

Related Party Transactions

	31 December		As at and for the year ended 31 December		As at and for the six months ended 30 June	
	2013	**2014**	**2013**	**2014**	**2014**	**2015**
	(number of directors)		*(€'000)*			
Loans and advances to members of the Board of Directors and connected persons						
- more than 1% of the Group's net assets per director	-	-	-	-	-	-
- less than 1% of the Group's net assets per director	15	10	302	382	316	381
	15	10	302	382	316	381
Loans and advances to other key management personnel and connected persons			3,448	4,317	4,093	4,129
Total loans and advances			3,750	4,699	4,409	4,510
Loans and advances:						
- members of the Board of Directors and other key management personnel			3,224	3,615	3,702	3,580
- connected persons			526	1,084	707	930
			3,750	4,699	4,409	4,510
Interest income for the year/period			929	205	71	69
Deposits:						
- members of the Board of Directors and other key management personnel			1,881	18,368	2,862	3,815

	31 December		As at and for the year ended 31 December		As at and for the six months ended 30 June	
	2013	2014	2013	2014	2014	2015
	(number of directors)		*(€'000)*			
- connected persons			36,536	11,206	30,524	6,592
			38,417	29,574	33,386	10,407
Interest expense on deposits for the year/period			1,115	398	245	139
Debt securities in issue, subordinated loan stock and CECS:						
- members of the Board of Directors and other key management personnel			-	-	-	-
- connected persons			-	-	-	-
			-	-	-	-

The above table does not include period or year-end balances for members of the Board of Directors and their connected persons who resigned/were removed 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 €231 thousand and €175 thousand as at 31 December 2013 and 2014, respectively, and €121 thousand and €142 thousand as at 30 June 2014 and 2015, respectively. As of 31 December 2014 and 30 June 2015 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. There were also contingent liabilities and commitments to other key management personnel and their connected persons amounting to €743 thousand and €689 thousand as at 31 December 2013 and 2014, respectively, and €702 and €874 thousand as at 30 June 2014 and 2015, 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 2013 and 2014 and 30 June 2014 and 2015 amounted to €1,439 thousand, €1,586 thousand, €1,616 thousand and €1,295 thousand, respectively.

Transactions with connected persons of the current members of the Board of Directors. There were no transactions during the six months ended 30 June 2015 with connected persons of the current members of the Board of Directors.

Transactions in 2014 with connected persons of the directors who resigned during 2014. Mr Xanthos Vrachas is the CFO of Universal Insurance Agency Ltd to which the Group paid €137 thousand relating to insurance transactions (2013: €119 thousand).

Transactions in 2013 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 paid to companies of the Commercial General Insurance Group in which Mr. Andreas Artemis holds an indirect interest; purchases of equipment and services amounting to €1 thousand from Pylones SA Hellas and Unicars Ltd in which Mrs. Anna Diogenous holds an indirect interest; purchases of equipment amounting to €89 thousand from Mellon Cyprus Ltd which is significantly influenced by a person connected to Mrs. Anna Diogenous; insurance commissions amounting to €29 thousand to D. Severis and Sons Ltd which is owned by Mr. Costas Z. Severis and rents amounting to €71 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 the director Mr. Elias Neocleous is a partner, amounted to €14 thousand. In addition, the Group had the following transactions with connected persons in their capacity as members of the interim board: legal fees amounting to €10 thousand paid to A. Poetis & Sons in which Mr Andreas Poetis is a partner and actuarial fees amounting to €48 thousand paid to AON Hewitt Cyprus Ltd in which Mr Philippos Mannaris is a partner.

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 2013 and 2014 and for the six months ended 30 June 2014 and 2015 follows:

	Year ended 31 December		Six months ended 30 June	
	2013	**2014**	**2014**	**2015**
		(€'000)		
Director emoluments				
Executive directors				
Salaries and other short-term benefits	452	859	422	488
Termination benefits	84	-	-	-
Employer's contributions..	27	51	23	30
Retirement benefit plan costs..	31	113	55	64
	594	1,023	500	582
Non-Executive directors				
Fees..	352	424	228	132
Emoluments of a non-executive director who is also an employee of the Bank	100	-	-	-
Total directors' emoluments..	1,046	1,447	728	714
Other key management personnel emoluments				
Salaries and other short-term benefits	943	2,231	1,086	1,891
Termination benefits	667	250	-	-
Employer's contributions..	84	166	80	77

	Year ended 31 December		Six months ended 30 June	
	2013	2014	2014	2015
Retirement benefit plan costs	117	210	105	93
Total other key management personnel emoluments	1,811	2,857	1,271	2,061
Total	2,857	4,304	1,999	2,775

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

	Year ended 31 December	
	2013	2014
	(€'000)	
John Patrick Hourican (Chief Executive Officer - appointed on 1 November 2013)	141	844
Christodoulos Patsalides (Finance Director – appointed on 20 November 2014)	-	15
Yiannis Pehlivanidis (resigned on 29 March 2013)	104	-
Yiannis Kypri (resigned on 29 March 2013)	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	-
	452	859

For the years 2013 and 2014, no bonus was recommended or paid to the executive directors.

The retirement benefit plan costs for 2014 amounting to €113 thousand relate to: Mr. John Patrick Hourican (€111 thousand) and Dr. Christodoulos Patsalides (€2 thousand). The retirement benefit plan costs for 2013 amounting to €31 thousand related to: Mr. John Patrick Hourican.

The fees of the non-executive directors are as follows:

	Year ended 31 December	
	2013	2014
	(€'000)	
Josef Ackermann	—	8
Wilbur L. Ross Jr.	—	6
Arne Berggren	—	2
Maksim Goldman	—	2
Michalis Spanos	—	2
Kyrill Parinov	—	5
Andreas Artemis	20	—

	Year ended 31 December	
	2013	2014
Evdokimos Xenophontos	15	—
Vassilis G. Rologis	8	—
Costas Z. Severis	10	—
Christakis G. Christofides	5	—
Anna Diogenous	5	—
George M. Georgiades	2	—
Costas Hadjipapas	12	—
Nikolas P. Tsakos	1	—
Stavros J. Constantinides	2	—
Irene Karamanou	6	—
Elias Neocleous	4	—
Symeon Matsis	4	—
Sophocles Michaelides	25	—
Erol Riza	19	—
Constantinos Damtsas	9	—
Takis Taousianis	11	—
Lenia Georgiadou	11	—
Philippos Mannaris	9	—
Lambros Papadopoulos	8	—
Andreas Persianis	6	—
Andreas Poetis	8	—
Panikos Pouros	15	—
Savvakis Savvides	8	—
Georgios Theocharides	9	—
Michalis Zannetides	7	—
Takis Arapoglou	6	—
Christis Hassapis	21	60
Vladimir Strzhalkovskiy	16	50
Anjelica Anshakova	6	24
Dmitry Chichikashvili	5	20
Marinos Gialeli	6	33
Marios Kalochoritis	6	25
Konstantinos Katsaros	7	35
Eriskhan Kurazov	4	12
Adonis Papaconstantinou	6	31

	Year ended 31 December	
	2013	2014
Anton Smetanin	4	12
Xanthos Vrachas	6	28
Marios Yiannas	6	7
Andreas Yiasemides	7	32
Ioannis Zographakis	7	30
	352	424

The fees of the non-executive directors include fees as members of the Board of Directors of the Bank and its subsidiaries, as well as of committees of the Board of Directors.

The key management personnel emoluments include 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 in 2014 relate to early retirement benefits paid to a member of key management personnel who left in 2014. The termination benefits in 2013 relate to payments made to an executive director and to the senior group general manager who left the Group on 29 March 2013. The termination benefits include notice period paid in accordance with their employment contracts.

For the years 2013 and 2014, 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	
Josef Ackermann	0	0	0	0.000
Wilbur L. Ross Jr.	0	145,253,859	145,253,859	1.628
Maksim Goldman	0	143,821	143,821	0.002
Arne Berggren	0	0	0	0.000
Marios Kalochoritis	0	0	0	0.000
Michalis Spanos	28,595	0	28,595	0.000
Ioannis Zographakis	0	32	32	0.000
John Patrick Hourican	0	0	0	0.000
Christodoulos Patsalides	3,390	0	3,390	0.000

Employees

As of 30 June 2015, the Group had 6,668 employees, the majority of whom were employed by the Group in Cyprus and Russia. As at the date of the Prospectus, the Group employed 4,600 staff worldwide, following the completion of the sale of the majority of its Russian operations.

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

	31 December		30 June	
	2013	**2014**	**2014**	**2015**
Banking companies	7,624	6,505	6,622	6,445
Non-banking companies	218	221	215	223
Total	7,842	6,726	6,837	6,668

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

	31 December		30 June	
	2013	**2014**	**2014**	**2015**
Cyprus	4,352	4,334	4,339	4,335
Greece	36	12	13	11
Russia	2,706	2,137	2,223	2,071
Ukraine	504	—	—	—
United Kingdom	177	193	206	207
Romania	67	50	56	44
Total	7,842	6,726	6,837	6,668

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 has renewed the collective agreement with the Union. 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 (60 per cent. of total Group employees) is a defined contribution plan. 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. 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 who were employed at the Bank's Greek branch as at the date of the disposal and the related obligations under the defined benefit plan in Greece were transferred to Piraeus Bank. For the staff who left the Bank's Greek branch prior to the disposal, a small obligation accrued to them on their retirement remains as a retirement obligation on the balance sheet of the Group.

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 (3 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

The share options issued by the Bank on 28 May 2008 lapsed on 31 December 2013 and the Bank is currently prohibited from issuing any further share options pursuant to the Restructuring Plan, see "*Risk Factors—Regulatory and Legal Risks—The Restructuring Plan agreed with the CBC restricts certain actions of the Group*."

It has been submitted for consideration at the AGM scheduled for 24 November 2015 a Long Term Incentive Plan (the "**LTIP**") involving the granting of options for the acquisition of shares which shall be issued and allotted by the Bank (the "**Options**") to a defined group of employees of the Bank and its subsidiaries. The exercise price for the option grant will be set at €0.25, which provides an inherent linkage with these performance conditions and also reflects a price of €0.01 higher than the pricing of shares for the latest capital increase of the Bank.

The proposed Options are subject to regulatory approval and will be designed to vest only if certain key performance conditions are met. These conditions, at a minimum, will relate to the following:

- full repayment of ELA
- lifting of dividend restrictions
- cancellation of government guarantees
- performance of eligible employee

The grant date for the Options will be 31 March 2016 and eligible employees will only be able to exercise any option after 31 March 2019. Any delay in the date of the grant would result in a corresponding delay in the vesting date. Deferral, vesting and retention requirements will, subject to regulatory approval, be fully in line with the requirements of the European Capital Requirements Directive and any local regulatory requirements.

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 risk management policies and processes in line with the Group's conservative risk appetite and strategy under the Restructuring Plan and in accordance with the requirements of the Governance Directive or the relevant directives and guidelines issued by the ECB or CBC, the RMD function was comprehensively reassessed and reorganised in 2014 to improve and enhance 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 increased from 89 as of 31 March 2013, which includes 38 employees absorbed from Laiki Bank's risk management department, to 126 employees as of 30 June 2015.

The functional activities of the RMD are 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 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 was established in accordance with Loan Origination Directive in 2013.

- *Credit Appraisal*. This department is engaged in reviewing and approving credit applications, within an approved set of limits. 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 separate function as a result of the RMD reorganisation in 2014.

- *International Risk Management and Other Subsidiaries*. This department's primary responsibilities are to ensure that the business conducted by the Group's overseas operations (which include foreign subsidiaries) and local subsidiaries is consistent with the Group's risk appetite and that these overseas operations and local 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 in 2013.

- *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 was created as part of the RMD reorganisation in 2014.

- *Credit Risk Systems & Analytics* ("**CRSA**"). This department is responsible for the development, evaluation and calibration of all risk-related models. The CRSA, among others, develops and runs the Group's credit scoring models and credit rating systems.

