

BASE PROSPECTUS



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)

€5 billion Covered Bond Programme

Under this €5 billion covered bond programme (the **Programme**), Bank of Cyprus Public Company Limited (the **Issuer**) may from time to time issue bonds (the **Covered Bonds**) denominated in any currency agreed between the Issuer and the relevant Dealer(s) (as defined below). 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 (the **Luxembourg Act**) on prospectuses for securities to approve this document as a base prospectus (the **Base Prospectus**). The CSSF assumes no responsibility for the economic and financial soundness of the transactions contemplated by this Base Prospectus or the quality or solvency of the Issuer in accordance with Article 7(7) of the Luxembourg Act. Application has also been made to the Luxembourg Stock Exchange for Covered Bonds issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the official list of the Luxembourg Stock Exchange (the **Official List**).

References in this Base Prospectus to Covered Bonds being **listed** (and all related references) shall mean that such Covered Bonds are intended to be admitted to trading on the Luxembourg Stock Exchange's regulated market and are intended to be listed on the Official List of the Luxembourg Stock Exchange's regulated market. The Luxembourg Stock Exchange is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed €5 billion (or its equivalent in other currencies calculated as described herein). The payment of all amounts due in respect of the Covered Bonds will constitute direct and unconditional obligations of the Issuer, having recourse to assets forming part of the cover pool relating to the Covered Bonds (the **Cover Pool**).

The Covered Bonds may be issued on a continuing basis to one or more of the Dealers specified under "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time, which appointment may be for a specific issue or on an ongoing basis (each a **Dealer** and together the **Dealers**). References in this Base Prospectus to the **relevant Dealer** shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed by more than one Dealer, be to the lead manager of such issue and, in relation to an issue of Covered Bonds subscribed by one Dealer, be to such Dealer.

The price and amount of Covered Bonds to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions. Notice of the aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and certain other information which is applicable to each Series (as defined under "*Terms and Conditions of the Covered Bonds*") of Covered Bonds will be set out in a separate document specific to that Series called the final terms (the **Final Terms**) which, with respect to Covered Bonds to be listed on the Official List, will be delivered to the Luxembourg Stock Exchange on or before the date of issue of such Series of Covered Bonds. Copies of the Final Terms in relation to the Covered Bonds to be listed on the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

The Covered Bonds issued under the Programme are expected on issue to be assigned a rating by Moody's Investors Service Limited or its successors (**Moody's**) and Fitch Ratings Ltd, or its successors (**Fitch**). Moody's Investors Service Limited and Fitch Ratings Ltd. are both established in the European Union and are registered under the Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such Moody's Investors Service Limited and Fitch Ratings Ltd. are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating organisation.

Investing in Covered Bonds issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer to fulfil its obligations in respect of the Covered Bonds are discussed under "*Risk Factors*" below. Investors should review and consider these risk factors carefully before purchasing any Covered Bonds.

Arrangers

BNP Paribas J.P. Morgan

Dealers

**Bank of Cyprus
Barclays
Deutsche Bank**

**BNP Paribas
BofA Merrill Lynch
HSBC**

**J.P. Morgan
Commerzbank
UniCredit Bank**

The date of this Base Prospectus is 11 November 2014.

IMPORTANT INFORMATION

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the **Prospectus Directive**).

The Issuer accepts responsibility for the information contained in this Base Prospectus and the Final Terms for each Series of Covered Bonds issued under the Programme. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Base Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see the section entitled "*Documents Incorporated by Reference*" below). This Base Prospectus shall be read and construed on the basis that such documents are so incorporated and form part of this Base Prospectus.

Each Series (as defined herein) of Covered Bonds may be issued without the prior consent of the holders of any outstanding Covered Bonds (the **Covered Bondholders**) subject to the terms and conditions set out herein under "*Terms and Conditions of the Covered Bonds*" (the **Conditions**) as completed by the applicable Final Terms. This Base Prospectus must be read and construed together with any supplements hereto and with any information incorporated by reference herein and, in relation to any Series of Covered Bonds which is the subject of Final Terms, must be read and construed together with the applicable Final Terms. All Covered Bonds will rank *pari passu* and rateably without any preference or priority among themselves, irrespective of their Series, except for their respective Issue Dates, Interest Commencement Dates, interest rates and/or Issue Prices.

No person has been authorised by the Issuer or the Trustee to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any information supplied in connection with the Programme or the Covered Bonds and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, the Trustee or any of the Dealers.

Neither the Arrangers nor any Dealer nor any of their respective affiliates have authorised the whole or any part of this Base Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Base Prospectus or the legality of any investment. Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Covered Bonds shall in any circumstances imply that the information contained herein is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Arrangers, Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer or the composition or adequacy of the Cover Pool during the life of the Programme or to advise any investor in the Covered Bonds of any information coming to their attention.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Covered Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and any Final Terms and the offering, sale and delivery of the Covered Bonds in certain jurisdictions may be restricted by law. The Issuer, the Arrangers, the Dealers and the Trustee do not represent that this Base Prospectus may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the

Dealers or the Trustee which is intended to permit a public offering of any Covered Bonds or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Covered Bonds may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Final Terms comes are required by the Issuer, the Trustee and each Dealer to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Covered Bonds and on the distribution of this Base Prospectus or any Final Terms and other offering material relating to the Covered Bonds, see "*Subscription and Sale*". In particular, Covered Bonds have not been and will not be registered under the United States Securities Act of 1933 (as amended) (the **Securities Act**) and are subject to U.S. tax law requirements. Subject to certain exceptions, Covered Bonds may not be offered, sold or delivered within the United States or to U.S. persons. Covered Bonds may be offered and sold outside the United States in reliance on Regulation S under the Securities Act (**Regulation S**).

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Covered Bonds (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, the Arrangers, any of the Dealers or the Trustee that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Covered Bonds should purchase any Covered Bonds. Each investor contemplating purchasing any Covered Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Covered Bonds constitutes an offer or invitation by or on behalf of the Issuer, any of the Dealers or the Trustee to any person to subscribe for or to purchase any Covered Bonds.

The maximum aggregate principal amount of Covered Bonds outstanding at any one time under the Programme will not exceed €5 billion (and for this purpose, the principal amount outstanding of any Covered Bonds denominated in another currency shall be converted into euro at the date of the agreement to issue such Covered Bonds (calculated in accordance with the provisions of the Programme Agreement)). The maximum aggregate principal amount of Covered Bonds which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Programme Agreement as defined under "*Subscription and Sale*".

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

General

The audited consolidated financial statements of the Issuer and its consolidated subsidiaries (the **Group**) as at and for the year ended 31 December 2013 (that includes comparative information for the year ended 31 December 2012) included in this Base Prospectus were prepared in accordance with International Financial Reporting Standards (**IFRS**) as adopted by the European Union (**EU**) and audited by the Group's independent auditor, Ernst & Young Cyprus Limited. The Group's unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2014 (which includes comparative information for the six months ended 30 June 2013 in respect of income statement and other comprehensive income items and 31 December 2013 in respect of balance sheet items) 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 Group's audited consolidated financial statements as at and for the year ended 31 December 2013 is qualified and contains an emphasis of matter with respect to going concern. The Issuer 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 Issuer was not able to establish a reliable fair value of the ordinary shares issued to Cyprus Popular Bank Public Co Ltd (**Laiki Bank**) and has therefore determined the value of the consideration transferred by reference to the fair value of the individually identifiable assets and liabilities acquired, for which a reliable fair value could be established. The Group's equity and financial position for the 2013 financial year are not affected by the above accounting treatment. The auditor's report in relation to the Group's interim condensed consolidated financial statements as at and for the six months ended 30 June 2014 is qualified and contains an emphasis of matter with respect to going concern. The unaudited interim condensed consolidated financial statements do not include comparative statements of consolidated income and comparative statements of consolidated comprehensive income for the comparable interim period for the immediately preceding financial year. For more information, see "*Risk Factors — Risks Relating to the Group's Business — The independent auditor's report in respect of the Issuer's consolidated financial statements as at and for the year ended 31 December 2013 and the independent auditor's review report in respect of the Issuer's unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2014 are qualified and contain an emphasis of matter*".

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

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

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

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

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

Comparability of Results

The changes carried out in the Recapitalisation and the disposals carried out by the Group thereafter have significantly transformed the operations of the Group, resulting in the sale of a substantial portion of the Group's international operations, the conversion of a significant proportion of its liabilities into equity and the acquisition of certain operations of Laiki Bank. As a result, the Group's management believes that the financial results of the Group for periods prior to the year ended 31 December 2012 (as re-presented and restated in its 2013 financial statements) are not comparable to the financial condition and results of operations of the Group following the Recapitalisation, and accordingly no such prior periods are presented (see "*Operating And Financial Review And Prospects - Presentation and Comparability of Financial Information - Presentation of Financial Information*").

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

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

The financial information for the year ended 31 December 2013 contains comparative information for the year ended 31 December 2012. This comparative information has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It has also been restated to reflect the adoption of IAS 19 (Revised 2011) regarding the recognition of actuarial gains and losses arising from defined benefit plans. See note 3.35 to the Group's 2013 financial statements. Accordingly, this comparative information differs from the information previously released by the Group in its 2012 annual report.

IMPORTANT INFORMATION RELATING TO THE USE OF THIS BASE PROSPECTUS AND THE OFFER OF COVERED BONDS GENERALLY

This Base Prospectus has been prepared on a basis that would permit an offer of Covered Bonds with a denomination of less than €100,000 (or its equivalent in any other currency) only in circumstances where there is an exemption from the obligation under the Prospectus Directive to publish a prospectus. As a result any offer of Covered Bonds in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**) must be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Covered Bonds. Accordingly any person, making or intending to make an offer may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer, the Arrangers nor any Dealer has authorised, nor do they authorise, the making of any offer of Covered Bonds in circumstances in which an obligation arises for the Issuer, the Arrangers or any Dealer to publish or supplement a prospectus for such offer.

The Covered Bonds may not be a suitable investment for all investors. Each potential investor in the Covered Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each investor may wish to consider, either on its own or with the help of its financial and other professional advisers whether it:

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

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) Covered Bonds are legal investments for it, (2) Covered Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Covered Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Covered Bonds under any applicable risk-based capital or similar rules.