- *Regulatory / Supervisory Coordination Office* ("**RSCO**"). As a result of the increasing regulations applicable to credit institutions and the ECB's assumption of its supervisory role over the Group as a result of the ECB Regulation, the RSCO was established in the first quarter of 2015 to act (together with the Group Compliance Division) as the primary point of contact with the CBC, the ECB and other regulatory / supervisory authorities (i.e. CySEC, CSE., etc.), to supervise and report on the Group's review and compliance with any instructions or requests from the CBC or the ECB, or other regulatory / supervisory authorities. The RSCO reports directly to the GCRO. Furthermore, the Regulatory Steering Group comprising the GCEO, Finance Director, GCRO, Group Chief Financial Officer, Group Compliance Director, Chief Legal Officer and Company Secretary, Chief Operating Officer and the director of the RRD, convenes every week.

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 issued a number of 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 directives. For more detail on these 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 NPEs, 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 €6 million (currently) and provides an assessment of the risks associated with the proposed funding to all loan committees (i.e. Credit Committee 1, Credit Committee 2 and Credit Committee 3). For customer credit applications below €6 million (currently), the CRA provides an assessment of the risks associated with the proposed funding to the manager of Credit Risk Management 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. Additionally, the CRA reviews the execution of decisions made by the relevant credit committees on a regular basis, in order to verify the implementation of any terms and conditions imposed in approved applications. Sample testing of the quality 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, Romania, Russia and Guernsey.

Credit Approval Limits

Credit approval limits are determined by the total exposure of a customer group. Current approval limits are as follows:

Approval Limit	**Approving Authority**
For retail, SME, international, wealth management lines with credit exposures of: • up to €3 million (individually)	 • credit appraisers

Approval Limit	Approving Authority
• up to €6 million • €6 million - €25 million	• manager (for unanimous decisions) • Credit Committee 1
For corporate and mid corporate (under the RRD) lines with credit exposures of: • up to €4 million (individually) • €4 million - €6 million (jointly) • up to €6 million	 • credit appraisers • credit appraisers • manager (for non-unanimous decisions)
For customers of overseas subsidiaries with credit exposures of €0 million - €25 million and for corporate and mid corporate (under RRD) with credit exposures of €6 million - €25 million:	• Credit Committee 1
For major corporate customers and mid corporate (under RRD) with credit exposures of €25 million - €50 million and for major corporate customers (under RRD) with credit exposures of €0 - €50 million :	• Credit Committee 2
For all lines (other than above) with credit exposures of €25 million - €50 million:	• Credit Committee 2
For credit exposures of €50 million - €100 million:	• Credit Committee 3
For credit exposures of €100 - €200 million:	• Board Risk Committee, following the recommendation of Credit Committee 3
For credit exposures of over €200 million:	• Board of Directors, following the recommendation of Credit Committee 3 and Board Risk Committee

The composition of Credit Committee 1 is jointly approved by the GCRO and the manager of the Credit Appraisal department. Membership and limit changes for Credit Committees 1 and 2 are jointly approved by the GCEO and GCRO. The composition of Credit Committee 3 and limits are approved by the Board of Directors through the Board Risk Committee. The GCRO's right of veto can be exercised at all credit committee meetings attended by him or his CRA department representatives. This right of veto can only be overruled by the GCRO or, in the case of the GCRO himself, the Board Risk Committee.

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 implemented 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 where lending is to be avoided (such as trade in tobacco, weapons and used cars), unless approved by credit appraisers or higher approving authorities, and which are determined based on the historical delinquent loan 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, unless approved by credit appraisers or higher approving authorities.

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 its 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 developed a new model and assessment tool to identify potential problematic clients. The results of this assessment tool are channeled to the clients' home branch so that branch managers in turn are in a position to contact the clients in order to minimise any potential loss.

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 2014 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 the following:

- customer groups for which the exposure exceeds 3% of the Group's capital;
- customer groups for which the exposure exceeds €40.0 million;
- customers with total direct facilities greater than €7.5 million which present the following trigger events:
    - classification as a non-performing loan;
    - performing and restructured (at least 20% of total direct facilities are restructured);
    - bullet loans (at least 20% of total direct facilities are bullet loans);
    - a 25% or more decrease in the customer's annual overdraft turnover; and/or
    - a 25% or more decrease in the value of collateral securing the facilities when compared to the previous year;
- customers allocated specific provisions in the previous quarterly period;
- customers who are shareholders of the Bank with holding of 10% or more and their connected parties;
- customers who are members of the Board of Directors of the parent company and their connected parties;
- customers who are members of senior management (key management personnel) of the Group and their connected parties;

- all customers in the construction and real estate sector (based on the NACE code definition) with total direct facilities of €10.0 million or more if the price of the property collateral securing the facilities has decreased by 10% or more within the year under review. The Bank determines the price of property collateral by referenced to the RICS property price index and uses an annualised approximation if property prices are not available for the entire year;
- customers issued with specific recommendations by credit risk officers. These are typically customers who have been identified as facing repayment or other financial difficulties.

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 of the customer and whether the loan has been restructured.

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 and Guernsey. There is also an ALCO in EuroLife, as well as, in the United Kingdom and Romania, each of which monitor the implementation of asset and liability management for their 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.

Local treasury centres at each banking unit in the United Kingdom and Romania 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. 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. After the Recapitalisation of the Bank in March 2013, the ALCO monitors mostly the stock of liquid assets, the level of ELA and the cash inflows/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 and ELA evolution 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 and ECB.

The Bank completed its Internal Liquidity Adequacy Assessment Process in May 2015. MR co-ordinated the preparation of the report, which was discussed at the ALCO and approved by the Board through its Risk Committee and submitted to the CBC and ECB on 15 May 2015.

Funding and liquidity sources

Following the bail-in of unsecured depositors and other creditors of the Bank in March 2013 and the transfer of a significant amount of ELA funding from ex-Laiki Bank, 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.

The Group has had 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 on-going stabilisation efforts of the Cypriot banking system including the Bank have resulted in the removal of all internal and external capital controls in April 2015, the stabilisation of deposits and the significant reduction of the Bank's ELA funding.

The liquidity received from central banks is subject to the relevant regulations and requires qualifying assets as collateral. In 2014, the Group participated in the TLTRO of the ECB.

The funding provided to the Group through ELA is short-term (usually 2-3 weeks), covering the period until the next scheduled meeting of the ECB Governing Council. The funding via Eurosystem monetary ruling operations ranges from short-term to long-term 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 to BOC UK provided for capital purposes, the approval of the regulator is required prior to any 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 are acquired within limits and parameters specified in the liquid assets investment policy approved by the Board of Directors.

As of 30 June 2015, the Group had liquidity reserves of €2.3 billion (€1.9 billion as at 31 December 2014), of which €0.8 billion (€1.1 billion as at 31 December 2014) 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. The European Commission announced in July 2015 the sixth extension of the bank guarantee scheme, which will see the scheme continue until 31 December 2015. 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, 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 (i.e. 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 Baa3 (30 June 2015: Ba1; 31 December 2014: Ba2; 31 December 2013: B3). 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 2015.

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. 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 Group's operational risk management department ("**GORM**") is principally responsible for the management of operational risks arising from increased reporting requirements and regulatory supervision and new software and procedures development, in the context of recently applied regulatory changes and/or recently passed legislation. GORM addresses these risks in collaboration with other control functions, including Group Compliance and the information security department, in order to minimise operational risks relating to data integrity, data aggregation, as well as, non-compliance with new regulatory provisions.

The main objectives of operational risk management within the Group are: (i) the development of operational risk awareness and culture through ongoing staff training, (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.

GORM has implemented a revised, comprehensive operational risk management policy framework and a revised methodology for the large-scale risk control self-assessment process that was initiated in the fourth quarter of 2014. In addition, proactive risk monitoring through key risk indicators was re-initiated during the second half of 2014, with the total number of key risk indicators being collected and monitored reaching approximately 200 as of 30 September 2015. Further, GORM is currently in the process of implementing a new operational risk management system that will enable more effective implementation of its operational risk management methodologies. With regard to incident reporting, GORM has focused on root-cause analysis of reported incidents with particular emphasis on legal cases, IT systems, fraud and credit-related operational risk incidents.

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 2014, 387 loss events with gross loss over €1,000 were recorded (compared to 434 in 2013). The Group has adequate insurance policies to cover unexpected operational losses.

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 Board Risk Committee and 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 systems 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

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 121.7 per cent. of GDP in real terms in 2014.

With respect to sector output in real terms, the tertiary sector (service sector) is the biggest contributor to GDP, accounting in 2014 for about 86.6 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 3.7 per cent. in 2000 to 2.2 per cent. in 2014. The share of the secondary sector, including manufacturing, basic utilities and construction, in real GVA also declined from 19.8 per cent. in 2000 to 11.2 per cent. in 2014. The share of the secondary sector excluding construction declined from 10.9 per cent. in 2000 to 7.9 per cent. in 2014. The share of the construction sector declined from 8.9 percent in 2000 to 3.3 percent in 2014 reflecting the deep recession in the sector.

In contrast, the tertiary sector's share of real GVA increased from 76.5 per cent. in 2000 to 86.6 per cent. in 2014. In 2014, shares of real GVA in the tertiary sector included real estate activities (11.5 per cent.), wholesale and retail trade, including repair of motor vehicles (15.7 per cent.), public administration and defence (10.9 per cent.), financial and insurance activities (7.4 per cent.), tourism, including accommodation and food services activities (6.9 per cent.), education (6.5 per cent.), professional, scientific and technical activities (7.4 per cent.), information and communication (4.6 per cent.), and human health and social work (4.0 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 "*—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 2014 from the United Kingdom (35.7 per cent.) and Russia (26.1 per cent.). In 2014, tourism receipts amounted to 11.6 per cent. of GDP in nominal terms.

Investment in Natural Resources

Reserves of oil and natural gas have 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. In addition, in August 2015 Eni S.p.A. announced the discovery of 30 trillion cubic feet of natural gas in plot named Zohr within Egypt's Exclusive Economic Zone, which lies just six kilometres below plot 11 of Cyprus' Exclusive Economic Zone.

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 to the economy of Cyprus. The Government has publicised plans to bring gas to Cyprus via a pipeline that connects the Aphrodite field with Vassilikos port near Limassol. In February 2015, the Government signed a memorandum of understanding with Egypt to provide gas from the Aphrodite field to the Egyptian onshore facilities. In June 2015, Noble Energy, Delek Drilling and Avner Oil Exploration, stakeholders in the Aphrodite field, notified the Government that they had discovered commercial quantities of gas in the Aphrodite field and would submit a development plan for the field to the Government. According to the Delek Group's 2014 annual report, the Aphrodite field is estimated to contain 4.54 trillion cubic feet of natural gas. The development plan was submitted to the Government in June 2015 and is in the process of being evaluated by the Government's ministries of energy, commerce and tourism. In August 2011, the Government signed a production sharing agreements with Noble Energy, whilst in January and February 2013 the Government signed production sharing agreements with Eni S.p. A./Korea Gas Corporation and Total, respectively, that provide for the extraction and development of oil and natural gas reserves in Cyprus' Exclusive Economic Zone, including the Aphrodite field. 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 seventh Troika review of Cyprus' EAP was performed in July 2015 and the Troika noted that a staff-level agreement has been reached on policies that could serve as a basis for the completion of the review and the Cypriot authorities' commitment to the EAP is bearing results in several areas, with the economic recovery starting in early 2015. The approvals of the conclusion of the seventh review by both the EU and the IMF led to the disbursement of funds. Accordingly, the ESM disbursed €500 million in early October and the IMF disbursed approximately €126 million, (see "*—The Cypriot Macroeconomic Adjustment Programme*"). The recent performance of the Cypriot economy reflects a number of underlying factors. Some sectors, particularly tourism and business services, have demonstrated resilience. In 2014 private consumption increased by 0.6 per cent. in real terms. In the foreign sector, imports of goods and services increased by 2.0 per cent. in real terms in 2014 while exports of goods and services declined marginally by 0.5 per cent., resulting in a negative net 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 significantly during 2014. Unit labour costs declined in 2013 and 2014 and are expected to decline further in 2015 albeit marginally before rising marginally in 2016 according to the seventh review report of Cyprus published by the European Commission in October

2015. Therefore, the economic contraction in 2014 was mitigated by a decrease in prices and quantities. Real GDP contracted by 2.5 per cent. and the GDP deflator dropped by 1.2 per cent. in 2014, resulting in a contraction of nominal GDP by 3.7 per cent. In the first half of 2015, however, real GDP increased by 0.7 per cent. (year-on-year not-seasonally adjusted). For more information, see "*—The Cypriot Macroeconomic Adjustment Programme*".

The Republic of Cyprus accessed the international financing markets by completing a recent offering and exchange of existing Eurobond notes maturing in 2019 and 2020 with newly offered bonds. The €1 billion of 4.25 per cent fixed rate new bonds due November 2025 were issued at the end of October 2015. Prior to this issuance the Republic of Cyprus completed successfully an offering of €750 million of 4.750 per cent. bonds due 2019 in June 2014 and an offering of €1 billion of 3.875 per cent. bonds due 2022 in May 2015. The Public Debt Management Office of the Republic of Cyprus used part of the proceeds from the June 2014 and May 2015 offerings to repay a total of €1.7 billion of an outstanding Cypriot 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 to reduce its ECB and ELA funding.

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 compound annual rate of 4.3 per cent. as a result of increasing investment and growth of private consumption and exports. Consumption was supported by annual employment growth averaging 3.0 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 current GDP in euro per capita terms reaching €23,900 in 2008, corresponding to 92.2 per cent. of the EU average or 105.4 per cent. of the EU average in purchasing power parity terms.

The average compound annual growth of real GDP in the period from 2008 to 2012 was -0.7 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 11.9 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, August 2014 and July 2015. To date, the ESM and the IMF have disbursed €6.3 billion and €882 million, respectively, totalling about 72 per cent. of available programme financing. The seventh review mission of the Troika took place from 14 to 24 July 2015 and was successfully completed following the approval of the conclusion of the review by both the EU and the IMF. The approval permitted the disbursement of €500 million from the ESM and approximately €126 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 and managing existing loans*").

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 seventh review missions by the Troika. The latest review mission took place from 14 to 24 July 2015, and, according to a joint statement by the Troika:

- the economic recovery has started, but unemployment remains high;

- the fiscal developments continue to exceed expectations;

- the financial situation of the banks is gradually improving, but a stronger implementation of financial sector reforms is needed to guarantee a sustainable stabilisation of the banking system. Even if there are some early signs that the rise of non-performing loans is levelling off, a decisive reversion of the non-performing loans trend has still to materialise;

- the reform of corporate and personal insolvency laws is being implemented; some progress has been noted on important growth-enhancing reforms, but firmly moving ahead - including the privatisation process and the public administration reforms - is critical to restore sustained economic growth; and

- however, other reforms have suffered from delays.

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 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 ("**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 years 2014 and 2015, 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.

In July 2015, the Stamp Duty Law of 1963 (the "**Stamp Duty Law**") was amended. As a result, the land transfer fees have been reduced to 50% from 100% for any purchase of property made between 17 July 2015 and 31 December 2016, except for the transfers which fall under the provision of the Foreclosure Law.

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 and fell to a low of 3.7 per cent. in 2008. 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 16.1 per cent. in 2014, 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) dropped from 38.9 per cent. in 2013 to 36.0 per cent. in 2014, which is the highest in the Eurozone after Spain, Greece and Italy. In the first half of 2015, the average unemployment rate dropped 15.8 per cent. on a seasonally adjusted basis.

The employment rate in Cyprus, the proportion of employed people to the economically active population, rose to 62.1 per cent. in 2014 from 61.7 per cent. in 2013, compared with a Eurozone average of 63.8 per cent. and remains higher than in other distressed countries, such as Greece (49.4 per cent.), Spain (56.0 per cent.) and Portugal (62.6 per cent.). Cyprus has relatively favourable demographics: the old age dependency ratio (defined as the ratio of population aged 0-14 and 65 and over to the population aged 15-64) in 2014 was 43.1 per cent., compared with 53.0 per cent. in the Euro area (18 countries) and 51.8 per cent. in the EU as a whole. Cyprus also has a median age of 36.8 years in 2014, compared 43.1 years in the Eurozone and 42.2 years in the EU as a whole. Finally, wages have continued to exhibit relative flexibility with a decreasing trend, adjusting to the overall economic situation. More specifically, real unit labour costs decreased by 3.1 per cent. in 2014 after dropping by 4.7 per cent. in 2013 and are expected to decrease by a further 0.3 per cent. in 2015 according to the European Commission (European Economic Forecast, Spring 2015), 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 Moody's Standard & Poor's, Fitch and DBRS. On 14 November 2014, Moody's upgraded the rating from Caa3 to B3 with stable outlook to reflect the consolidation of the Government's fiscal position and the stabilisation of the financial sector through the recapitalisation of the banking sector. On 13 November 2015, Moody's upgraded Cyprus government bond rating by two notches from B3 to B1 with stable outlook to reflect faster than expected economic recovery and the expectation of continued, more broad-based economic growth, as well as consistent outperformance of fiscal targets leading to a trend reversal of the public debt ratio. On 25 September 2015, Standard & Poor's raised Republic of Cyprus' long-term sovereign credit rating to BB- from B+ to reflect the benefits to economic and financial stability from the removal of capital controls in April of the same year without disruptions in the banking system and alongside stronger than expected outcomes and outlook for fiscal consolidation and economic growth. Standard & Poor's maintained its outlook as 'positive' to reflect the view that it could raise the ratings in the next 12 months conditioned on continued growth and further stabilisation in the financial sector through improvements in asset quality. On 23 October 2015 Fitch Ratings upgraded Cyprus' long-term foreign and local currency issuer default ratings ("**IDRs**") from 'B-' to 'B+' with positive outlooks. The issue ratings on Cyprus' senior unsecured foreign and local currency bonds have also been upgraded from 'B-' to 'B+'. The country ceiling has been raised from 'BB-' to 'BB+' and the short-term foreign currency IDR has been affirmed at 'B'. Fitch had previously raised Cyprus long-term local currency IDR to B- from CCC on 25 April 2014. The upgrade of Cyprus' IDRs reflects its track record of fiscal consolidation, an improved outlook for the trajectory of the public debt, Cyprus' return on track in its EAP following delays over the implementation of the Foreclosure Law, and the return to positive growth in the first half of 2015. On 27 June 2014, DBRS upgraded Cyprus' long-term foreign and local currency issuer ratings to B (low) from CCC with stable trends. In June 2015, DBRS confirmed the long-term foreign and local currency issuer ratings of B (low) with stable trends.

Main Economic Indicators

The following table summarises the main economic indicators for the period 2010-2014*:

	2010	2011	2012	2013	2014
GDP at current market prices (€billion)	19.1	19.5	19.5	18.1	17.4
GDP per capita (€thousand)	23.0	22.9	22.5	21.0	20.4
GDP in constant prices (% change)	1.4	0.4	-2.4	-5.9	-2.5
Employment (% change)	1.4	-1.5	-2.4	-6.1	-0.1
Unemployment rate (%)	6.3	7.9	11.8	15.9	16.1
Harmonised index of consumer prices (% change)	2.6	3.5	3.1	0.4	-0.3
Fiscal balance (€billion)	-0.9	-1.1	-1.1	-0.8	-0.03
Fiscal balance (in% of GDP)	-4.8	-5.8	-5.8	-4.4	-0.2

Public debt (€billion)	10.8	12.9	15.5	18.5	18.7
Public debt (% of GDP)	56.5	66.0	79.5	102.2	107.5
Exports of goods and services (% change)	2.6	4.2	-1.7	-5.0	5.7
Imports of goods and services (% change)	4.5	-0.6	-4.6	-13.6	8.1
Trade balance (€billion)	-4.7	-4.3	-3.9	-2.9	-3.2
Trade balance (% of GDP)	-24.5	-22.3	-19.9	-16.2	-18.5
Current account balance (€billion)	-1.7	-0.6	-1.2	-0.3	-0.8
Current account balance (% of GDP)	-9.0	-3.1	-6.3	-1.6	-4.5

Source: IMF, Cyprus Country Report No. 15/271, September 2015.
**Data was adjusted for national accounts revisions by the Cyprus Statistical Service after the IMF country report.*

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 from 2011 to the beginning of 2014;
- 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). However, domestic funding conditions started to improve from early 2014 as reflected in a declining loan-to-deposit ratio. The loan-to-deposit ratio in the Cyprus banking system declined from 135.2 per cent. in January 2014 to 132.7 per cent. in August 2015. This was the result of a stabilising deposit base in Cyprus and continuous deleveraging by Cypriot banks on the assets side according to the Monetary and Financial Statistics issued by the CBC in September 2015.

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 and managing existing loans*".

Cross-Collateralisation Across Loans

As a result of the prevalence of asset-based lending and the limited resolution framework (see "*—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. Credit institutions in Cyprus historically placed more reliance on the collateral securing the loan than on the borrower's ability to service the loan repayments. However, in deciding whether to extend additional loans, lenders are required under the Loan Origination Directive to evaluate thoroughly the ability of a borrower group to service additional loans, irrespective of the additional collateral offered.

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, an amendment to the Foreclosure Law was passed by the Cypriot Parliament in September 2014. This 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. This amendment to the Foreclosure Law came into force following the enactment of the Insolvency Framework Laws in May 2015. 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 and managing existing loans*".

For further information on the foreclosure legislation, see "*Regulation and Supervision of Banks in Cyprus – Laws relating to Foreclosures*".

Incomplete Information on Customer Financial Status

Artemis Bank Information Systems Ltd ("**Artemis**") is a credit bureau set up in October 2008. Its mission is to collect, maintain and make available information on a database concerning the economic behaviour of businesses and individuals, on behalf of banks and institutions whose core business is to provide loans or other credit facilities to the public.

Until 1 September 2015, Artemis only provided information on problematic borrowers and their guarantors, specifically, borrowers who (i) had had a lawsuit or a legal decision issued against them; (ii) had filed for bankruptcy; and/or (iii) were listed in the CBC's register for issuing uncovered cheques. From 1 September 2015, all credit facilities have been reported to Artemis, whether they are performing credit facilities or non performing credit facilities.

The ECB has requested that a Central Credit Registry is established by the CBC by 1 September 2015. Since Artemis is already functional in Cyprus and the only missing information in the current Artemis system is the deposit accounts with credit institutions, the CBC requested that all the data required by the ECB to be collected though Artemis.

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: seven locally authorised credit institutions, the Cooperative Central Bank, 18 domestic CCIs (excluding the Cooperative Central Bank), six subsidiaries of foreign credit institutions (four of which are from Member States), and 25 branches of foreign banks, nine of which are from Member States. Each category of bank and financial institution is discussed in more detail, below.

Locally Authorised Credit Institutions

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 cooperative credit institutions

The second category comprises the Central Cooperative Bank and the individual 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.

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 six subsidiaries of foreign banks operating in Cyprus, two 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 gross loans and banking system NPEs held by banks (including subsidiaries and branches of foreign banks) as at 30 June 2015 is outlined below.

	Gross Loans (€billion)	Non-Performing Exposures (% of gross loan)
Loans and advances	61.04	46.06
General governments	1.10	6.58
Other financial corporations	10.19	8.58
Non-financial corporations	25.97	55.05
Of which:		
Small and Medium-sized Enterprises by NACE code	13.78	64.06
Agriculture, forestry and fishing	0.33	60.82
Mining and quarrying	1.91	5.62
Manufacturing	1.68	53.77
Electricity, gas, steam and air conditioning supply	0.09	21.43
Water supply	0.18	10.59
Construction	6.50	77.63
Wholesale and retail trade	4.86	47.34
Transport and storage	0.77	38.79
Accommodation and food service activities	2.26	58.30
Information and communication	0.36	29.48
Real estate activities	4.05	53.98
Professional, scientific and technical activities	1.12	61.77
Administrative and support service activities	0.36	62.86
Public administration and defence, compulsory social security	-	-
Education	0.13	43.75
Human health services and social work activities	0.23	44.86
Arts, entertainment and recreation	0.13	69.93
Other services	0.30	62.21
Households	23.78	54.13

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 38.5 per cent. of loans in Cyprus as at 30 June 2015. The Bank's deposit market share (based on CBC data) in Cyprus was 25.7 per cent. as at 30 June 2015, compared to 24.8 per cent. as at 31 December 2014.

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 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—There are risks in relation to the ordinary shares of the Bank*"). 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 on 6 April 2015, the Resolution Authority announced that it had entered into a preliminary agreement with the Investment Bank of Greece, a Greek subsidiary of Laiki Bank, for financial consulting services in relation to the evaluation and possible sale of the assets of Laiki Bank, with the aim of maximising the benefit of creditors.