TABLE OF CONTENTS

Page

| | |
|-------------------------------------------------------|-----|
| OVERVIEW OF THE PROGRAMME | 9 |
| RISK FACTORS | 40 |
| DOCUMENTS INCORPORATED BY REFERENCE | 79 |
| PROSPECTUS SUPPLEMENT | 81 |
| TERMS AND CONDITIONS OF THE COVERED BONDS | 82 |
| FORMS OF THE COVERED BONDS | 113 |
| FORM OF APPLICABLE FINAL TERMS | 116 |
| USE OF PROCEEDS | 127 |
| OVERVIEW OF THE COVERED BOND LEGISLATION | 128 |
| OPERATING AND FINANCIAL REVIEW AND PROSPECTS | 142 |
| SELECTED STATISTICAL AND OTHER INFORMATION | 183 |
| BUSINESS DESCRIPTION OF THE GROUP | 209 |
| REGULATION AND SUPERVISION OF BANKS IN CYPRUS | 250 |
| RESTRUCTURING OF THE ISSUER AND LAIKI BANK | 276 |
| RISK MANAGEMENT | 284 |
| MANAGEMENT AND CORPORATE GOVERNANCE | 296 |
| THE BANKING SECTOR IN CYPRUS | 311 |
| THE MACROECONOMIC ENVIRONMENT IN CYPRUS | 317 |
| THE MORTGAGE AND HOUSING MARKET IN CYPRUS | 325 |
| RESIDENTIAL MORTGAGE BUSINESS OF BANK OF CYPRUS | 330 |
| LENDING CRITERIA | 331 |
| DESCRIPTION OF PRINCIPAL DOCUMENTS | 334 |
| TAXATION | 343 |
| SUBSCRIPTION AND SALE | 349 |
| GENERAL INFORMATION | 352 |
| INDEX OF TERMS | 354 |

STABILISATION

In connection with the issue of any Series of Covered Bonds, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Final Terms (the Stabilisation Manager) may over allot Covered Bonds or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager(s) (or persons acting on behalf of a Stabilisation 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 Series of Covered Bonds 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 Series of Covered Bonds and 60 days after the date of the allotment of the relevant Series of Covered Bonds. Any stabilisation or over allotment must be conducted by the relevant Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Series of Covered Bonds, the applicable Final Terms. The Issuer and any relevant Dealer may agree that Covered Bonds shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, if appropriate, a supplement to the Base Prospectus or a new Base Prospectus will be published.

This Overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive (the **Prospectus Regulation**).

Words and expressions defined in the "*Terms and Conditions of the Covered Bonds*" below or elsewhere in this Base Prospectus have the same meanings in this overview.

PRINCIPAL PARTIES

| | |
|--------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Issuer | Bank of Cyprus Public Company Limited (the Issuer). |
| Competent Authority | Central Bank of Cyprus as defined in the Central Bank of Cyprus Law, Law 138(I)/2002 (as amended) (the Competent Authority). |
| Arrangers | BNP Paribas, London Branch and J.P. Morgan Securities plc (the Arrangers and each an Arranger). |
| Dealers | To be appointed from time to time in accordance with the Programme Agreement. As at the date of this Base Prospectus, the Dealers are Bank of Cyprus Public Company Limited, BNP Paribas, London Branch, J.P. Morgan Securities plc, Barclays Bank PLC, Commerzbank Aktiengesellschaft, Deutsche Bank Aktiengesellschaft, HSBC France, Merrill Lynch and UniCredit Bank AG. |
| Covered Bond Monitor | <p>In accordance with section 49 of the Cypriot Covered Bond Law and Part V of the Cypriot Covered Bond Directive, PricewaterhouseCoopers SA acting through its offices at Kifissias Avenue, 15232 Halandri, Greece has been appointed as covered bond monitor (the Covered Bond Monitor) by the Issuer pursuant to the covered bond monitor agreement dated 18 July 2011 (as amended, restated, varied novated and/or supplemented from time to time, the Covered Bond Monitor Agreement).</p> <p>For further information see "<i>Overview of the Covered Bond Legislation</i>" and "<i>Description of Principal Documents</i>" below.</p> |
| Covered Bond Business Administrator | In accordance with section 59 of the Cypriot Covered Bond Law, a suitably qualified entity (A) may be appointed by the Competent Authority to act as Covered Bond Business Administrator where the Competent Authority considers the appointment necessary in order to safeguard the interests of the Covered Bondholders, any Hedging Counterparties or other creditors of the Issuer or following the occurrence of certain insolvency events in relation to the Issuer and (B) shall be appointed by the Competent Authority where dissolution proceedings have been initiated against the Issuer (the Covered Bond Business |

Administrator or CBBA).

For further information see "Overview of the Covered Bond Legislation" below.

Account Bank

The Bank of New York Mellon acting through its office at One Canada Square, Canary Wharf, London E14 5AL has agreed to act as account bank (the **Account Bank**) pursuant to the Bank Account Agreement (the **Bank Account Agreement**).

In the event that the Account Bank ceases to be an Eligible Institution, the Issuer will be obliged to transfer the Transaction Account to a credit institution with the appropriate minimum ratings.

Eligible Institution means any bank (a) whose short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least P-1 by Moody's and whose "Issuer Default Ratings" are at least F1 short-term (but not, for the avoidance of doubt, if such bank's "Issuer Default Ratings" are F1 short-term and such bank is on "rating watch negative") and A long-term (but not, for the avoidance of doubt, if such bank's "Issuer Default Ratings" are A long-term and such bank is on "rating watch negative") by Fitch (or such other ratings that may be agreed by the parties to the Bank Account Agreement and Moody's and notified to Fitch from time to time) and (b) which complies with the requirements for Complementary Assets under Articles 16 to 18 of the Cypriot Covered Bond Directive and the Complementary Assets Minimum Rating.

Principal Paying Agent

The Bank of New York Mellon acting through its office at One Canada Square, Canary Wharf, London E14 5AL (the **Principal Paying Agent** and, together with any other paying agent appointed from time to time under the Agency Agreement, the **Paying Agents**). The Principal Paying Agent will act as such pursuant to the Agency Agreement.

Custodian

The Bank of New York Mellon, London Branch acting through its office at One Canada Square, Canary Wharf, London E14 5AL (the **Custodian**). The Custodian will act as such pursuant to the Custody Agreement.

Trustee

BNY Mellon Corporate Trustee Services Limited acting through its office at One Canada Square, Canary Wharf, London E14 5AL (the **Trustee**) has been appointed to act as bond trustee for the Covered Bondholders in respect of the Covered Bonds. The Trustee shall be, for the avoidance of doubt, a "cover pool creditor" in accordance with paragraph (g) of the definition of "covered pool creditor" as set out in Section 2(1) of the Cypriot Covered Bond Law.

See further "*Security for the Covered Bonds*" below.

Hedging Counterparties

The Issuer may, from time to time, enter into Hedging Agreements with various swap providers to hedge certain interest rate, currency and/or other risks (each a **Covered Bond Swap Provider**), which include, inter alia, interest risks (each an **Interest Rate Swap Provider** and, together with the Covered Bond Swap Providers the **Hedging Counterparties** and each a **Hedging Counterparty**) associated with the Covered Bonds.

See further "*Description of Principal Documents — Interest Rate Swap Agreement*" and "*— Covered Bond Swap Agreements*" below.

Each Hedging Counterparty will be required to satisfy the conditions under Articles 32 and 33 of the Cypriot Covered Bond Directive.

See further "*Overview of the Covered Bond Legislation*" below.

Listing Agent

The Bank of New York Mellon (Luxembourg) S.A. (the **Listing Agent**).

Rating Agencies

Means such internationally recognised rating agencies (together, the **Rating Agencies** and each a **Rating Agency**) as may from time to time be appointed to rate the Covered Bonds issued under the Programme. The Issuer may, from time to time, request for the withdrawal of a previously assigned rating of a Series of Covered Bonds by a Rating Agency and/or the appointment of a different Rating Agency to assign a rating to a Series of Covered Bonds in issue or about to be issued. The Issuer may also terminate the appointment of any Rating Agency to rate the Covered Bonds under the Programme at any time.

As at the date of this Base Prospectus, Moody's and Fitch have been appointed to provide ratings for those Series of Covered Bonds with recourse to the Cover Pool which are to be rated.

PROGRAMME DESCRIPTION

Description:

Bank of Cyprus Public Company Limited €5 billion Covered Bond Programme.

Programme Amount

Up to €5 billion (or its equivalent in other currencies determined as described in the Programme Agreement) outstanding at any time as described herein. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.

Issuance in Series

Covered Bonds will be issued in Series, but on different terms from each other, subject to the terms set out in the applicable Final Terms in respect of such Series. Save in respect of the first issue of Covered Bonds, Covered Bonds issued under the Programme will either be fungible with an existing Series of Covered Bonds or have different terms from an existing Series of Covered Bonds (in which case they will constitute a new Series). The Issuer may issue further Covered Bonds without the prior consent of the Covered Bondholders pursuant to Condition 14 (*Further Issues*).

See further "*Conditions Precedent to the issuance of a new Series of Covered Bonds*" below.

Final Terms

Final terms (the **Final Terms**) will be issued and published in accordance with the Conditions prior to the issue of each Series detailing certain relevant terms thereof which, for the purposes of that Series only, complete the Conditions and the Base Prospectus and must be read in conjunction with the Conditions and the Base Prospectus. The terms and conditions applicable to any particular Series are the Conditions as

completed or amended by the applicable Final Terms.

Conditions Precedent to the issuance of a new Series of Covered Bonds

It is a condition precedent to the issuance of a new Series of Covered Bonds that: (A) pursuant to the Covered Bond Legislation, the Covered Bond Monitor has verified that the Issuer as at the date of issuance; (i) satisfies all requirements for registration as an approved institution pursuant to Part II of the Cypriot Covered Bond Law; (ii) complies with all provisions of the Covered Bond Legislation with respect to any outstanding Series of Covered Bonds; (iii) complies with the requirements of Article 11 of the Cypriot Covered Bond Directive; and (iv) complies with the provisions of Sections 14(1)(d) and (e) of the Cypriot Covered Bond Law; and (B) where the applicable Series of Covered Bonds is to be rated, the Rating Agencies have been notified of such issuance. For the avoidance of doubt, to the extent the Issuer is subject to dissolution proceedings it will not be compliant with the provisions of Part II of the Cypriot Covered Bond Law and therefore would be prohibited from issuing further Series of Covered Bonds.

In addition, pursuant to the Covered Bond Legislation the Issuer is not permitted to issue further Covered Bonds in the event that either:

- (a) the total value of the Loans which, as a minimum, are required to be included in the Cover Pool exceeds 90% of the total value of the eligible Loan Assets held by the Issuer; or
- (b) the total value of the assets included in the Cover Pool and counted in the Cover Pool Adequacy Criteria exceeds 25% of the total value of the Issuer's assets.

For further information see "*Overview of the Covered Bond Legislation*" below.

Proceeds of the Issue of Covered Bonds

The gross proceeds from each issue of Covered Bonds will be used by the Issuer to fund its general corporate purposes.

Form of Covered Bonds

The Covered Bonds will be issued in bearer form. For further information see "*Forms of the Covered Bonds*" below.

Issue Dates

The date of issue of a Series as specified in the applicable Final Terms (each, the **Issue Date** in relation to such Series).

Certain Restrictions

Each issue of Covered Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*") including the following restrictions applicable at the date of this Base Prospectus.

Covered Bonds having a maturity of less than one year

Covered Bonds having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000

(FSMA) unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see "*Subscription and Sale*".

Specified Denominations

The Covered Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer that the minimum denomination of each Covered Bond will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "*Certain Restrictions – Covered Bonds having a maturity of less than one year*" above, and save that the minimum denomination of each Covered Bond will be €100,000 (or, if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency).

Fixed Rate Covered Bonds

The applicable Final Terms may provide that certain Covered Bonds will bear interest at a fixed rate (**Fixed Rate Covered Bonds**) which will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).

Floating Rate Covered Bonds

The applicable Final Terms may provide that certain Covered Bonds bear interest at a floating rate (**Floating Rate Covered Bonds**). Floating Rate Covered Bonds will bear interest at a rate determined:

- (a) 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., and as amended and updated as at the Issue Date of the first Series of the Covered Bonds); or
- (b) on the basis of a reference rate set out in the applicable Final Terms.

The margin (if any) relating to such floating rate (the **Margin**) will be agreed between the Issuer and the relevant Dealer(s) for each issue of Floating Rate Covered Bonds, as set out in the applicable Final Terms.

Other provisions in relation to Floating Rate Covered Bonds

Floating Rate Covered Bonds may also have a Maximum Rate of Interest, a Minimum Rate of Interest or both (each as indicated in the applicable Final Terms). Interest on Floating Rate Covered Bonds in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer(s), will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, in each case as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).

Zero Coupon Covered Bonds

Zero Coupon Covered Bonds may be offered and sold at a discount to their nominal amount and will not bear interest (**Zero Coupon Covered Bonds**).

Ranking of the Covered

All Covered Bonds will rank *pari passu* and pro rata without any

Bonds preference or priority among themselves, irrespective of their Series, for all purposes except for their respective Issue Dates, Interest Commencement Dates, interest rates and/or Issue Prices.

See further "*Cross-collateralisation*" below.

Taxation As set out in Condition 7 (*Taxation*) all payments of principal, interest and other proceeds (if any) on the Covered Bonds will be made free and clear of any withholding or deduction for, or on account of, any taxes imposed by the Republic of Cyprus or any political subdivision or any authority thereof, unless the Issuer or any intermediary that intervenes in the collection of interest and other proceeds on the Covered Bonds is required by applicable law to make such a withholding or deduction. In the event that such withholding, or deduction is required by law, the Issuer will be required to pay any additional amounts in respect of such withholding or deduction.

Status of the Covered Bonds The Covered Bonds are issued on an unconditional basis and in accordance with the Covered Bond Law, Law 130/2010 (the **Cypriot Covered Bond Law**) and the Covered Bond Directive dated 23 December 2010, issued by the Competent Authority under the Cypriot Covered Bond Law (the **Cypriot Covered Bond Directive** and, together with the Cypriot Covered Bond Law, the **Covered Bond Legislation**).

Cover Pool Register On registration of a Loan Asset compliant with the Eligibility Criteria in the cover pool register of the Issuer maintained pursuant to Article 23 of the Cypriot Covered Bond Law (the **Cover Pool Register**), the relevant Loan Asset will be subject to a statutory charge for the benefit of the Covered Bondholders and other Cover Pool Creditors pursuant to Section 16(b) of the Cypriot Covered Bond Law (the **Cypriot Statutory Charge**).

See further "*Overview of the Covered Bond Legislation*" and "*Cross-collateralisation*" below.

Payments on the Covered Bonds Payments on the Covered Bonds will be direct and unconditional obligations of the Issuer.

In accordance with Section 28 of the Cypriot Covered Bond Law and Article 21 of the Cypriot Covered Bond Directive, the Issuer will apply (i) Covered Bonds Available Funds in relation to the Cover Pool and (ii) to the extent the Covered Bonds Available Funds are insufficient to satisfy all amounts set out in the Pre-Event of Default Priority of Payments any other funds available to it, to pay all items which are listed in the Pre-Event of Default Priority of Payments.

Following the delivery of a Notice of Default, on any Business Day, all Covered Bonds Available Funds in relation to the Cover Pool will be applied in accordance with the Post-Event of Default Priority of Payments.

Where the Issuer is subject to dissolution proceedings and the Cover Pool is sold or otherwise disposed of in its entirety, all amounts/proceeds of such disposal shall be applied on any Business Day in accordance with

the Cover Pool Disposal Priority of Payments (as set out in Sections 43 to 45 (inclusive) of the Cypriot Covered Bond Law).

Security for the Covered Bonds

In accordance with the Cypriot Covered Bond Law and the laws of any other relevant Member State, by virtue of the Covered Bond Legislation, the Transaction Documents, the Cover Pool and all cash flows derived therefrom (including any amounts standing to the credit of the Transaction Account) will be available both prior to and following the commencement of dissolution proceedings in respect of the Issuer, to satisfy the obligations of the Issuer to the Covered Bondholders and the other Cover Pool Creditors in respect of the Cover Pool in priority to the Issuer's obligations to any other creditors, until the repayment in full of the Covered Bonds. On the establishment of the Programme, the Issuer maintained an additional and separate cover pool comprising assets originated in Greece but the Issuer no longer maintains such a cover pool following the sale of the assets in March 2013. The terms of the Transaction Documents do not permit the Issuer to maintain separate cover pools under the Programme and all Covered Bonds issued under the Programme will be secured by the same Cover Pool, see "*Creation and Administration of the Cover Pool*" below.

Cover Pool Creditors means with respect to the Cover Pool, the Covered Bondholders, the Receiptholders, the Couponholders, the Trustee, the Custodian, the Covered Bond Monitor, the Covered Bond Business Administrator, the Account Bank, the Paying Agents, the Hedging Counterparties and any other creditor of the Issuer having the benefit of the Charged Property in accordance with the Cypriot Covered Bond Law, or pursuant to any transaction document entered into in the course of the Programme having recourse to the Cover Pool. Each of the Cover Pool Creditors set out above shall be, for the avoidance of doubt "cover pool creditors" in accordance with paragraph (g) of the definition of "cover pool creditor" as set out in Section 2(1) of the Cypriot Covered Bond Law.

Charged Property means the property, assets and undertakings charged by the Issuer pursuant to the Cypriot Statutory Charge.

Cross-collateralisation

Pursuant to Section 23 of the Cypriot Covered Bond Law, the Cover Pool Assets within the Cover Pool shall form a single portfolio, irrespective of the date of assignment to that Cover Pool and shall be held for the benefit of the Covered Bondholders and the other Cover Pool Creditors secured by that Cover Pool irrespective of the Issue Date of the relevant Series. The Covered Bondholders and the other Cover Pool Creditors shall have recourse to the Cover Pool.

The Cover Pool Assets may not be seized or attached in any form by creditors of the Issuer other than by the Trustee on behalf of the Covered Bondholders of the relevant Series and the other Cover Pool Creditors in respect of that Series. The Issuer may create one or more cover pools under the Covered Bond Legislation but it does not intend to maintain more than one cover pool in respect of the Programme at the date of this Base Prospectus.

In order to ensure that the Cover Pool is, at any time, sufficient to meet

the payment obligations of the Issuer under the Covered Bonds, the Issuer shall be entitled, within certain limits and upon certain conditions, to effect certain changes to the Cover Pool Assets comprising the Cover Pool.

See further "*— Optional Changes to the Cover Pool*" below.

Issue Price

Covered Bonds of each Series may be issued at par or at a premium or discount to par on a fully-paid basis (in each case, the **Issue Price** for such Series) as specified in the applicable Final Terms in respect of such Series.

Interest Payment Dates

In relation to any Series of Covered Bonds, the Interest Payment Dates will be specified in the applicable Final Terms.

Cover Pool Payment Date

The 18th day of each month and if such day is not a Business Day the first Business Day thereafter (the **Cover Pool Payment Date**).

Early Redemption

The applicable Final Terms may specify that either the relevant Series of Covered Bonds can be redeemed prior to their stated maturity for taxation reasons in the manner set out in Condition 7 (*Taxation*), or that such Covered Bonds will be redeemable at the option of the Issuer and/or the Covered Bondholders upon giving notice to the Covered Bondholders or the Issuer (as the case may be), on a date or dates specified prior to such stated maturity and at a price or prices.

Final maturity and extendable obligations under the Covered Bonds

The final maturity date for each Series (the **Final Maturity Date**) will be specified in the applicable Final Terms as agreed between the Issuer and the relevant Dealer(s). Unless redeemed as provided in the Conditions, the Covered Bonds of each Series will be redeemed at their Principal Amount Outstanding on the relevant Final Maturity Date.

If the Covered Bonds are not redeemed in full on the relevant Final Maturity Date or (as described below) where the Covered Bonds are subject to an Extended Final Maturity Date, on the Extended Final Maturity Date (as to which see further below), then the Trustee shall serve a Notice of Default on the Issuer pursuant to Condition 8 (*Events of Default and Enforcement*).

Following the service of a Notice of Default no further Covered Bonds shall be issued and the Covered Bonds of each Series shall become immediately due and payable and (a) any Covered Bond which has not been redeemed on or prior to its Final Maturity Date or, if applicable, its Extended Final Maturity Date shall remain outstanding at its Principal Amount Outstanding, until the date on which such Covered Bond is cancelled or redeemed; and (b) interest shall continue to accrue on any Covered Bond which has not been redeemed on its Final Maturity Date, or, if applicable, Extended Final Maturity Date and any payments of interest or principal in respect of such Covered Bond shall be made in accordance with the Post-Event of Default Priority of Payments until the date on which such Covered Bond is cancelled or redeemed.