Recapitalisation of the Bank

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

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 "2**011 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
- Avantage: euro-denominated capital guaranteed structured product linked to the performance of a basket of indices.

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

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.

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;
- the Open Offer Shares; and
- the Retail Shares.

The Bail-in Shares, Diluted Shares and Laiki Shares comprised 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.

Share capital of the Bank as of 30 July 2013

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

The Bail-in Shares, Diluted Shares, Laiki Shares, Placing Shares, Open Offer Shares and Retail Shares comprise all of the ordinary shares of the Bank as of the date of this Prospectus, following the 2014 Share Capital Increase and the Retail Offer. As at 30 June 2015, there were no deposits subject to interim orders.

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

Category	No. of ordinary shares	Percentage of total share capital %
Bail-in Shares	3,873,269,066	43.41
Diluted Shares	23,732,848	0.27
Laiki Shares	858,708,764	9.62
Placing Shares	3,733,623,899	41.84
Open Offer Shares	433,042,768	4.85
Retail Offer Shares	576,188	0.01
Total	8,922,944,533	100.0

Release of New Deposits

The Bank has released all 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*".

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 and, therefore, the Group is also subject to the applicable capital markets laws.

Subject to the SSM Regulation discussed below, the CBC is responsible for the licensing and supervision of credit institutions in Cyprus in accordance with (i) the Banking Law, (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 Law of 2007 on anti-money laundering activities (see "—*Money Laundering and Terrorist Financing*"), (v) the Payment Services Law of 2009 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.

Subject to the SSM Regulation discussed below, the CBC issues a banking licence to credit institutions meeting the requirements set out in the provisions of the Banking Law. Specifically, the Banking Law 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, the SSM 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 SSM 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 has fully assumed the following supervisory responsibilities, among others, since November 2014:

- to grant and revoke authorisations regarding all credit institutions established in participating SSM Member States;
- with respect to significant credit institutions in a participating SSM Member State establishing a branch or providing cross-border services in non-participating Member States, to carry out the tasks of the national competent authority (each, an "**NCA**") of the Member State;
- to assess notifications regarding the acquisition and disposal of qualifying holdings in credit institutions;

- in relation to significant credit institutions, to ensure compliance with requirements on securitisation, large exposure limits, liquidity, leverage, as well as on the reporting and public disclosure of information on those matters;
- in relation to significant credit institutions, to ensure compliance with respect to corporate governance, including requirements on risk management processes, internal control mechanisms, remuneration policies and practices and effective internal capital adequacy assessment processes (including internal ratings based models);
- in relation to significant credit institutions, to carry out supervisory reviews, including, where appropriate and in coordination with the EBA, stress tests and supervisory reviews to impose specific additional own funds requirements, specific publication requirements, specific liquidity requirements and other measures;
- in relation to significant credit institutions, to supervise the credit institutions on a consolidated group basis, extending supervision over parent entities established in one of the participating SSM 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 exercises its supervisory responsibilities under the SSM Regulation in cooperation with the national central banks in the participating SSM 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 SSM Regulation.

Commencing in the first quarter of 2015, the ECB, as part of its supervisory role under SSM Regulation, has been conducting the SREP and onsite inspections on the Group. SREP is a holistic assessment of, amongst other things: the Group's business model, internal governance and institution-wide control arrangements, risks to capital and adequacy of capital to cover these risks and risks to liquidity and adequacy of liquidity resources to cover these risks. The objective of SREP is for the ECB to form an up-to-date supervisory view of the Group's risks and viability and to form the basis for supervisory measures and dialogue with the Group. The SREP process for 2015 is expected to be completed before the end of the year. (see "*Risk Factors—Risks Relating to the Group's Business—The Group is subject to evolving minimum capital requirements and ECB supervision which may require it to raise additional capital or result in increased costs*").

As regards the monitoring of credit institutions, the NCAs continue to be responsible for supervisory matters not conferred on the ECB, such as consumer protection, money laundering, payment services, and branches of third country banks. The ECB, on the other hand, is 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 SSM Member States; the ECB will, however, only authorise a credit institution if the NCA of the relevant participating SSM 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**").

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 applied from 1 January 2015) and stable funding (which will apply from 1 January 2016).

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.

On 30 January 2015, the Macroprudential Supervision of Institutions Law of 2015 (the "**Macroprudential Supervision Law**") and a law amending the Banking Law were introduced in order to harmonise the Banking Law with, and otherwise implement, the provisions of CRD IV in Cyprus.

Key amendments to the Banking Law include the following:

- the strengthening of bank governance processes, including the encouragement of the use of internal models to calculate capital requirements;
- providing the CBC with the authority to impose specific liquidity requirements to address liquidity risks;
- providing the CBC with the authority to provide the Cypriot parliament with information in relation to its prudential supervision of banks in Cyprus;
- imposing an obligation on banks to take the necessary measures at an early stage to address any actual or potential failure by them to meet the requirements of CRD IV;
- the establishment of mechanisms by the CBC and banks to encourage the reporting of breaches of the Banking Law and CRD IV;
- increasing the sanctions for non-compliance with shareholding restrictions on the holding of shares in an authorised credit institution in Cyprus, such as the CBC's authorisation to publicly announce any such non-compliance, impose administrative fines of up to €5,000,000 on individuals, of up to 10% of the total annual net turnover in the case of a legal person, and of up to double the amount of the benefit derived from the breach where that benefit can be determined;
- deleting provisions covered by the CRR directly; and
- setting a capital conservation buffer of Common Equity Tier 1 capital equal to 2.5% of their total risk exposure amount.

The Macroprudential Supervision Law is mainly responsible for providing:

- for the identification of systemically important institutions;
- the CBC, as the macroprudential supervisory authority, with the power to establish the requirements for the capital buffers required by banks such as the countercyclical capital buffer, systemic risk buffer,

buffers for systemically important institutions, buffers for other systemically important institutions and reserves for changes in macro or systemic risk.

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 ECB and/or CBC;
- observe the liquidity ratios prescribed by CRD IV/CRR;
- comply with certain concentration ratios determined by the ECB and/or 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 ECB and/or CBC periodic reports and statements;
- disclose data regarding the credit institution's financial position and the risk management policy;
- provide the ECB and/or CBC with such further information as it may require;
- in connection with certain operations or activities, notify or request the prior approval of the ECB and/or CBC, in each case in accordance with the applicable laws of Cyprus, the SSM Regulation and the relevant acts, decisions and circulars of the ECB and/or CBC; and
- permit the ECB and/or CBC to conduct audits and inspect books and records of the credit institution, in accordance with Cyprus law and the SSM Regulation.

If a credit institution breaches any law or regulation falling within the scope of the supervisory power attributed to the CBC, the CBC (and where applicable, in coordination with the ECB) 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 BRRD has also been adopted. The BRRD was required to be implemented by Member States by 1 January 2015.

The implementation of the BRRD is intended to equip authorities 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 resolution 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 resolution authorities take a resolution action in relation to a credit institution are: (a) the NCA determines that the institution is failing or is likely to fail; (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.

Member States were required to adopt and publish by 31 December 2014, the laws and regulations necessary to implement the BRRD, with those implementing laws and regulations in force by 1 January 2015 or, those provisions implementing the bail-in tool, by 1 January 2016. In addition, the preparation by the EBA of certain regulatory technical standards and implementing technical standards to be adopted by the European Commission and certain other guidelines is pending. This includes guidelines on the treatment of shareholders in bail-in or the write down and conversion of capital instruments, and on the conversion of debt to equity in bail-in.

The Resolution Law contains some of the main provisions of the BRRD including, in particular, the power to bail-in creditors. While the Resolution Law is compatible in many respects with the BRRD, as at the date of this

Prospectus, the BRRD has not been fully implemented in Cyprus. It is expected that the Resolution Law will be further amended towards the end of 2015 to reflect the provisions of the BRRD.

The BRRD relies on a network of resolution authorities and resolution funds to resolve banks. Nevertheless, according to the European Commission, such an approach is not sufficient for those Member States which share the supervision of credit institutions within the SSM. The Council has also recognised that in the banking union, bank supervision and resolution should be exercised by the same level of authority, through the establishment of a Single Resolution Mechanism (the "**SRM**") with a central decision-making body and a Single Bank Resolution Fund (the "**SRF**").

The regulation on the SRM adopted by the European Parliament and the Council (the "**SRM Regulation**") entered into force on 19 August 2014 and 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 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 SSM 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. The transfer of national funds into the SRF and the activation of the mutualisation of the national compartments is provided for in an inter-governmental agreement established among the participating SSM Member States on 14 May 2014; and

- the SRF will be funded through contributions made by all credit institutions established in participating SSM 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 and the Council have also adopted delegated acts to specify, among other things, the criteria and the methodology for establishing the annual contributions payable by credit institutions. Contributions will be determined in proportion to each institution's risk profile and calculated on the basis of their liabilities, excluding own funds and covered deposits.

The SRM will apply from 1 January 2016 (with certain provisions relating to the establishment of the SRB and the SRF having applied earlier). However, the SRM has a mechanism that allows for the application of the regulation as a whole to be delayed in a plenary session of the European Parliament, the Council and the Commission if the conditions for the transfer of contributions to the SRF have not been met.

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 has applied from 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 consisting of common equity and amounting to 2.5 per cent. of risk weighted assets as a 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 were previously 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 consisting of CET 1 and amounting to 0 per cent. to 2.5 per cent. of risk weighted assets, to be imposed during periods of excess credit growth, according to national circumstances. The countercyclical buffer, when in effect, will be introduced as an extension of the conservation buffer range;

- *Central Counterparties* ("**CCPs**"). A 2 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 EMIR (since non-qualifying CCPs will be treated as bilateral exposures and will not receive the preferential capital treatment referred to above), and also partly on the nature of segregation arrangements relating to capital posted to that CCP. As mentioned above, a credit institution's collateral and mark-to-market exposures to CCPs meeting these enhanced principles will be subject to 2 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*. CRD IV/CRR increases risk weights on certain exposures to financial institutions; in particular, a multiplier of 1.25 has been introduced into the calculation of risk weighted exposure amounts for exposures to "large financial sector entities" and "unregulated financial entities" (as defined in the CRR);

- *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, have been required 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. on 1 October 2015, and expected to be 100 per cent. from 1 January 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 liquidity coverage ratio was brought into effect by means of Commission Delegated Regulation 2015/61, published in the Official Journal of the EU in January 2015. This Delegated Regulation sets out rules governing which assets will qualify as high quality liquid assets, and how cash outflows and inflows should be calculated under stressed conditions. 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 allows for the ECB to 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/liquidity requirements and capital/liquidity costs (see "*Risk Factors—Risks Relating to the Group's Business—The Group is subject to evolving minimum capital requirements and ECB supervision 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 regulatory 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.

The implementing technical standards for supervisory reporting, which have applied 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, GIC and EuroLife, 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. Cyprus did not meet the 31 March 2015 deadline for the transposition of the Solvency II framework into domestic law. However, it is currently expected that such transposition will take place prior to 1 January 2016.

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 regulated markets and multilateral trading facilities. 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 Clients of Banks Regulations of 2004 and 2007 (the "**Investor Compensation Fund Regulations**").

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 the Investor Compensation Fund Regulations). 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 to provide compensation to certain clients to whom member banks have provided investment services in cases where the relevant bank is unable, due to its financial circumstances:

- to return to these clients funds owed to them or funds which belong to them but are, directly or indirectly, held by the member bank in the context of providing investment services to 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 Banking Law, the Law 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 and 2014.

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 covers deposits denominated in euro or any other 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 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 Prevention and Suppression of Money Laundering Activities Law of 2007 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.

The EU recast Deposit Guarantee Schemes Directive (2014/49/EU) ("**Recast DGSD**") required Member States to implement its provisions into national law by 3 July 2015. Cyprus did not meet the 3 July 2015 deadline for the transposition of the Recast DGSD and it is anticipated that such transposition will take place by the end of 2015.

The Recast DGSD expands the scope of eligible claimants so that companies whose balance sheets exceed two or more of the following limits:

- balance sheet total €1 million;
- net turnover €2 million; and/or
- 50 employees,

are now eligible for compensation. Member States are also permitted to allow deposits held by personal pension schemes and occupational pension schemes of SMEs and those held by local authorities with an annual budget of up to €500,000 to be protected. Given the implementing discretion granted to national authorities in this regard, it is not possible to comment at this stage on the extent to which such additional requirements will be transposed into national legislation.

Although the coverage level under the Recast DGSD remains at €100,000, it introduces protection for temporarily high account balances for the following deposits:

- those resulting from private residential real estate transactions;
- those serving social purposes under national law and that are linked to specific life events for the depositor (e.g., marriage, death and retirement); and
- those serving purposes under national law based on insurance benefits or compensation for the victims of crime or wrongful conviction.

Such deposits will be protected above €100,000 for three to twelve months after the amount is credited or the deposit becomes legally transferrable.

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. In July 2015, the European Commission announced the sixth extension of the bank guarantee scheme until 31 December 2015. 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 a payment service provider ("**PSP**"), such as the Bank, to ensure in an accessible form a minimum level of information and transparency regarding the payment services it provides, 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 PSP and the payee's PSP are located in the European Economic Area ("**EEA**"), with the exception of provisions 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 "**PSD2**", may lead to additional obligations being imposed on PSPs, such as the Bank. PSD2 is also expected to extend the scope of existing requirements on PSPs to certain situations in which only the PSP of the payee or the PSP of the payer is located in the EEA. On 8 October 2015, the European Parliament adopted the proposed PSD2. However, it remains to be adopted by the Council of European Union (which is expected in the "near future"). Once adopted by the Council of the European Union, the official final text of the PSD2 will be published on the Official Journal of the European Union and Member States will then have two years to implement it.

Single Euro Payments Area ("SEPA")

Regulation (EC) No 924/2009 on cross-border payments in the European Community restricts a PSP, such as the Bank, from charging different amounts to payment service users for facilitating: (i) certain cross-border payments, including cross-border payments in euro; and (ii) corresponding national payments of the same value and in the same currency.

Regulation (EU) No 260/2012, which is also known as the SEPA (migration) Regulation (the "**SEPA Regulation**"), established a number of technical and business requirements on PSPs, such as the Bank, in respect of credit transfers and direct debits in euro, including restrictions on charging multilateral interchange fees on direct debits in euro. Most of these requirements, including the interchange fee restrictions, were implemented in Cyprus under the Single Euro Payments Area Law of 2014. However, certain of the requirements will not apply in Cyprus until 1 February 2016 and there is a waiver from certain of the interchange fee restrictions for certain niche products until that date.

In EU Member States that are not part of the euro zone, certain of the provisions of the SEPA Regulation may be deferred until 31 October 2016.

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.

All capital control measures in Cyprus were lifted on 6 April 2015.

Resolution Law

In 2013, the Resolution Law was enacted to provide a regime to allow the Resolution Authority to resolve failing banks in Cyprus.

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";
- 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; and
- the power to impose fines and specific criminal sanctions.

However, the Resolution Authority is required to obtain the consent of the Cypriot Minister of Finance for any decision which may affect the Cypriot economy or is of a systemic nature.

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.

The Resolution Law contains some of the main provisions of the BRRD including, in particular, the power to bail-in creditors. While the Resolution Law is compatible in many respects with the BRRD, as at the date of this Prospectus, the BRRD has not been fully implemented in Cyprus. It is expected that the Resolution Law will be further amended towards the end of 2015 to reflect the provisions of the BRRD.

CBC Credit Risk Directives

As part of the restructuring of the financial sector in Cyprus, the CBC has issued 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 appropriate procedures to comply with the requirements of the directives described below.

Directive on Loan Origination Processes and Processes of Reviewing Existing Loans

The Loan Origination Directive prescribes the 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.

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.

Arrears Management Directive

Following the completion of a review conducted by the CBC with the assistance of an external expert on the arrears management policies and practices at the end of 2014, on 3 April 2015, the CBC issued the Arrears

Management Directive which repeals and replaces the Arrears Management Directives 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 also 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. In particular, for borrowers with credit facilities (together with the credit facilities of persons connected to them) of over €300,000 in total, the credit institution is required to calculate the net present value of the credit facilities concerned and analyse the impact on its capital position under each restructuring option for the credit facilities;
- 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. In particular:
    - the credit institution must consider macroeconomic forecasts and the likely adverse financial impact of failing to identify a restructuring option during the development of restructuring options; and
    - the credit institution must procure an independent professional valuation of the open market value and forced sale value of immovable property which is: (a) existing collateral to be sold to reduce a borrower's credit facilities; (b) unencumbered immovable property being considered as additional collateral; or (c) unencumbered immovable property being provided as collateral to convert unsecured credit facilities into secured credit facilities;
- adherence to the CBC's "Code of Conduct on the Handling of Borrowers in Financial Difficulties" (the "**AMD Code**"). In 2015:
    - the scope of the AMD Code was narrowed to cover micro and small enterprises (as defined in the European Commission Recommendation no. 2003/361/EC) and natural persons with credit facilities (including the credit facilities of persons connected to them) of up to €1,000,000 in total;
    - changes were made to the time-frames set out under the AMD Code in connection with the restructuring process to promote transparency, to set expectations between parties and to remove subjective interpretation of definitions (see "*—Insolvency Framework Laws*" and "*—Laws relating to Foreclosures*"); and
    - the term "sustainability" as used in the AMD Code has been clarified to mean a restructuring option which gives the borrower the ability to repay credit facilities in accordance with a

revised restructuring plan while allowing for a medium or long term reduction in his balance of credit facilities at the same time;

- 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. In addition, the credit institution must publicise, through printed material in its local branches and on its website, the availability of mediation through the Financial Ombudsman.

The Bank has taken measures to be in compliance with the Arrears Management Directive including, amongst other things, the implementation of a range of automatic notifications and other functions to minimise the risk of non-adherence to the restructuring time-frames set out under the AMD Code and improvements to its management information system. 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*".

EU Mortgage Credit Directive 2014/17/EU

Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010 (the "**Mortgage Credit Directive**") was published in the Official Journal of the European Union on 28 February 2014. The Mortgage Credit Directive is required to be implemented by member states by 21 March 2016. The Mortgage Credit Directive applies to credit agreements (i) that are secured on residential immovable property; or (ii) the purpose of which is to acquire or retain property rights in land or (existing or projected) buildings.

The Mortgage Credit Directive regulates any person granting or promising to grant credit under a relevant credit agreement as a "creditor" and sets out detailed conduct of business rules that "creditors" must comply with, including requirements governing pre-contractual disclosure requirements, rights of early repayment and related rebates and default charges.

No proposal in relation to the transposition of the Mortgage Credit Directive into Cypriot law has been issued. No assurance can be given that the implementation of the Mortgage Credit Directive in Cyprus will not adversely affect the business of the Bank including its internal procedures and policies and operational practices.

Directive on Loan Impairment and Provisioning Procedures of 2014 and 2015

The Loan Provisioning Directive provides guidance to credit institutions in connection with their loan impairment policies and procedures for provisions. The purpose of 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 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 levels of provision. The disclosures required by the Loan Provisioning Directive, in addition to those presented in the notes to the Group's financial statements, are set out in its Additional Risk And Capital Management disclosures section of its annual and mid-year financial reports and are principally focused on the Group's NPEs based on the definition contained in Commission Implementing Regulation (EU) 2015/227 of 9 January 2015 (the "**ITS**") which came into force on 21 February 2015.

The ITS sets out, among other things, standards on forbearance and NPEs. NPEs are considered as those that satisfy one of the following conditions:

(i) the debtor is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due;

(ii) defaulted exposures as per the approach provided in Regulation (EU) No 575 / 2013 Article 178 or impaired for accounting purposes in accordance with the applicable accounting framework;

(iii) material exposures which are more than 90 days past due;

(iv) performing forborne exposures under probation for which additional forbearance measures are extended; or

(v) performing forborne exposures under probation that present more than 30 days past due within the probation period.

Exposures include all on and off balance sheet exposures, except those held for trading and are categorised as such for their entire amount without taking into account the existence of collateral.

Where forbearance measures are applied to NPEs, those exposures may be considered to have ceased being non-performing only when all the following conditions are met:

(i) the application of forbearance measures does not lead to the recognition of impairment or default;

(ii) one year has passed since the forbearance measures were applied; and

(iii) there is not, following the forbearance measures, any past due amount or concerns regarding the full repayment of the exposure according to the post-forbearance conditions.

In addition, the following materiality criteria apply:

(1) when on-balance sheet exposures to a debtor that are past due by more than 90 days and the gross carrying amount of the past due exposures represent an amount that is greater than 20% of the gross carrying amount of all on-balance sheet exposures to that debtor, then total debtor exposures (both on- and off-balance sheet) are classified as non-performing;

(2) material arrear / excess is defined as:

- for retail exposures:
  - for loans: arrear amount greater than €500 or number of instalments in arrear greater than one
  - for overdrafts: Excess amount greater than €500 or greater than 10% of the approved limit
- for all other exposures:
  - total customer arrear / excesses greater than €1,000 or greater than 10% of total customer funded balances.

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.

Directive on the Assessment of the Fitness and Probity of the Members of the Management Body and Managers of Authorised Credit Institutions (the "Fitness and Probity Directive")

In November 2014, the CBC issued the Fitness and Probity Directive which sets out:

- the policies and procedures for the assessment and reassessment of the fitness and probity of the members of the management body and managers of authorised credit institutions (the "**Senior Managers**");
- the assessment criteria for the fitness and probity of the Senior Managers;
- the measures applicable in cases where the Senior Managers are not fit or proper; and
- the criteria for determining the independence of members of the management body.

In addition, the Fitness and Probity Directive provides guidance as to how to ensure the effective functioning of the management body including, among others, the overall composition of the management body, collective knowledge and expertise required, potential conflicts of interest of a member, the ability to commit sufficient time for the responsibilities of the position of a member. However, it sets requirements for the number of directorships held by a member at the same time.

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 Law of 1996, 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 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 EU, UN and the Office of Foreign Assets Control of the U.S. Department of the Treasury.

The Fourth Money Laundering Directive (EU) 2015/849 ("**MLD4**") was adopted on 26 June 2015 and must be transposed into Cypriot legislation by 26 June 2017. Further guidance and technical standards will be published by a joint committee of the European Supervisory Authorities in the interim period (a draft guidance document has already been issued). MLD4 contains a number of key amendments to the money laundering legislation that the Group is currently subject to (including a reduction in the due diligence threshold referenced above from

€15,000 to €10,000) and changes will need to be made to the systems and controls, policies and procedures that are currently in operation to mitigate the risk of the Group being used to launder money and in connection with terrorist financing. MLD4 is intended to give greater prominence to a risk-based approach to allow for firms to use targeted and effective measures to address the risks to their business.

Equity Participation in Companies

Credit institutions in Cyprus must follow certain procedures regarding holdings in other companies. An authorised credit institution incorporated in Cyprus is also subject to the following requirements under CRR: where (i) the value of a qualifying holding outside of the financial sector which exceeds 15 per cent. of the credit institution's eligible capital or (ii) the total value of qualifying holdings outside the financial sector exceeds 60 per cent. of the credit institution's eligible capital, the competent authority of the credit institution may either (A) require that the credit institution apply a risk weight of 1250% to the amount of such holdings in excess of the relevant percentage or (B) prohibit the credit institution from having such holdings in excess of the relevant percentage. The competent authority of the credit institution is required to publish its choice of (A) or (B). 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). The CBC has elected (A) and credit institutions in Cyprus must apply a risk weight of 1250 per cent. to any such holdings, in accordance with Article 89 3(a) of the CRR.

This restriction only applies to qualifying holding in an undertaking which is not one of the following:

(a) a financial sector entity;

(b) an undertaking, that is not a financial sector entity, carrying on activities which the competent authority considers to be any of the following:

   (i) a direct extension of banking;

   (ii) ancillary to banking;

   (iii) leasing, factoring, the management of unit trusts, the management of data processing services or any other similar activity.

Further, shares in undertakings not referred to in points (a) and (b) are excluded from the calculation of the limits above where any of the following conditions is met:

- those shares are held temporarily during a financial assistance operation;
- the holding of those shares is an underwriting position held for five working days or fewer;
- those shares are held in the own name of the institution and on behalf of others.

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 Law of 1993. 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 unless the acquisition arises from the application of any powers and resolution mechanisms provided under the BRRD.