Extended Final Maturity Date

The applicable Final Terms may provide that the Issuer's obligations under the relevant Covered Bonds to pay the Principal Amount

Outstanding on the relevant Final Maturity Date may be deferred past the Final Maturity Date until the extended final maturity date (as specified in the applicable Final Terms) (such date the **Extended Final Maturity Date**).

In such case, such deferral will occur automatically if the Issuer fails to pay any amount representing the amount due on the Final Maturity Date as set out in the applicable Final Terms (the **Final Redemption Amount**) in respect of the relevant Series of Covered Bonds on their Final Maturity Date provided that, any amount representing the Final Redemption Amount due and remaining unpaid on the Final Maturity Date may be paid by the Issuer on any Interest Payment Date thereafter up to (and including) the relevant Extended Final Maturity Date. Interest will continue to accrue and be payable on any unpaid amounts on each Interest Payment Date up to the Extended Final Maturity Date in accordance with Condition 4 (*Interest*) and the Issuer will make payments on each relevant Interest Payment Date and Extended Final Maturity Date.

Ratings

Each Series issued under the Programme may be assigned a rating by the Rating Agencies. Details of the ratings assigned to a particular Series of Covered Bonds will be specified in the applicable Final Terms. 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.

Approval, 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 the Luxembourg Stock Exchange for Covered Bonds issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List.

Clearing Systems

Euroclear Bank S.A./N.V. (**Euroclear**), and/or Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**) in relation to any Series of Covered Bonds or any other clearing system as may be specified in the applicable Final Terms.

Selling Restrictions

There are restrictions on the offer, sale and transfer of the Covered Bonds in the United States, Japan and the European Economic Area (including the United Kingdom, the Hellenic Republic and Cyprus) and such other restrictions as may be required in connection with the offering and sale of a particular Series of Covered Bonds. See "*Subscription and Sale*" below.

Covered Bond Legislation

The Covered Bonds will be issued pursuant to the Cypriot Covered Bond Law and the Cypriot Covered Bond Directive.

Pursuant to the terms of the Trust Deed, the Issuer has covenanted to the Trustee that it shall at all times comply with the provisions of the Covered Bond Legislation.

For further information on the Covered Bond Legislation, see "*Overview of the Covered Bond Legislation*" below.

Governing law

The Trust Deed, the Agency Agreement, the Covered Bond Monitor Agreement, the Custody Agreement, the Bank Account Agreement, the Programme Agreement, each Subscription Agreement and each Hedging Agreement will be governed by, and construed in accordance with, English law.

The Covered Bonds will be governed by and construed in accordance with English law, save that the Cypriot Statutory Charge referred to in Condition 2 (*Status of the Covered Bonds*), will be governed by and construed in accordance with Cypriot law.

CREATION AND ADMINISTRATION OF THE COVER POOL

The Cover Pool

Pursuant to the Covered Bond Legislation the Issuer will maintain the Cover Pool for as long as any Covered Bonds are outstanding.

The Covered Bond Legislation allows Loan Assets governed by the laws of Cyprus and of other Member States to be included in the Cover Pool. As at the date of this Base Prospectus, the Issuer intends to include assets (which will consist principally of residential mortgages) originated in Cyprus in the Cover Pool (see further "*Changes to Cover Pool*" below). On the establishment of the Programme, the Issuer maintained an additional and separate cover pool comprising assets originated in Greece but the Issuer no longer maintains such a cover pool following the sale of the assets in March 2013. The terms of the Transaction Documents do not permit the Issuer to maintain separate cover pools under the Programme and all Covered Bonds issued under the Programme will be secured by the same Cover Pool.

The Issuer may wish to include assets governed by the laws of other Member States in a separate Cover Pool in the future. The creation of any such new Cover Pool will be notified by the Issuer to the Trustee, the Covered Bond Monitor and the Competent Authority.

Pursuant to the Cypriot Covered Bond Law, the Issuer will create the Cypriot Statutory Charge over (i) primary assets comprising residential loans on properties located in Cyprus (each a **Cypriot Loan** and, together with its Related Security, a **Loan Asset**, (ii) Complementary Assets (as defined below) and (iii) Hedging Agreements (as defined below) (each a **Cover Pool Asset** and collectively the **Cover Pool**).

Where applicable, the Loan Assets and any mortgages, guarantees or indemnity payments which may be granted or due in connection therewith are referred to as the **Related Security**. **Loan** shall mean any loan made in relation to a Loan Asset.

See further "*Overview of the Covered Bond Legislation*".

CHANGES TO COVER POOL

Optional changes to the Cover Pool

The Issuer shall be entitled to:

- (a) *Allocation of Further Assets*: subject to the approval of the Competent Authority and provided that the Issuer is not subject to dissolution proceedings and/or none of the events set out in paragraphs (a) to (h) of Section 59(2) of the Cypriot Covered Bond Law has occurred, allocate to the Cover Pool Additional Cover Pool Assets (as defined below) for the purposes of issuing further Series of Covered Bonds and/or complying with the Cover Pool Adequacy Criteria and/or maintaining the initial rating(s) assigned to the Covered Bonds; and
- (b) *Removal or substitution of Cover Pool Assets*: provided that no breach of any Cover Pool Adequacy Criteria would occur as a result of such removal or substitution (i) remove Cover Pool Assets from the Cover Pool or (ii) substitute existing Cover Pool Assets with Additional Cover Pool Assets.

Additional Cover Pool Assets means further assets assigned to the Cover Pool by the Issuer for the purposes of issuing further Series of Covered Bonds and/or complying with the Cover Pool Adequacy Criteria.

Undertakings of the Issuer in respect of the Cover Pool

Pursuant to the Transaction Documents, the Issuer undertakes to manage the Cover Pool in accordance with the Covered Bond Legislation and in the interest of the Covered Bondholders and the other Cover Pool Creditors and undertakes to take in a timely manner, any actions required in order to ensure that the servicing of the Loan Assets is conducted in accordance with the collection policy and recovery procedures applicable to the Issuer.

Eligibility Criteria

Each Loan Asset to be included in the Cover Pool shall comply with the Statutory Eligibility Criteria. In addition, each Loan Asset in the Cover Pool shall comply with the Issuer Eligibility Criteria (as defined below).

Statutory Eligibility Criteria

Each Loan Asset to be included in the Cover Pool shall comply with the eligibility criteria set out in Section 18 of the Cypriot Covered Bond Law and Part IV of the Cypriot Covered Bond Directive (the **Statutory Eligibility Criteria**). By way of summary, the Statutory Eligibility Criteria include, but are not limited to, the following items:

- (a) It is an existing Loan.
- (b) It is governed by the laws of Cyprus or any other Member State and the terms and conditions of such Loan do not provide for the jurisdiction of any court outside Cyprus or any other applicable Member State (as the case may be).
- (c) It is secured by a valid and enforceable first ranking mortgage and/or equivalent tangible charge. Each such mortgage must:
 - (i) create a clear and complete tangible charge over the relevant property;
 - (ii) have been registered properly and in a timely manner;

- (iii) have met all necessary legal requirements concerning completion and registration of the mortgage to ensure that the mortgage is legally effective and enforceable in all relevant jurisdictions; and
 - (iv) enable the Issuer to realise the underlying property within a reasonable timeframe.
- (d) In the case where a mortgage and/or equivalent tangible charge also secures other obligations of the underlying obligor, Loans which are secured by subsequent mortgages and/or equivalent tangible charges may be included in the Cover Pool provided that: (a) all preceding mortgages on the underlying property are in favour of the Issuer and are also included in the same Cover Pool and (b) the Issuer ensures that the Loans included in the Cover Pool have priority over the security against all other loans and/or obligations of the customer to the Issuer which are not included in the Cover Pool.
- (e) The mortgage or the equivalent charge on immovable property securing the Loan is created for an amount at least equal to the value of the Loan.
- (f) The immovable property securing the Loan must be situated in the territory of Cyprus or in the jurisdiction of other Member States. The total amount of Loans secured by immovable property located in Member States where the Issuer has no physical presence (i.e. a subsidiary or branch) shall not exceed 10% of the total Statutory Value of the Cover Pool.
- (g) An institution may include in the Cover Pool a residential or commercial loan secured by buildings under construction provided that the total value in the Cover Pool of the Loans secured by buildings under construction does not exceed 10% of total Statutory Value of the Cover Pool.
- (h) If the Loan is a Rescheduled Loan, it has not been rescheduled more than three times; at least six months have elapsed since the date of the first rescheduled loan instalment; and, at the date of inclusion, no amount of principal, interest or other loan instalment is more than one month overdue.
- (i) The total value of such Loan, together with all other Loans to the same counterparty included in the Cover Pool do not exceed 2% of the total Statutory Value of the Cover Pool.
- (j) The terms of such Loan do not prohibit its inclusion in the Cover Pool.
- (k) Throughout the term of the Loan the underlying buildings shall be insured against all relevant risks, taking into consideration the location and type of the property, for an amount equal, at least, to the lower of the replacement cost of the buildings and

the loan amount.

- (l) The Issuer shall ensure that the Issuer's interest in the insurance cover in respect of Charged Property is assigned in favour of the Cover Pool. The Issuer shall also have in place adequate procedures enabling it to monitor, on an ongoing basis, whether the underlying property is adequately insured against possible damage.
- (m) The Loan does not breach the Loan to Value Test and the underlying property related thereto has been subject to an independent valuation.
- (n) No principal or interest instalment in respect of the Loan is in arrears for a period of one month or more.

Rescheduled Loan means (i) any Loan which has presented one or more instalment(s) in arrears following which the Issuer has agreed to a revision of the relevant repayment programme (including by way of extension of any grace period, suspension of payment of one or more loan instalment(s), reduction in the amount of any instalment, write off of any instalments of principal and/or interest in arrear); and (ii) any Loan whose interest and/or principal instalments have been repaid from the proceeds of a new loan.

An instalment shall not be construed to be in arrears unless the borrower has failed to meet scheduled payments of at least 10% or more of the relevant payment.