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 Banking Law 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, and a prohibition on 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.

Equity Participations of Individuals or Legal Entities in Cypriot Credit Institutions

Any individual or legal entity that has decided to acquire a "qualifying holding" (a direct or indirect holding which represents 10 per cent. or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management) or further increase its equity participation beyond, directly or indirectly, certain legally defined thresholds (20 per cent., 30 per cent., 50 per cent. or so that the Cypriot credit institution becomes its subsidiary) of voting rights or of capital held in a Cypriot credit institution (or its parent) must notify the CBC of this decision (indicating the size of the intended holding and the relevant information) in advance and obtain the CBC's approval for such acquisition, in accordance with the Banking Law.

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, and the relevant fines and administrative measures may be imposed in the case where an individual or legal entity decides to dispose of, 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 dispose of a "qualifying holding", directly or indirectly, in a Cypriot credit institution.

In connection with these notification requirements, there is also an obligation on Cypriot credit institutions, on becoming aware of any acquisitions or disposals of qualifying holdings in its capital that cause holdings to exceed or fall below one of the legally defined thresholds set out above, to inform the CBC accordingly. Additionally, and subject to the provisions of the Banking Law, a Cypriot credit institution shall know, for every legal person that possesses at least 5 per cent. of its issued share capital, the names of the ultimate beneficial owners to whom each legal person belongs, and to disclose this information to the CBC at least once a year or when there has been an amendment or change to the information.

Interest Rates

Pursuant to an amendment to the Interest Rate Law passed by the Cypriot Parliament in September 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 amendment applies to all credit facilities in existence as at the date it came into effect (9 September 2014) and all agreements relating to credit facilities entered into thereafter. In addition, this amendment, *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;

- requires credit institutions to publish on their website the calculation methodology of the various categories of their base rates as well as the conditions and parameters which contribute to the changes in base rates; 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 issued a directive on 23 April 2013 and subsequently on 17 February 2015, according to which Pillar 2 specific own funds capital requirements arise from high deposit interest rates. The Pillar 2 specific own funds capital requirements apply to deposits with an interest rate higher than the relevant Euribor/Libor plus 2 per cent. which is currently the applicable threshold.

On 7 May 2015, a further amendment to the Interest Rate Law imposes a burden on credit institutions to prove that, in connection with all credit facility agreements in force or terminated on or before 7 May 2015, the default interest levied on a borrower represents the actual amount of damages suffered by them and an obligation on credit institutions to pay compensation to borrowers in the event that they are unable to provide such proof.

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 SSM Regulation (EU) No 1745/2003 and SSM 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 amended Foreclosure Law is intended to enable foreclosure within two years. See "*—Laws relating to Foreclosures*" for more information on the Foreclosure Law.

In general, the appointment of a receiver or manager takes immediate effect.

Insolvency Framework Laws

The new Cypriot insolvency framework laws enacted on 7 May 2015 were comprised of the following:

- Insolvency of Natural Persons (Personal Repayment Schemes and Debt Relief Orders) Law (No. 65(I)) of 2015 – a new law which provides for debt relief orders and consensual and non-consensual debt repayment schemes for natural persons ("**Personal Repayment Schemes**");
- Bankruptcy Law (Amending) (No. 61(I)) Law of 2015 – a law amending the existing Cypriot Bankruptcy Law, Cap. 5 in relation to natural persons in order to provide, amongst other things, for the automatic discharge of a debtor from bankruptcy and certain debts after three years from the issue of the bankruptcy order if he has been co-operative and acted in good faith and to provide the official receiver with the power to dispose of assets without further court approval or involvement of the debtor (except in cases of property subject to security). In relation to property subject to a security interest, the official receiver/trustee in bankruptcy may obtain a court order to dispose of such property, however, the priority of the secured creditor in relation to the relevant sale proceeds is preserved;
- Company Law (Amending) (No. 63(I)) Law of 2015 – a law amending the liquidation provisions of the existing Companies Law in order to, amongst other things, allow for the appointment of the liquidator by creditors and contributories and not just by the Cypriot courts and to allow the liquidator to obtain a court order to dispose of property subject to security for the benefit of all creditors, paying the secured creditor in priority;
- Company Law (Amending) (No. 62(I)) Law of 2015 – a law amending the existing Companies Law in order to provide for a mechanism for the restructuring of a company's debts and requires the appointment of an Insolvency Practitioner as an independent examiner (at the application of the company or any creditor or shareholder holding at least 10% of the share capital or any guarantor) to formulate proposals for a compromise or a scheme of arrangement ("**Examinership**"). An examiner can be appointed if the Cypriot courts are satisfied that there is a reasonable prospect of the survival of the company or its undertaking as a going concern. If an examiner is appointed, a four month moratorium against the claims of any secured or unsecured creditor is afforded to the company. The proposals of the examiner require the confirmation of the Cypriot courts (which may sanction, modify or reject the proposals). A court may sanction a proposal involving a scheme of arrangement provided that, amongst other things, a majority in value of at least one impaired class of creditors represented at the relevant meeting have voted in favour of the scheme; and
- Insolvency Practitioners Law (No. 64(I)) of 2015 – a new law which provides for the licensing and supervision of independent insolvency practitioners ("**Insolvency Practitioners**") who will act in various capacities under the Insolvency Framework Laws,

(collectively and with the underlying laws as amended as appropriate, the "**Insolvency Framework Laws**").

The main objectives of the Insolvency Framework Laws are to modernise and increase the efficiency of liquidation and bankruptcy proceedings in Cyprus for individuals and companies and to create appropriate incentives for debt repayment while, at the same time, provide certain protections and benefits to debtors and guarantors, particularly the protection of their primary residences. Examples of these protections and benefits under some of the insolvency regimes are set out below and there are similar protections and benefits found under the other regimes prescribed by the Insolvency Framework Laws:

- the ability of the Cypriot courts and the Insolvency Practitioner to impose Personal Repayment Schemes on both secured and unsecured creditors without their consent so long as certain criteria are met. These criteria include, amongst other things, a requirement that the total amount of the assets and the secured and unsecured debt of the debtor be not more than €250,000 and €350,000, respectively, and a requirement that the debtor's inability to pay his debts is a result of the deterioration of his financial position since 2009 which has led to a reduction of his income by at least 25%. In addition, the Insolvency Practitioner is expected to exclude any requirement on the debtor to sell his primary residence in a Personal Repayment Scheme to the extent possible.

- provisions which would render guarantors responsible for only the difference between the amount of the debt and the market value from time to time of any property securing the debt, even if the guarantee provides for the guarantor to be treated as principal debtor. The types of guarantors or guarantees protected by, and the definition of "market value" used in these provisions, vary under the different insolvency regimes.

- significant protections for guarantors who are natural persons in respect of debt subject to a Personal Repayment Scheme such as:

    - for a guarantor of any non-performing loan existing as of 7 May 2015, a prohibition on legal measures against him if his assets, excluding his primary residence, do not exceed €750,000, the debt guaranteed was for an amount of up to €250,000 or, as of 7 May 2015, the remaining debt guaranteed was for an amount of up to €250,000 and the debt guaranteed is secured against the primary residence of the borrower; and

    - the imposition of a two year time limit commencing on the implementation of the relevant Personal Repayment Scheme for claims to be brought against a guarantor. In addition, until 7 May 2018, even if a creditor brings claims against him within the two year limit, a creditor will be unable to foreclose on the primary residence of any guarantor who executed a guarantee prior to 7 May 2015 unless mortgaged for the debt concerned.

- in respect of companies under liquidation, the imposition of a burden on the secured creditor to submit a preliminary estimation of the value of the secured property within 10 days of the publication of the liquidation order in the Official Gazette.

- for guarantors of a company under liquidation, the barring of a creditor from taking any legal or other measures against a guarantor who is a natural person and who has guaranteed debt in an amount not exceeding €500,000 if the creditor does not submit its proof of debt to the company's liquidator within the specified time limit.

- under Examinership, significant protections for guarantors such as:

    - unless the guarantor is also subject to Examinership, a requirement that a creditor must offer the guarantor an assignment of its right to vote with respect to the proposed rehabilitation plan if the guarantor is a company or other legal entity, or is a natural person which has guaranteed an amount greater than €500,000. It is unclear whether the offer by the creditor should be conditional on, or based upon the amount of, the payment of the guaranteed amount by the guarantor or how this requirement would operate if there is more than one guarantor; and

    - the barring of a creditor from taking any legal or other measures against a guarantor who is a natural person and who has guaranteed debt in an amount not exceeding €500,000 if the creditor fails to submit a list of guarantors (which includes the market value of the secured property and the balance of the debt) within the time limit specified in the relevant law (as may be extended by the examiner).

Further, the Protection of a Certain Category of Guarantors Law of 2003 was amended in order to provide for additional protections to guarantors who are natural persons and provided guarantees on and after 1 January 2004, except where the borrower is a company and the guarantor was a director of the company at the time he provided the guarantee (the “**Protected Guarantors**”). These additional protections include, amongst others:

- a requirement on the creditor to prove that the debtor does not have the financial ability or assets to repay the debt or that the creditor has exhausted all available measures against the debtor, otherwise the execution of judgment against the Protected Guarantor will be stayed; and

- a prohibition on foreclosure by a secured creditor on the mortgaged property of the Protected Guarantor if the mortgaged property of the debtor has not been subject to foreclosure.

The protections afforded to Protected Guarantors, however, do not apply to guarantors who guarantee debt subject to Examinership or Personal Repayment Schemes.

Laws relating to Foreclosures

As part of the MoU policy reforms prepared by the Troika, an amendment to the Foreclosure Law was passed by the Cypriot Parliament in September 2014. This amendment is intended to improve the legal framework on foreclosures and the forced sales of mortgaged property, and is expected to improve banks’ ability to negotiate with borrowers, as well as decreasing the time needed to re-possess, in the event that negotiations fail.

The Foreclosure Law, as amended, aims to ensure that foreclosures cannot be indefinitely delayed and establishes procedures for the valuation and auctioning of properties. The amendment passed in September 2014, 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. It 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 this amendment to the Foreclosure Law, the Cypriot Parliament also passed The Legal Aid (Amending) (No 3) Law of 2014, which expanded 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.

After a series of suspensions on the implementation of this amendment to the Foreclosure Law on the basis that deliberations on the adoption of the Insolvency Framework Laws had not been completed, the amendment came into force following the enactment of the Insolvency Framework Laws in May 2015. In line with the protections afforded to the primary residences of debtors and guarantors under the Insolvency Framework Laws, a further amendment to the Foreclosure Law was passed on 29 May 2015 which, in the context of a foreclosure over immovable property involving an auction of a primary residence, provides the mortgagor and first degree relatives of the mortgagor with the right of first refusal to match the highest bid.

On 4 September 2015, a further amendment to the Foreclosure Law came into force, pursuant to which the director of the Land Registry Department has the authority to release and/or cancel mortgages and/or other encumbrances and/or prohibitions and thereafter, proceed with the transfer of the property into the name of the purchaser, depending on the case and under certain conditions. These conditions include the requirement that the related sales contract must have been deposited with the Land Registry Department by 31 December 2014 and that the sales price must be fully paid (although, the buyers will be given an opportunity to pay any balance of the sale price to a special temporary account).

New enforcement procedure

The Foreclosure Law now establishes a new enforcement procedure which is intended to ensure that the foreclosure process is effective and provides adequate and balanced incentives for borrowers and lenders to work out non-performing loans. The new procedure is intended to take no more than two years to complete.

A summary of the new enforcement procedure is set out below.

- Arrears: a lender may only initiate the forced sale process after the borrower has been in arrears for at least 120 days from the date the entire mortgage debt becomes due and payable, unless pursuant to the provisions of any other applicable laws, regulations or directives, the forced sale process has been suspended.

- Notice: written notice should be served on the borrower (and any other interested party) accompanied by a detailed statement of the amounts outstanding and informing such persons that they have a specified amount of days, this number being not fewer than 30 days from the date of service of the notice to settle the debt. The notice should state that if the borrower does not comply with the notice, forced sale proceedings may be commenced.

  If the debt is still outstanding after this specified number of days, the mortgage lender is required to serve a second written notice stating that the mortgaged property will be sold by public auction. This notice should be given at least 30 days prior to the arranged date of the public auction.