See further "*Overview of the Covered Bond Legislation*" below for more information and a detailed description of the loan-to-value requirements of the Covered Bond Legislation.

Loan to Value Test means the Statutory Value of a Residential Loan or, where the same property secures more than one Loan included in the Cover Pool, the total Statutory Value of those Loans, which shall not exceed 75% of the value of the underlying immovable property on the basis of a valuation conducted by the Issuer in accordance with the Covered Bond Legislation. Loans whose Statutory Value or, as the case may be, total Statutory Value exceeds 75%, but is below 100%, of the value of the underlying immovable property may be included in the Cover Pool provided that (a) the total Statutory Value of all such Loan Assets included in the Cover Pool as a percentage of the Statutory Value of the Covered Bonds secured by the Cover Pool does not exceed 25% and (b) their inclusion would not result in the weighted LTV of the Cover Pool exceeding 80%.

LTV has the meaning given to it Part I Article 3 of the Cypriot Covered Bond Directive.

Statutory Value means the term "value" as defined in Part I of Article 3 of the Cypriot Covered Bond Directive.

Issuer Eligibility Criteria

In addition to the Statutory Eligibility Criteria, each Loan Asset to be

included in the Cover Pool shall comply with the following criteria (the **Issuer Eligibility Criteria** and together with the Statutory Eligibility Criteria, the **Eligibility Criteria**):

- (a) Each Cypriot Loan is denominated and payable in euros;
- (b) All construction with respect to buildings over which security has been taken under a Cypriot Loan has been completed;
- (c) The immovable property securing a Cypriot Loan is a residential house or a flat located in Cyprus;
- (d) No prior charge exists in respect of the Cypriot Loan;
- (e) No provision has been made in respect of a Cypriot Loan;
- (f) Each Borrower under a Cypriot Loan is an individual or natural person;
- (g) Each Cypriot Loan is governed by the laws of Cyprus and the terms and conditions of such Cypriot Loan do not provide for the jurisdiction of any court outside of Cyprus;
- (h) Each Cypriot Loan was advanced for one or more of the following purposes:
 - (i) acquisition of residential properties; and/or
 - (ii) repairs, renovations, modifications and alterations to residential dwellings or buildings; and/or
 - (iii) release of equity in respect of a residential property; and/or
 - (iv) refinancing of a loan granted by another bank with respect to any of (i), (ii) or (iii) above;
- (i) No Cypriot Loan is an interest-only loan;
- (j) Each Cypriot Loan is fully drawn down and the Issuer is not obliged (under the terms of the relevant Loan documentation or otherwise) to advance any further amounts to the relevant Borrower;
- (k) All lending criteria and preconditions applied by the Issuer's credit policy and customary lending procedures have been satisfied with regards to the granting of each Cypriot Loan;
- (l) Each Cypriot Loan is either a fixed or floating rate loan or a combination of both;
- (m) Each Cypriot Loan's outstanding nominal value remains a debt, which has not been paid or discharged;
- (n) Each Cypriot Loan can be segregated and identified for

ownership on any day; and

- (o) Each Cypriot Loan has been originated by the Issuer in compliance with the Lending Criteria applicable at the time of origination.

See further "*Overview of the Covered Bond Legislation*" below for more information and a detailed description of the Statutory Eligibility Criteria.

Complementary Assets

Subject to Article 16 of the Cypriot Covered Bond Directive certain complementary assets (**Complementary Assets**) may be included in the Cover Pool if they are complementary assets for the purposes of Articles 16, 17 and 18 of the Cypriot Covered Bond Directive and which, in addition, (a) satisfies the Complementary Assets Minimum Rating and (b) from time to time, prior to the beginning of each Interest Period, includes cash in a sufficient amount to cover the aggregate of amounts set out in items (i) – (iii) inclusive of the Pre-Event of Default Priority of Payments that shall fall due and payable in the next succeeding three-month period based on the three-month EURIBOR rate set two TARGET2 Business Days prior to the start of each Interest Period.

Complementary Assets Minimum Rating means, in relation to Complementary Assets which are sovereign bonds, treasury bills or securities issued by a Member State or whose issuer is the central government of a country referred to in Article 14(2)(f) of the Cypriot Covered Bond Directive, a rating at least equal to the current ratings (from the relevant Rating Agency) of all Series of Covered Bonds then outstanding.

Subject to the provisions of the Covered Bond Legislation, such Complementary Assets may be included in the Cover Pool as part of the Basic Collateralisation and the Supervisory Over-collateralisation.

Such Complementary Assets include (i) traded claims against or guaranteed by central or regional governments; (ii) deposits with ECB and central banks; (iii) deposits with multilateral development banks and international organisations having 0% risk weighting for the purposes of Annex VI of The Capital Requirements Directive (Directive 2006/48/EC) (the **CRD** or the **Capital Requirements Directive**); (iv) deposits with institutions (i.e. credit institutions and investment firms) as defined in Article 3(1)(c) of Directive 2006.49.EC; and (v) traded debt securities issued by institutions falling in item (iv) above.

The following Complementary Assets may be included in the Cover Pool as part of the Basic Collateralisation and the Supervisory Over-collateralisation for Covered Bonds collateralised by primary assets other than public claims as per Article 17 and Article 18 of the Cypriot Covered Bond Directive:

- (a) government bonds, treasury bills or securities issued by the Republic of Cyprus;
- (b) deposits with the European Central Bank or central banks of

other Member States;

- (c) deposits with credit institutions of the Member States and of the countries referred to in paragraph 5 of Part 1 of Annex VI of Unit A of the CRD (Australia, Canada, Japan, Switzerland and USA) whose credit assessment is assigned to the first credit quality step in accordance with point 29 of Part 1 of Annex VI of the CRD. Deposits with credit institutions in Member States with a maturity not exceeding 100 days shall not be comprised by the step 1 requirement but those institutions must, as a minimum, qualify for credit quality step 2. The deposits with each credit institution shall not exceed 2% of the outstanding balance of covered bonds secured by public claims.
- (d) sovereign bonds, treasury bills or securities issued by a Member State other than the Republic of Cyprus;
- (e) sovereign bonds, treasury bills or securities whose issuer is the central government of a country referred to in Article 14 (2)(f) of the Cypriot Covered Bond Directive, provided that all conditions referred to in the same point are fulfilled;
- (f) securities guaranteed by any of the bodies referred to in (d) and (e) above;
- (g) deposits with the central banks of the countries referred to in Article 14(2)(f) of the Cypriot Covered Bond Directive provided that the conditions referred to in the same point are fulfilled; and
- (h) deposits with multilateral banks and international organisations the exposures against thereof are assigned a 0% risk weight for the purposes of Annex VI of the CRD.

For further information see further "*Overview of the Covered Bond Legislation — Complementary Assets*" below.

Monitoring of the Cover Pool – the Issuer and Monthly Investor Report

In accordance with Article 31 of the Cypriot Covered Bond Directive and the terms of the Trust Deed, the Issuer has agreed to prepare a monthly report detailing certain items with respect to the performance and adequacy of the Cover Pool and the results of the then applicable Cover Pool Adequacy Criteria in respect of the Cover Pool (including details of any Contractual Over-collateralisation and the OC Percentage applicable to the Cover Pool) (the **Monthly Investor Report**).

The Issuer will make the Monthly Investor Report available to the Covered Bond Monitor, the Covered Bondholders and the Rating Agencies each month at the registered office of the Issuer and on the website: http://www.bankofcyprus.com/Start/Investors-Relations/Debt_Securities/Covered-Bond-Cyprus/

See further "*Description of Principal Documents — Trust Deed — Reporting*" below for more details.

Monitoring of the Cover Pool – the Covered Bond Monitor and CBM Report

The Covered Bond Monitor will be responsible for overseeing the compliance of the Issuer with the provisions of the Covered Bond Legislation.

Pursuant to the terms of the Covered Bond Monitor Agreement the Covered Bond Monitor will agree to undertake certain monitoring activities as required by the terms of the Covered Bond Legislation including (i) verification of the accuracy and completeness of information included in the Register; (ii) examination of the valuation process in relation to cover assets; (iii) compliance by the Issuer on an ongoing basis with respect to the cover pool adequacy; and (iv) examination of the entries into and removals from the Register. The Covered Bond Monitor shall submit a report (the **CBM Report**) to the Competent Authority (with a copy to the Issuer and the CBBA (if appointed), in each case, on a six-monthly basis (or such other time period as may be required by the Competent Authority).

The CBM Report shall set out whether or not the Issuer is in compliance with the Covered Bond Legislation and, to the extent the Issuer is not in compliance, the CBM Report shall further set out (A) how the Issuer has contravened or otherwise failed to comply with the relevant provisions of the Covered Bond Legislation and (B) provide any other information the Competent Authority may have requested in relation to such matter. The CBM Report shall not be made available to the Covered Bondholders.

See further "*Overview of the Covered Bond Legislation – The role of the Covered Bond Monitor and the Covered Bond Business Administrator*" below.

Statutory Tests and the Cover Pool Adequacy Criteria

The Cover Pool is subject to the Statutory Tests on an ongoing basis as set out in the Covered Bond Legislation. In addition, following the occurrence of certain events, the Cover Pool may be subject to the Asset Adequacy Test and/or the Post-Dissolution Stress Test as further described and defined below. The Statutory Tests together with the Asset Adequacy Test and the Post-Dissolution Stress Test are together known as the **Cover Pool Adequacy Criteria**.

Statutory Tests

Certain statutory tests as set out in the Covered Bond Legislation (the **Statutory Tests**) are required to be met by the Issuer with respect to the Cover Pool on an ongoing basis and comprise the following: (i) the Nominal Value Test; (ii) the Present Value Test; (iii) the Supervisory Over-collateralisation; (iv) the Weighted Maturity Test; (v) the Liquidity Test and (vi) any Contractual Over-collateralisation (and such other tests as may be determined by the Competent Authority from time to time). An overview of these tests is set out below. For further information see "*Overview of the Covered Bond Legislation – The Statutory Tests*" below.

The Nominal Value Test: Pursuant to Article 24(1) of the Cypriot Covered Bond Directive, the Issuer must ensure that on an ongoing basis, the Euro Equivalent of the Principal Amount Outstanding of all Series of Covered Bonds secured by the Cover Pool, is not greater than

100% of the nominal value of the Cover Pool. In order to assess compliance with this test, all of the assets comprising the Cover Pool shall be evaluated at their nominal value including the Hedging Agreements. For the purposes of calculating the Principal Amount Outstanding of a Loan certain adjustments are made dependent on whether or not the relevant Loan is subject to set-off and the then current LTV of the Loan.

The Present Value Test: Pursuant to Article 24(5) of the Cypriot Covered Bond Directive, the Issuer must ensure that on an ongoing basis the total present value of the inflows arising from the Loans and Complementary Assets, including the value of the Hedging Arrangements, attributable to the Cover Pool must cover the present value of payments to the Cover Pool Creditors by at least 105%.

All inflows with respect to the Present Value Test are calculated net of any set-off. In addition, certain assumptions are applied with respect to interest rates and exchange rates.

Supervisory Over-collateralisation: In addition to the compliance with the Nominal Value Test and the Present Value Test (together, **Basic Collateralisation**), the Issuer is also under an obligation to enhance the Cover Pool with Complementary Assets the value of which, after the possible application of set-off, covers the Principal Amount Outstanding of the Covered Bonds secured by the Cover Pool by at least 5% (**Supervisory Over-collateralisation**).

Weighted Maturity Test: The weighted maturity of the assets in the Cover Pool counted in the measurement of the Basic Collateralisation and the Supervisory Over-collateralisation (in each case, as calculated in accordance with the provisions of the Covered Bond Legislation) must be longer than the weighted maturity of the Covered Bonds.

Liquidity Test: The Issuer must reconcile the cash inflows from assets comprised in the Cover Pool and the cash outflows for servicing the obligations under the Covered Bonds secured by the Cover Pool, excluding redemption amounts, on a daily basis for the 180 days following the relevant Calculation Date and ensure that the Statutory Value of Complementary Assets in the Cover Pool exceeds the highest net cash outflow that arises during that period.

In addition, the Issuer must maintain liquidity for the repayment of scheduled redemption amounts in respect of the Covered Bonds in the Cover Pool as follows:

- (i) during the period between 180 days to 30 days before the scheduled redemption date not less than 50% of the principal amount due for redemption; and
- (ii) during the period between 30 days before the scheduled redemption date and the scheduled redemption date not less than 100% of the capital amount due for repayment.

Pursuant to Article 28 of the Cypriot Covered Bond Directive, in the

event that the Issuer is removed from the Register of Approved Institutions to issue Covered Bonds, the Issuer will, on and from such date, be under an obligation to ensure that the fair value (as calculated in accordance with Article 28(2) of the Cypriot Covered Bond Directive) of the cover assets (as defined in the Covered Bond Legislation) (the **Cover Assets**) counted in the Cover Pool Adequacy Criteria net of appropriate haircuts (as determined by the Competent Authority) exceeds the capital amount of the Covered Bonds then outstanding.

Contractual Over-collateralisation: In addition to the collateralisation requirements set out in the Covered Bond Legislation and the other Statutory Tests, the Issuer may, by so electing in accordance with the terms of the Trust Deed, include requirements for additional collateralisation in accordance with Article 23(1)(c) of the Cypriot Covered Bond Directive. Where applicable, such Contractual Over-collateralisation shall at all times be over the requirements of the other Statutory Tests and shall not be, for the avoidance of doubt, negative.

As at the date of this Base Prospectus, Contractual Over-collateralisation does not apply to the Cover Pool.

Where Contractual Over-collateralisation is elected by the Issuer, it shall ensure that on an ongoing basis, the product of the relevant OC Percentage multiplied by the Euro Equivalent of the Principal Amount Outstanding of all Series of Covered Bonds secured by the Cover Pool, must be less than 100% of the nominal value of the Cover Pool.

OC Percentage means the over-collateralisation percentage applicable to the Cover Pool notified by the Issuer to the relevant Rating Agencies, the Covered Bond Monitor and the Trustee in the then most current OC Percentage Notice in accordance with the terms of the Trust Deed.

OC Percentage Notice means the notice delivered by the Issuer to the Trustee, the Covered Bond Monitor and each Rating Agency then rating the relevant Covered Bonds, setting out the then current OC Percentage applicable to all series of Covered Bonds then outstanding with respect to the Cover Pool.

In order to assess compliance with any Contractual Over-collateralisation, all of the assets comprising the Cover Pool shall be evaluated at their nominal value including the Hedging Agreements. For the purposes of calculating the Principal Amount Outstanding of a Loan certain adjustments are made dependent on whether or not the relevant Loan is subject to set-off and the then current LTV of the Loan.

Details of any Contractual Over-collateralisation and the applicable OC Percentage will be included in the Monthly Investor Report.

The Issuer may, in relation to the Cover Pool, be able to adjust the level of the Contractual Over-collateralisation in certain limited circumstances.

See further "*Overview of the Covered Bond Legislation — The Statutory Tests*".

Asset Adequacy Test

In accordance with Article 28 of the Cypriot Covered Bond Directive, in addition to the Statutory Tests, a further asset adequacy test will also apply to the Cover Pool on and from the date on which the Issuer is removed from the Register of Approved Institutions (the **Asset Adequacy Test**). The Asset Adequacy Test will seek to ensure that the fair value of the assets comprised in the Cover Pool (as calculated in accordance with Article 28(2) of the Cypriot Covered Bond Directive) net of appropriate haircuts (as determined by the Competent Authority) exceeds the Principal Amount Outstanding of the Covered Bonds covered by the Cover Pool.

See further "*Consequences of removal from the Register of Approved Institutions*" below.

Post-Dissolution Stress Test

Where the Issuer is subject to dissolution proceedings, additional stress tests (the **Post-Dissolution Stress Tests**) are run by the CBBA on an ongoing basis. The Post-Dissolution Stress Tests monitor the potential impact on cash inflows from the Cover Pool by monitoring changes in (i) interest rates, (ii) exchange rates, (iii) quality of the Cover Pool Assets, (iv) the fair value of the Cover Pool and (v) the relevant cost of lending.

Where the CBBA determines that in the time-frame allotted for the disposal of the Loan Assets, the Cover Pool will not be in compliance with the Post-Dissolution Stress Tests, it shall immediately notify the Covered Bondholders, each other Covered Bond creditor, the Covered Bond Monitor and the Competent Authority of the measures it proposes to take in order to discharge the obligations of the Issuer with respect to the Programme. Such measures may include the disposal of all or part of the Cover Pool.

Breach of Cover Pool Adequacy Criteria

If the Issuer is in breach of the Cover Pool Adequacy Criteria as determined in accordance with Section 18(6) of the Cypriot Covered Bond Law, it shall take all necessary measures to rectify such breach within the time period notified by the Competent Authority.

If the Issuer fails to rectify a breach of the Cover Pool Adequacy Criteria within the time period notified by the Competent Authority (or is otherwise not in compliance with the requirements of the Covered Bond Legislation), the Competent Authority may either: (i) fine the Issuer; (ii) remove the Issuer from the Register of Approved Institutions; or (iii) where the Issuer has already been removed from the Register of Approved Institutions, appoint a CBBA in accordance with Section 59(2)(j) of the Cypriot Covered Bond Law. Following such a breach, no further Covered Bonds may be issued by the Issuer and the Competent Authority may remove the Issuer from the Register of Approved Institutions if the breach is not remedied.

Under the Covered Bond Legislation, the Issuer's obligations and undertaking in respect of the Covered Bonds will endure notwithstanding the Issuer's removal from the Register of Approved Institutions.

See further "*Breach of Covered Bond Legislation*" below.

Set-off Reserve

As required and in accordance with Article 22 of the Cypriot Covered Bond Directive, the Issuer shall maintain, for so long as any Covered Bonds are outstanding, a set-off reserve (the **Set-off Reserve**) in the form of Complementary Assets or additional Cover Assets included in the Cover Pool equal to the amount (if any) that is subject to set-off.

Pursuant to Section 40(4) of the Cypriot Covered Bond Law, when calculating the amount of set-off, to the extent that the Issuer is subject to dissolution proceedings and a creditor of the Issuer has any right of set-off against the Issuer with respect to a Loan Asset, any such rights will be treated as being exercised first against any assets which do not form part of the Cover Pool and thereafter against any Loan Assets which form part of the Cover Pool.

See further "*Overview of the Covered Bond Legislation*" for more information.

Amendment to definitions

The Trust Deed will provide that the definitions of the Issuer Eligibility Criteria and the Cover Pool Adequacy Criteria may be amended by the Issuer from time to time as a consequence of, inter alia, including in the Cover Pool, New Asset Types and/or changes to the hedging policies or servicing and collection procedures of the Issuer without the consent of the Trustee provided that:

- (i) the Rating Agencies then rating the Covered Bonds, the Competent Authority, the Covered Bond Monitor and, if applicable, the CBBA are notified of such amendments; and
- (ii) the Competent Authority consents to such amendments.

In addition, no amendment, modification or variation to a Transaction Document may be effective unless the Issuer shall have obtained from the Competent Authority confirmation that such modification would not breach the provisions of the Covered Bond Legislation.

See "*Description of the Transaction Documents — The Trust Deed — Amendment to Definitions*".

Servicing and collection procedures

The Issuer will be responsible for the servicing of the Cover Pool and will agree, pursuant to the terms of the Trust Deed, to carry out, inter alia, the following activities:

- (a) collection and recovery in respect of the Cover Pool Asset;
- (b) administration and management of the Cover Pool;
- (c) management of any judicial or extra judicial proceeding connected to the Cover Pool;
- (d) keeping accounting records of the amounts due and collected under the Loan Assets and the Hedging Agreements;

- (e) preparation of statutory reports (to be submitted to the Trustee, the Competent Authority, the Covered Bond Monitor and the Rating Agencies) on the amounts due by debtors, and on the collections and recoveries made in respect of the Loan Assets and Hedging Agreements; and
- (f) carrying out the reconciliation of the amounts due and the amounts effectively paid by the debtors under the Loans on the relevant Cover Pool Payment Date.

Following the appointment of a CBBA, the CBBA may, in accordance with the Covered Bond Legislation, appoint a suitable entity to carry out the servicing activities in respect of the Cover Pool or otherwise monitor the Issuer in doing so.

ACCOUNTS AND CASH FLOW STRUCTURE:

Collection Account

All collections of interest and principal the Issuer receives on the Cover Pool Assets shall be paid into a euro account maintained at the Issuer (the **Collection Account**). Pursuant to the Covered Bond Legislation, the Issuer will record all debits and credits and the flow of principal and interest to the Collection Account.