- Appeal: a borrower (and any other party with a legal interest) has the right within 30 days from date of receipt of the second notice to file an appeal with the District Court on the grounds of procedural irregularities.

- Valuation: each of the borrower and the lender has a right to appoint an independent appraiser to value the mortgaged property. If the borrower does not appoint its own appraiser, the lender is required to appoint two appraisers.

- Process of sale: the initial attempt of a forced sale of the mortgaged property must be conducted by public auction. The mortgaged property cannot be sold for a price which is lower than the reserve price. The reserve price must correspond to 80% of the market value of the mortgaged property.

  If the initial attempt of the forced sale in not successful, the lender has two options:

  1. either to conduct the sale via another public auction, following the same procedure as that of the first public auction; or

  2. to conduct a direct sale of the mortgaged property.

  The lender must notify the borrower and any interested third party which of the two options will be followed at least 20 days before the sale.

  The lender may determine the reserve price of the mortgaged property corresponding to 80% of the market value for the first three months after the first public auction. After the three months pass, no reserve price is required. However, the lender has the right at any time to stop the sale on the basis that, based on the valuation reports, a fair sale price cannot be obtained.

  If after the period of one year all sale attempts of the mortgaged property remain unsuccessful, the borrower may either buy the mortgaged property at market value based on new valuations received, or the property may be sold by public auction or by direct sale at a reserve price, which is not lower than 50% of the market value, based on new valuations received. If this attempt is also unsuccessful, the same procedure described in this paragraph is followed until the sale of the mortgaged property is achieved.

- Public auction: This involves the lender providing details of the auction to the borrower and any other interested third party and publishing such details in a comprehensive list of places, including on the official website of the Ministry of the Interior, on the lender's website and in two daily national newspapers.

  In all cases, irrespective of whether the lender opts to directly sell the property or use the auction process, the property cannot be sold to a person who is an officer, director or employee of the lender, a person who holds more than 2% shareholding in the lender, or anyone who is connected, or is a representative or a spouse or a parent or a descending relative of 3rd degree to such person.

- Sale proceeds: following the sale or auction of the property, the lender is required to notify the borrower of the sale proceeds obtained, any fees and expenses incurred and the proposed manner of distribution of the sale proceeds. The sale proceeds are used to pay, firstly, expenses and any taxes (including capital gains tax); secondly, prior registered secured creditors; thirdly, the mortgage debt plus interest; and fourthly, any other secured creditors. Any residual amount is required to be paid to the mortgagor and any other expenses relating to the sale are paid by the mortgagee. The mortgagor or any other interested person has the right to challenge the proposed distribution of sale proceeds by filing an application with the District court.

Sale of Credit Facilities Law

Pursuant to the requirements of the latest MOU, the Sale of Credit Facilities Law was approved by Parliament on 12 November 2015 with the intention of facilitating and regulating the sale of loan portfolios by Cypriot banks. It will become effective from the date of publication in the Cyprus Government Gazette. While the Sale of Credit Facilities Law is intended to facilitate the management of delinquent loans by Cypriot banks, the law is new and untested and it is not yet clear how some of its provisions are meant to operate or work in practice. In particular, the Sale of Credit Facilities Law will require purchasers of loans which have a principal amount of less than EUR 1 million to be, *inter alia*, authorised credit institutions in the EU or entities which are incorporated in Cyprus and regulated by the CBC. Pursuant to the Sale of Credit Facilities Law, the CBC will have the authority to reject an application for authorisation from any purchaser for reasons of national interest. In addition, for all loans, regardless of amount, the Sale of Credit Facilities Law will introduce a requirement to give notice to borrowers of the proposed sale of loans and will give borrowers (and guarantors) a right to submit a proposal to purchase these loans within a limited time-frame.

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—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**") 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.-source 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.

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. The IRS regularly 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 100 countries and jurisdictions around the world to combat offshore tax evasion and improve global tax compliance. Currently, more than 60 countries have signed or initialled these agreements, specifically (for example): for Model 1 IGA — the United Kingdom, Mexico, 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 signed a Model 1 IGA with the United States on 2 December 2014. The Bank began the implementation of due diligence procedures for new clients from 1 January 2015, as provided by the IGA. On 26 August 2015, the Cypriot Minister of Finance issued a decree for the application of the IGA in Cyprus. Following the issuance of the decree, the Bank submitted its first report to the Cyprus Competent Authorities on 31 August 2015. All Group FFIs have registered with the IRS as Model 1 IGA Reporting Financial Institutions and have obtained their GIINs.

Taking into consideration the impact that FATCA will have on Group entities that are considered FFIs, as well as the fact that Cyprus has signed an intergovernmental agreement with the IRS, the Bank is closely following developments regarding FATCA and is coordinating with all relevant authorities.

Common Reporting Standard

On 6 May 2014, in an attempt to combat tax evasion globally, forty-seven member states of OECD agreed in principle to share information on residents' assets and incomes automatically (the "**Common Reporting Standard**"). On 29 October 2014, fifty-one OECD countries (including Cyprus) signed a multilateral competent authority agreement to commit to an early adoption of the Common Reporting Standard and to undertake the necessary reporting obligations from 2016 with reporting requirements expected to take effect in 2017.

The Common Reporting Standard requires Cypriot financial institutions, such as the Bank, to provide to the Tax Department of the Republic of Cyprus information about certain account holders who are tax residents in any of the jurisdictions that have signed up to the Common Reporting Standard.

Even though the Common Reporting Standard is based on the FATCA Model 1 IGA framework, there are significant differences between the two frameworks, the main ones being the following:

- potentially staggered approach for Common Reporting Standard implementation as and when jurisdictions sign competent authority agreements;
- under the Common Reporting Standard, "reportable person" covers an increased scope of individuals and entities to be classified;
- no "de minimis rules" as to financial accounts exist under the Common Reporting Standard;
- for the Common Reporting Standard, financial institutions in non-participating jurisdictions will be deemed passive non-financial entities and the controlling person(s) will be required to be identified;
- the Common Reporting Standard concentrates on tax residency rather than whether an account holder is a US persons for FATCA purposes;
- citizenship not required in Common Reporting Standard self-certification;
- self-certification is always required to identify tax residency for new entities for the Common Reporting Standard; and
- volumes of reportable data and accounts will vastly increase.

On 9 December 2014, ECOFIN council agreed to amend the Directive on Administrative Cooperation ("**DAC2**") to incorporate the Common Reporting Standard, thus providing for the introduction thereof amongst all EU Member States as from 2016 and announcing the first exchange of information between tax authorities of Member States as from September 2017.

The Member States, including Cyprus, must transpose DAC2 into their domestic law by 31 December 2015 and apply the law as from 1 January 2016.

Despite the fact that local guidelines in connection with the Common Reporting Standard and the DAC2 have not been issued by the Government, the Bank has initiated a project to ensure timely and effective compliance with the Common Reporting Standard requirements. This project entails a Common Reporting Standard impact analysis, including on how this may affect the Bank's current FATCA programme.

Transfer Fees Law and Capital Gains Tax Law

In order to increase the efficiency of liquidation and bankruptcy proceedings in Cyprus for individuals and companies, certain Cypriot tax laws were amended to complement and reinforce the provisions of the Insolvency Framework Laws and the Foreclosure Law.

In July 2015, the Transfer Fees Law, Cap. 219 of the Department of Lands and Survey (the "**Transfer Fees Law**") was amended so that:

- no duties or fees would be chargeable under the Transfer Fees Law:
    - on the sale or transfer of a primary residence if the total sales proceeds per owner do not exceed €350,000 and so long as the sale or transfer concerned takes place in the context of a bankruptcy procedure, a procedure for the winding up of a company and/or a sale of mortgaged property by the creditor under the Foreclosure Law (see "*—Laws relating to foreclosure*" above);

- on transfers of immovable property in the name of the creditor as part of a restructuring under the terms of the Arrears Management Directive;

- if, among other exceptions, (i) on the same day as an existing mortgage is cancelled, a new mortgage is created over a different immovable property of the mortgagor in favour of the same mortgagee and in order to secure an amount which is equal to or less than the original amount; or (ii) on the same day as an existing mortgage is cancelled, a new mortgage is created over the same immovable property in favour of a different mortgagee in order to secure an amount which is equal to or less than the original amount.

- for the transfer, lease or sublease of immovable property, certain transfer fees are reduced by 50%, subject to certain exceptions, until 31 December 2016.

Further, in July 2015, the Capital Gains Tax Law, Law 52(I)/1980 was amended so that no capital gains tax would be chargeable:

- until 31 December 2017:

    - on the sale of a primary residence where the total sales proceeds per owner do not exceed €350,000 and so long as the sale or transfer concerned takes place in the context of a restructuring under the terms of the Arrears Management Directive, a composition or scheme of arrangement under bankruptcy proceedings, a Personal Repayment Scheme, Examinership, liquidation or a sale of mortgaged property by the creditor under the Foreclosure Law;

    - on the sale of any property (e.g. immovable property and securities) in the context of any other restructuring; and

- on the sale of immovable property (not including an exchange or donation of immovable property) carried out during the period commencing on 16 July 2015 and ending on 31 December 2016 provided that such sale is made at market value and between persons not connected with each other, subject to certain exceptions.

The European Market Infrastructure Regulation

On 16 August 2012, EMIR came into force. EMIR introduces certain requirements in respect of derivative contracts, which will apply primarily to financial counterparties ("**FCs**"), such as investment firms, credit institutions, insurance companies, amongst others, and non-financial counterparties which are entities established in the EU which are not FCs. The Bank is classified as an FC under EMIR.

Broadly, EMIR's requirements in respect of derivative contracts, as they apply to FCs, are (i) mandatory clearing of OTC derivative contracts declared subject to the clearing obligation through an authorised or recognised 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 technical standards which will contain the detail relevant to EMIR's clearing obligation with respect to the first classes of derivatives subject to such obligation have not yet been finalised. Once such technical standards are in force, following a specified phase-in period, the Bank will be required to clear any OTC derivative contracts which fall within the classes of derivative contracts subject to the clearing obligation and are entered into with entities who are also affected by EMIR's clearing obligation (such as another bank) ("**Covered Derivatives**"). Depending on its volumes of OTC derivatives at the time when the technical standards enter into force, the Bank may also be subject to EMIR's "frontloading" obligation, which means that at the expiry of the phase-in period it will also need to clear any Covered Derivatives which it enters into during a specified "frontloading period" prior to the expiry of the phase-in period (subject to certain remaining maturity requirements).

- *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.

The Bank has taken measures to comply with the EMIR requirements that are currently in force.

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:

- 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;

- 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*"); and

- the passing of a securitisation bill with a view to increasing the efficiency and transparency of the processes in relation to the securitisation of loan portfolios by Cypriot banks. The securitisation bill is in the process of being reviewed and considered by the Government and Cypriot bank representatives. It is currently anticipated that the Cypriot Parliament will approve the securitisation bill by the end of January 2016.

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 on the mandatory separation of certain banking activities published on 2 October 2012 by the High Level Expert Group on reforming the structure of the EU banking sector (the Liikanen Group). The proposed regulation contains new rules to prohibit the largest and most complex banks from engaging in proprietary trading. The proposed regulation 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 the financial stability of the bank or of the EU financial system as a whole. In connection with this proposal, the Commission has proposed accompanying legislation aimed at increasing transparency of certain securities financing transactions.

The proposed regulation would apply to an EU bank that is designated as a global systemically important institution under CRD IV/CRR or that exceeds the following thresholds for three consecutive years: (a) total assets are equal to or that exceed €30 billion and (b) total trading assets and liabilities are equal to or exceed €70 billion or 10 per cent. of its total assets. Such a bank would 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 a bank would also be prohibited from investing in or holding shares in alternative investment funds such as hedge funds, or entities that engage in proprietary trading or acquire units/shares in alternative investment 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 – would not be subject to the ban, however they might be subject to separation from the deposit-taking business of such a bank. The proposed regulation would also apply to all branches and subsidiaries of such a bank.

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.

The Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's 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 Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be 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.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1 January 2016.

However, the FTT proposal remains subject to negotiation between the participating Member States and the scope of any such tax is uncertain. Additional EU Member States may decide to participate.

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 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**").