The Issuer has agreed, pursuant to the Trust Deed, to transfer to the Transaction Account within one Business Day of receipt all collections of interest and principal standing to the credit of the Collection Account which derive from Cover Pool Assets.

For the avoidance of doubt, any cash amounts standing to the credit of the Collection Account which have not been transferred to the Transaction Account shall not comprise part of the Cover Pool for the purposes of the Statutory Tests.

Transaction Account

On about the establishment of the Programme, a segregated Euro denominated account was established with the Account Bank in respect of the Cover Pool (the **Transaction Account**).

Pursuant to the terms of the Bank Account Agreement, the Issuer, or the Account Bank on its behalf, will (in accordance with Article 21(2) of the Cypriot Covered Bond Directive) (a) record all credits and debits made from the Transaction Account (and note the purpose of each such credit and debit made) and (b) record the total amount standing to the credit of the Transaction Account at any given time.

In addition, the Bank Account Agreement will set out the individuals that are authorised to operate the Transaction Account.

The Transaction Account will be maintained with the Account Bank for as long as the Account Bank is an Eligible Institution.

Covered Bonds Available Funds

Payments on the Covered Bonds in respect of the Cover Pool will be made from (i) the Covered Bonds Available Funds and (ii) to the extent the Covered Bonds Available Funds are insufficient to satisfy all amounts

set out in the Pre-Event of Default Priority of Payments any other funds available to the Issuer in accordance with the relevant Priority of Payments.

Covered Bonds Available Funds means, at any Cover Pool Payment Date, as the case may be, the aggregate of:

- (a) all amounts standing to the credit of the Transaction Account at the immediately preceding Calculation Date;
- (b) all amounts (if any) paid or to be paid on or prior to such Cover Pool Payment Date by the Hedging Counterparties into the Transaction Account pursuant to the Hedging Agreement(s) (save as provided in (ii) below);
- (c) all amounts of interest paid on the Transaction Account during the Interest Period immediately preceding such Cover Pool Payment Date;
- (d) all proceeds from the sale of Loan Assets (or any other disposal thereof) comprised in the Cover Pool other than with respect to a disposal of the entire Cover Pool;
- (e) all amounts deriving from any returns from or repayment at maturity of any Complementary Assets which forms part of the Cover Pool on or prior to such Cover Pool Payment Date.

In accordance with Section 28(1)(b) of the Cypriot Covered Bond Law, Covered Bonds Available Funds may also be used by the Issuer in creating or acquiring Additional Cover Pool Assets for the fulfilment of the Cover Pool Adequacy Criteria.

For the avoidance of doubt:

- (i) should there be any duplication in the amounts included in the different items of the Covered Bonds Available Funds above, the Issuer shall avoid such duplication when calculating the Covered Bonds Available Funds;
- (ii) the Covered Bonds Available Funds will not include (A) any early termination amount received by the Issuer under a Hedging Agreement, which is applied in acquiring a replacement Interest Rate Swap or Covered Bond Swap (as applicable); (B) any Excess Swap Collateral or Swap Collateral, except to the extent that the value of such Swap Collateral has been applied, pursuant to the provisions of the relevant Hedging Agreement, to reduce the amount that would otherwise be payable by the Hedging Counterparty to the Issuer on early termination of the Interest Rate Swap or Covered Bond Swap (as applicable) and, to the extent so applied in reduction of the amount otherwise payable by the Hedging Counterparty, such Swap Collateral is not to be applied in acquiring a replacement swap (the **Swap Collateral Excluded Amounts**); (C) any premium received by the Issuer from a replacement Hedging Counterparty in respect of a

replacement Interest Rate Swap or Covered Bond Swap, to the extent used to make any termination payment due and payable by the Issuer with respect to the previous Interest Rate Swap or Covered Bond Swap; and (D) any tax credits received by the Issuer in respect of an Interest Rate Swap or Covered Bond Swap (as applicable) used to reimburse the relevant Hedging Counterparty for any gross-up in respect of any withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature (and wherever imposed) made under the relevant Interest Rate Swap or Covered Bond Swap (as applicable).

Excess Swap Collateral means in respect of a Hedging Agreement, an amount (which will be transferred directly to the Hedging Counterparty in accordance with the Hedging Agreement) equal to the amount by which the value of the collateral (or the applicable part of any collateral) provided by the Hedging Counterparty to the Issuer pursuant to the Hedging Agreement exceeds the Hedging Counterparty's liability under the Hedging Agreement (such liability determined as if no collateral had been provided) which it is otherwise entitled to have returned to it under the terms of the Hedging Agreement;

Hedging Agreements means each Interest Rate Swap Agreement and each Covered Bond Swap Agreement.

Swap Collateral means, at any time, any asset (including, without limitation, cash and/or securities) other than Excess Swap Collateral, which is paid or transferred by a Hedging Counterparty to the Issuer as collateral in respect of the performance by such Hedging Counterparty of its obligations under the relevant Hedging Agreement together with any income or distributions received in respect of such asset and any equivalent of such asset into which such asset is transformed.

Events of Default

If one of the following events occurs (each an **Event of Default**):

- (a) on the Final Maturity Date (in respect only of any Series to which an Extended Final Maturity Date is not applicable) or Extended Final Maturity Date, as applicable, in respect of any Series or on any Interest Payment Date on which principal is due and payable thereon, there is a failure to pay any amount of principal due on such Covered Bonds on such date and such default is not remedied within a period of seven Business Days from the due date thereof; or
- (b) on any Interest Payment Date, a default in the payment of the amount of interest due on any Series occurs and such default is not remedied within a period of 14 Business Days from the due date thereof; or
- (c) dissolution proceedings are entered into with respect to the Issuer and no Covered Bond Business Administrator is appointed by the Competent Authority within a period of 10 Business Days thereafter,

then the Trustee shall, upon direction by the relevant majority of Covered Bondholders (subject to being indemnified and/or secured and/or prefunded to its satisfaction), serve a notice (a **Notice of Default**) on the Issuer (copied to the Covered Bond Monitor, the Competent Authority, the Custodian and, if appointed, the CBBA).

Following the service of a Notice of Default (i) no further Covered Bonds will be issued and (ii) the Covered Bonds of each Series shall become immediately due and payable.

Service of a Notice of Default may if so requested by the relevant majority of Covered Bondholders be deemed to be approval from the Covered Bondholders for the immediate settlement of the Covered Bonds by the CBBA as set out in Section 62(1)(a) of the Cypriot Covered Bond Law.

Breach of Covered Bond Legislation

If the Issuer is in breach of the Covered Bond Legislation and fails to rectify the relevant breach within the time period notified by the Competent Authority, the Competent Authority has the power to: (i) fine the Issuer; (ii) remove the Issuer from the Register of Approved Institutions; or (iii) where the Issuer has already been removed from the Register of Approved Institutions, appoint a Covered Bond Business Administrator in accordance with Section 59(2)(j) of the Cypriot Covered Bond Law.

Under the Covered Bond Legislation, the Issuer's obligations and undertaking in respect of the Covered Bonds will endure notwithstanding the Issuer's removal from the Register of Approved Institutions.

Consequences of removal from the Register of Approved Institutions

Following the removal of the Issuer from the Register of Approved Institutions, no further Covered Bonds may be issued by the Issuer and the Cover Pool will, in addition to the Statutory Tests, be subject to the Asset Adequacy Test.

In addition, pursuant to Section 32 of the Cypriot Covered Bond Law, in certain circumstances the Issuer will only be able to carry out its covered bond business with the written consent of the Covered Bond Monitor. This will occur where:

- (a) the Competent Authority believes there are reasons that could potentially lead to the Issuer being removed from the Register of Approved Institutions and it requires that the Issuer's covered bond business be monitored; or
- (b) where the Issuer has been removed from the Register of Approved Institutions but no CBBA has been appointed by the Competent Authority.

Where the Issuer is removed from the Register of Approved Institutions but no CBBA has been appointed by the Competent Authority, the Issuer must, within a time period specified by the Competent Authority, provide to the Competent Authority and the Covered Bondholders details of a scheme specifying the measures it will take in order to service the

Covered Bonds then outstanding in accordance with the terms of their issue (the **Scheme**).

Appointment of the Covered Bond Business Administrator

Pursuant to the Covered Bond Legislation, the Competent Authority has the power to appoint the Covered Bond Business Administrator.

In accordance with Section 59(1) of the Cypriot Covered Bond Law, a Covered Bond Business Administrator shall be appointed by the Competent Authority where dissolution proceedings have been initiated against the Issuer.

In accordance with Section 59(2) of the Cypriot Covered Bond Law, a Covered Bond Business Administrator may be appointed by the Competent Authority where the Competent Authority considers the appointment necessary in order to safeguard the interests of the Covered Bondholders, any Hedging Counterparties or other creditors of the Issuer following the occurrence of certain insolvency events in relation to the Issuer.

In addition, the Competent Authority may appoint a CBBA in respect of the Issuer where:

- (a) the Issuer fails to provide the Competent Authority with the Scheme within the time period specified; or
- (b) where the Competent Authority reasonably believes that the Scheme has not been properly communicated to the Covered Bondholders; or
- (c) the Competent Authority considers the measures stated in the Scheme to be inadequate.

Pursuant to Section 61 of the Cypriot Covered Bond Law, upon the appointment of the CBBA, the CBBA shall:

- (a) where no dissolution proceedings have been initiated against the Issuer, take over the management of the Issuer's covered bond business; or
- (b) where dissolution proceedings have been initiated against the Issuer, assume control and management of the Cover Pool and act in accordance with the provisions of Part VII of the Cypriot Covered Bond Law (which includes provisions relating to the disposal of all or part of the Cover Pool).

Following the appointment of the CBBA, the CBBA shall inform the Competent Authority and each Cover Pool Creditor (in the case of the Covered Bondholders, via the Trustee) of the measures they will take in order to discharge the Issuer's obligations with respect to the Cover Pool Creditors.

Powers of the Covered Bond Business Administrator

Where the CBBA reasonably believes that following a potential initiation of dissolution proceedings the Cover Pool will not be adequate to fully cover the claims of the relevant Cover Pool Creditors, the CBBA may,

with the consent of the Competent Authority and the required majority of Covered Bondholders, require:

- (a) the immediate settlement of the outstanding Covered Bonds; or
- (b) the transfer of the covered bond business to another Approved Institution.