In July 2015, the SCDF law was amended so that an individual will now be subject to Special Defence Contribution (the "**SDC**") if he/she is a resident of Cyprus for tax purposes and is also considered to be domiciled in Cyprus. The key amendments are as follows:

- With the introduction of "non-domicile" or "non-dom" rules, a Cyprus tax resident individual who is not domiciled in Cyprus be exempt from tax under the SCDF Law on any interest income regardless of whether such income is derived from sources within Cyprus and regardless of whether such income is remitted to a bank account or economically used in Cyprus.
- The term "domiciled in Cyprus" is defined in the law as an individual who has a Cypriot domicile of origin in accordance with the Wills and Succession Law, Cap 195 (the "**Wills and Succession Law**") (i.e. the domicile of the father at the time of birth) but it does not include:
  - (i) an individual who has obtained and maintained a domicile of choice outside Cyprus in accordance with the Wills and Succession Law, provided that such an individual has not been a tax resident of Cyprus for a period of 20 consecutive years preceding the tax year; or
  - (ii) an individual who has not been a tax resident of Cyprus for a period of 20 consecutive years prior to the introduction of the law.

Notwithstanding the above, an individual who has been a tax resident of Cyprus for at least 17 years out of the last 20 years prior to the relevant tax year, will be considered to be "domiciled in Cyprus" and as such be subject to SDC regardless of his/her domicile of origin.

The law includes anti-abuse provisions pursuant to which any transfer of assets made by a person who is domiciled in Cyprus to a relative up to a third degree of kindred who is not domiciled in Cyprus and in the Commissioner's opinion such transfer was made with the main purpose to avoid the imposition of SDC, the income arising from those assets will be subject to SDC.

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 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.

By virtue of Law 105(I)/2015, the Assessment and Collection of Taxes Law 1978(2) was amended in order to facilitate the implementation of international agreements for the automatic exchange of information. Sections 6(15) and 6(16) enable the Commissioner of Taxation to gather information necessary for Cyprus to perform its respective obligations under any international agreements for the automatic exchange of information.

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 advisers 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 (the "**U.S. Internal Revenue Code**"), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the rate here of 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 U.S. 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 characterisation 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 characterisation 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 characterised 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 on 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 (i) currently in respect of certain U.S. source payments, (ii) on or after 1 January, 2019 in respect of payments of gross proceeds (including principal repayments) on certain assets that produce U.S. source interest or dividends and (iii) on or after 1 January, 2019 (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 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 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 applicable Final Terms.

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

Under the EU Savings Directive, EU Member States are required to provide to the tax authorities of other EU Member States details of certain payments of interest or similar income paid or secured by a person established in an EU Member State to or for the benefit of an individual resident in another EU Member State or certain limited types of entities established in another EU Member State.

For a transitional period, Austria is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

However, on 10 November 2015 the Council of the European Union adopted a Council Directive repealing the EU Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other EU Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the EU Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The new regime under Council Directive 2011/16/EU (as amended) is in accordance with the Global Standard released by the Organisation for Economic Co-operation and Development in July 2014. Council Directive 2011/16/EU (as amended) is generally broader in scope than the EU Savings Directive, although it does not impose withholding taxes.

The proposed financial transactions tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's 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 Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be 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.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1 January 2016.

However, the FTT proposal remains subject to negotiation between the participating Member States and the scope of any such tax is uncertain. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Luxembourg taxation

The following information is of a general nature only and is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. The information contained within this section is limited to Luxembourg withholding tax issues and prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a withholding tax or a tax of a similar nature, or to any other concepts, refers to Luxembourg tax law and/or concepts only.

Withholding Tax

(i) **Non-resident holders of Notes**

Under Luxembourg general tax laws currently in force, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

Luxembourg has abolished the withholding system with effect from 1 January 2015, in favour of automatic information exchange under Council Directive 2003/48/EC of 3 June 2003 on the taxation of savings income.

(ii) **Resident holders of Notes**

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005 as amended (the "**Relibi Law**") mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Relibi Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to an individual beneficial owner who is a resident of Luxembourg or to a residual entity (within the meaning of the laws of 21 June 2005 implementing Council Directive 2003/48/EC of 3 June 2003 on the taxation of savings income and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the "**Territories**")) established in an EU Member State (other than Luxembourg) or one of the Territories and securing such payments for the benefit of such individual beneficial owner will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Law will be subject to a withholding tax at a rate of 10 per cent.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in an amended and restated dealer agreement dated 18 November 2015 (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 applicable 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 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 (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

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

This Prospectus does not constitute an issue prospectus pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations and the Notes will not be listed on the SIX Swiss Exchange. Therefore, this Prospectus may not comply with the disclosure standards of the listing rules (including any additional listing rules or prospectus schemes) of the SIX Swiss Exchange. Accordingly, the Notes may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors who do not subscribe to the Notes with a view to distribution. Any such investors will be individually approached by the Dealers from time to time, with any such approach(es): (i) being conducted by the Dealers in accordance with the relevant provisions of the Swiss Code of Obligations and other applicable Swiss laws; and (ii) not giving rise to an obligation, on the Company or otherwise, to publish a prospectus 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 understand 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 unauthorised, and any disclosure of any of its contents, without the prior written consent of the Bank, is prohibited.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of Registered Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period, 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 18 November 2015 [and the supplement(s) to it dated [●]] which [together] constitute[s] a base prospectus (the "**Prospectus**") for the purposes of Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in a relevant Member State of the European Economic Area (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*.]

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**") set forth in the Prospectus dated 17 May 2011 which are incorporated by reference in the Prospectus dated 18 November 2015. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in a relevant Member State of the European Economic Area (the "**Prospectus Directive**") and must be read in conjunction with the Prospectus dated 18 November 2015 [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*.]

[*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 [*insert description of the Series*] on [*insert date*/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 [*insert date*]]].]

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:	[●] (*Note – where multiple denominations above €100,000 (or equivalent) are being used the following sample wording should be followed:* *[€100,000] and integral multiples of [€1,000] in excess thereof [up to and including [€199,000], No notes in definitive form will be issued with a denomination above [€199,000]*])
	(ii) Calculation Amount:	[●] (*If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor*). (*Note: There must be a common factor in the case of two or more Specified Denominations*)
6	[(i)] Issue Date:	[●]
	[(ii)] Interest Commencement Date	[[●]/Issue Date/Not Applicable] (*N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes*)
7	Maturity Date:	[●] (*Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*)
8	Interest Basis:	[[●] per cent. Fixed Rate] [[●] month [LIBOR/EURIBOR]] +/– • per cent. Floating Rate] [Zero Coupon] (*See paragraph 13/14/15 below*)
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] [Not Applicable] [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 up to and including the Maturity Date
	(iii)	Fixed Coupon Amount[(s)]:	[●] per Calculation Amount
	(iv)	Broken Amount(s):	[[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]]/[Not Applicable]
	(v)	Day Count Fraction:	[30/360/Actual/Actual (ICMA)/ISDA/*include any other option from the Conditions*)]
	(vi)	[Determination Dates:	[[●] in each year]/[Not Applicable] (*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	[●] per Calculation Amount

		Redemption 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:	**Bearer Notes:** [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] [Temporary Global Note exchangeable for Definitive Notes in accordance with its terms] [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] **[Registered Notes:** [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)] [Unrestricted Global Certificate registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg]]]

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/have not been] 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].] (*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/*give names*]
	(B)	Stabilisation Manager(s) (if any):	[Not Applicable/*give names*]
(iii)	If non-syndicated, name of Dealer:		[Not Applicable/*give name*]
(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, on 30 May 2014 and thereafter on 23 October 2015.

(3) Save as disclosed on page 92, there has been no significant change in the financial or trading position of the Bank or of the Group since 30 June 2015 and no material adverse change in the prospects of the Bank or of the Group since 31 December 2014.

(4) Save as disclosed on pages 118 to 124, 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 applicable 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 applicable 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 2014 and 2013 Audited Financial Statements and the June 2015 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).

(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 a qualified audit report on the accounts of the Group for the year ended 31 December 2013 and a qualified audit report on the accounts of the Group for the year ended 31 December 2014, as disclosed on page 5.

(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

Unless otherwise specified, all references made herein to any treaty, law, regulation, directive or rules are to it or them as amended or re-enacted from time and time and in force as of the date of this Prospectus.

€ 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
2013 Audited Financial Statements	The Bank's audited consolidated financial statements as at and for the year ended 31 December 2013
2014 Audited Financial Statements	The Bank's audited consolidated financial statements as at and for the year ended 31 December 2014
2014 Share Capital Increase	A further capital increase by means of a placing and open offer of €1.0 billion of its share capital
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
AGM	The annual general meeting of the Bank
ALCO	The Assets and Liabilities Committee of the Group
Amending Directive	The directive adopted by the Council of the European Union amending

	and broadening the scope of the requirements of the EU Savings Directive
AML/CTF	Anti-money laundering and counter-terrorism financing
AML Review	The review of the effectiveness of Cyprus's anti-money laundering regime commissioned by the Government and the Troika
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 Arrears Management Directive of 2015 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 Business of Credit Institutions 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.
Common Reporting Standard	The OECD Common Reporting Standard
Companies Law	The Cyprus Companies Law, Cap. 113
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
DAC2	The Directive on Administrative Cooperation
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.
Fitness and Probity Directive	Directive on the Assessment of the Fitness and Probity of the members of the Management Body and Managers of authorised Credit Institutions issued by the CBC in November 2014
Foreclosure Law	The Transfer and Mortgage of Immovable Property Law of 1965
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 Clients of Banks Regulations of 2004 and 2007

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
GORM	The Group's operational risk management department
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, *société anonyme*
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
Information Memorandum	The information memorandum dated 4 July 2014 issued by the Bank in relation to the Placing
Interest Rate Law	The Liberalisation of the Interest Rate and Related Matters Law of 1999
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
ITS	Commission Implementing Regulation (EU) 2015/227 of 9 January 2015
JCC	JCC Payment Systems Limited
June 2015 Unaudited Financial Statements	The Bank's unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2015
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
Land Registry Department	Department of Lands and Surveys of the Republic of Cyprus
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 2013 issued by the CBC
LTIP	Long term incentive plan
Macroprudential Supervision Law	The Law regulating the Macroprudential Supervision of Institutions and Related Matters of 2015
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
New Deposit	As defined on page 168 of this Prospectus
Nominal Value Reduction	The reduction of the nominal value each Ordinary Share to €0.10
NPE	Non-performing exposures (calculated on the basis of the definition provided by the EBA)
OECD	The Organisation for Economic Co-operation and Development
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
Options	The proposed share option plan to be considered at the AGM scheduled for 24 November 2015
OTC	Over-the-counter
participating Member States	Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia for the purposes of the FTT
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
PSP	A payment services provider under the PSD
PSPP	The ECB's public sector purchase programme
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
Recast DGSD	The EU recast Deposit Guarantee Schemes Directive (2014/49/EU)
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 resolution authority which is empowered to resolve failing banks in Cyprus pursuant to the Resolution Law, currently comprised of the Governor of the CBC, together with the appointed executive directors of the CBC
Resolution Law	The Resolution of Credit and other Institutions Law of 2013
Restructuring Plan	The Group's comprehensive restructuring plan covering the period from 2013 through 2017, which was approved by the CBC in November 2013
Retail Offer	The 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
Retail Offer Shares	Up to 416,666,667 new ordinary shares which may be issued by the Bank pursuant to the Retail Offer
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
RSCO	The Regulatory / Supervisory Coordination Office
RUB and Rouble	The lawful currency of the Russian Federation
RWA	Risk-weighted assets

Sale of Credit Facilities Law	The Law Regulating the Sale of Credit Facilities and Related Matters
SCDF Law	Special Contribution for the Defence Fund of the Republic Laws, Law 117(I) of 2002 (as amended)
SDC	Special Defence Contribution pursuant to the SCDF Law
Securities Act	The U.S. Securities Act of 1933, as amended
SEK	The lawful currency of the Kingdom of Sweden
Senior Managers	The members of the management body and managers of authorised credit institutions for the purposes of the Fitness and Probity Directive
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
SREP	The Supervisory Review and Evaluation Process being conducted by the ECB since the first quarter of 2015
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
Themis	Themis Constructions, an enterprise owned by the Greek state
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

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Public Company Limited
51 Stassinos Street
Ayia Paraskevi
Strovolos
2002 Nicosia
Cyprus

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