Pursuant to the terms of the Trust Deed if the Trustee receives, or has been notified by the Issuer, the Competent Authority or the Covered Bond Monitor that they have received, notice from the CBBA that it wishes to exercise its powers under Section 62(2) of the Cypriot Covered Bond Law, the Trustee shall be required to seek directions from the Covered Bondholders (by way of an Extraordinary Resolution of the Covered Bondholders of all Series taken as a single Series) as to what action they wish the CBBA to take.

In addition, pursuant to Section 40(7) of the Cypriot Covered Bond Law, the CBBA is prescribed a wide range of powers and is able to (i) borrow, (ii) enter into hedging contracts, (iii) acquire or create Complementary Assets or, with the approval of the competent authority, any other asset, (iv) subject to the provisions of Sections 41 and 42, charge, transfer or dispose of a Loan Asset, (v) enter into an agreement with an Approved Institution whereby such Approved Institution assumes the Cover Pool and the obligations to the Cover Pool Creditors, with the consent of Covered Bondholders, (vi) institute or defend any action or other legal proceeding in respect of a Loan Asset or hedging contract included in the Cover Pool, (vii) issue receipt of partial or full repayment of credit facilities constituting Loan Assets, (viii) exercise the powers and rights under any security held in relation to a Loan Asset or a hedging contract included in the Cover Pool and (ix) inspect the records of the Issuer (when subject to dissolution proceedings), applying, by analogy, the provisions of the Companies Law, the Cooperative Societies Laws of 1985 to 2010 or any other law relating to the inspection of books and records of the Issuer by its creditors.

See further "*Overview of the Covered Bond Legislation*" below.

Priority of Payments prior to the delivery of a Notice of Default

Prior to the delivery of a Notice of Default, the Issuer shall apply (i) all Covered Bonds Available Funds in respect of the Cover Pool (which funds shall include all amounts standing to the credit of the Transaction Account) and (ii) to the extent the Covered Bonds Available Funds are insufficient to satisfy all amounts set out in the Pre-Event of Default Priority of Payments any other funds available to the Issuer on each Cover Pool Payment Date in making the following payments and provisions in the following order of priority (the **Pre-Event of Default Priority of Payments**) (in each case only if and to the extent that payments of a higher priority have been made in full):

- (i) *first, pari passu* and *pro rata* according to the respective amounts thereof, in or towards satisfaction of all amounts then due and payable or to become due and payable prior to the next Cover Pool Payment Date to the Trustee or any attorney, manager, agent, delegate, nominee, custodian or other person appointed by

the Trustee under the Trust Deed (an **Appointee**) (including remuneration or amounts by way of indemnity payable to it) under the provisions of the Trust Deed or any other Transaction Document together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein and any additional fees, costs, expenses and taxes due and payable on the Cover Pool Payment Date or to provide for all such amounts that will become due and payable prior to the next Cover Pool Payment Date to fund any notice to be given to any parties in accordance with any of the Transaction Documents or to the Covered Bondholders;

- (ii) *then*, to pay all amounts due and payable on the Cover Pool Payment Date, or to provide for all such amounts that will become due and payable prior to the next Cover Pool Payment Date (and for which payment has not been provided for elsewhere in the relevant Priorities of Payments), to any Cover Pool Creditors other than the Covered Bondholders and with the exception of any amount due to be paid, or that will become due and payable prior to the next Cover Pool Payment Date, to the Hedging Counterparties under the Hedging Agreements;
- (iii) *then, pari passu and pro rata*, according to the respective amounts thereof (a) to pay all amounts of interest due and payable on the Covered Bonds on the Cover Pool Payment Date, or to provide for all such amounts that will become due and payable prior to the next Cover Pool Payment Date or are otherwise required to be provisioned for with respect to the relevant Liquidity Tests on any Covered Bonds and (b) to pay any amounts due and payable on the Cover Pool Payment Date, or to provide for all such amounts that will become due and payable prior to the next Cover Pool Payment Date under any Hedging Agreement other than Subordinated Termination Payments to any Hedging Counterparties under any such Hedging Agreements;
- (iv) *then*, to pay all amounts of principal due and payable on the Covered Bonds on the Cover Pool Payment Date, or to provide for all such amounts that will become due and payable prior to the next Cover Pool Payment Date or are otherwise required to be provisioned for with respect to the relevant Liquidity Tests (if any) on any Covered Bonds;
- (v) *then*, to pay *pari passu* and *pro rata*, according to the respective amounts thereof, any amount due and payable on the Cover Pool Payment Date, or to provide for all such amounts that will become due and payable prior to the next Cover Pool Payment Date to any Hedging Counterparties arising out of any Subordinated Termination Payment; and
- (vi) *finally*, for so long as the Issuer is in compliance with the Cover Pool Adequacy Criteria, to pay any excess to the Issuer and, for so long as the Issuer is not in compliance with the Cover Pool Adequacy Criteria, shall be: (a) utilised for the creation or

acquisition of Cover Pool Assets; or (b) deposited in the Transaction Account to the extent not utilised with respect to (a) above.

Any amounts held in the Transaction Account pursuant to item (vi)(b) above may be used at any time for the purposes of acquiring or creating new assets in the Cover Pool.

Subordinated Termination Payment means, subject as set out below, any termination payments due and payable to any Hedging Counterparty under a Hedging Agreement where such termination results from (a) an Additional Termination Event "*Ratings Event*" as specified in the schedule to the relevant Hedging Agreement, (b) the bankruptcy of the relevant Hedging Counterparty, or (c) any default and/or failure to perform by such Hedging Counterparty under the relevant Hedging Agreement, other than, in the event of (a) or (b) above, the amount of any termination payment due and payable to such Hedging Counterparty in relation to the termination of such transaction to the extent of any premium received by the Issuer from a replacement hedging counterparty.

VAT or Value Added Tax means:

- (a) any tax imposed in compliance with the Council Directive of 28 November 2006 on the common system of value added tax (EC Directive 2006/112); and
- (b) any other tax of a similar nature, whether imposed in a member state of the European Union in substitution for, or levied in addition to, such tax referred to in paragraph (a) above, or imposed elsewhere.

**Priority of Payments
following the delivery of a
Notice of Default**

Following delivery of a Notice of Default, all Covered Bonds Available Funds with respect to the Cover Pool shall be applied on any Business Day in making the following payments and provisions in the following order of priority (the **Post-Event of Default Priority of Payments**) (in each case only if and to the extent that payments of a higher priority have been made in full):

- (i) *first*, in or towards satisfaction of all amounts then due and payable to the Trustee or any Appointee (including remuneration or amounts by way of indemnity payable to it) under the provisions of the Trust Deed or any other Transaction Document together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein;
- (ii) *then, pari passu* and *pro rata* according to the respective amounts thereof to pay any additional fees, costs, expenses and taxes due and payable to fund any notice to be given to any parties in accordance with any of the Transaction Documents or to the Covered Bondholders;
- (iii) *then, pari passu* and *pro rata* according to the respective amounts thereof to pay all amounts due and payable (and for which payment has not been provided for elsewhere in the relevant Priorities of Payments), to any Cover Pool Creditors other than

the Covered Bondholders and with the exception of any amount due to be paid to the Hedging Counterparties under the Hedging Agreements;

- (iv) *then, pari passu and pro rata*, according to the respective amounts thereof (a) to pay all amounts of interest and principal then due and payable on any Covered Bonds and (b) to pay any amounts then due and payable, under any Hedging Agreement other than Subordinated Termination Payments to any Hedging Counterparties under any such Hedging Agreements;
- (v) *then*, to pay *pari passu and pro rata*, according to the respective amounts thereof, any amount then due and payable on the Cover Pool Payment Date to any Hedging Counterparties arising out of any Subordinated Termination Payment; and
- (vi) *finally*, once all Covered Bonds have been redeemed, to pay any excess to the Issuer.

Priority of Payments where the Issuer is subject to dissolution proceedings and the Cover Pool is disposed of in its entirety

Where the Issuer is subject to dissolution proceedings and the Cover Pool is sold or otherwise disposed of in its entirety, all proceeds of such disposal (the **Cover Pool Disposal Proceeds**) shall be applied on any Business Day in accordance with the order of priority of payments (the **Cover Pool Disposal Priority of Payments** and, together with the Pre-Event of Default Priority of Payments and the **Post-Event of Default Priority of Payments** the **Priorities of Payments** and, each of them a **Priority of Payments**) provided in Sections 43 to 45 (inclusive) of the Cypriot Covered Bond Law provided that such amounts will be distributed first, *pari passu and pro rata*, towards payment of all amounts due and payable to any Covered Bond Business Administrator and the Covered Bond Monitor (provided that all amounts due and payable to the Trustee (a) in respect of activities, services or other matters performed at the behest, or with the consent, of the Covered Bond Business Administrator and/or the Competent Authority or (b) resulting from or in connection with the holding of any meetings of Covered Bondholders or (c) resulting from or related to any actions taken or to be taken pursuant to resolutions passed at such meetings (provided that the amounts due and payable to the Trustee in respect of such actions have been approved by the Covered Bondholders at any such meetings) will be treated as amounts due and payable to the Covered Bond Business Administrator and be paid at this level of priority).

Trust Deed

Under the terms of the Trust Deed entered into on 18 July 2011 (as the same may be amended, restated, varied, replaced, novated and/or supplemented from time to time including on 17 January 2012, 6 June 2014 and 11 November 2014) between the Issuer and the Trustee, the Trustee was appointed to act as the Covered Bondholders' trustee.

Agency Agreement

Under the terms of the agency agreement entered into on 18 July 2011 (as the same may be amended, restated, varied, replaced, novated and/or supplemented from time to time including on 17 January 2012 and 11 November 2014) between the Issuer, the Principal Paying Agent and the Trustee (the **Agency Agreement**), the Paying Agents have agreed to provide the Issuer with certain agency services and the Paying Agents

have agreed, inter alia, to make available for inspection such documents as may be required from time to time by the rules of the Luxembourg Stock Exchange and to arrange for the publication of any notice to be given to the Covered Bondholders.

Bank Account Agreement

Under the terms of the bank account agreement entered into on 18 July 2011 (as the same may be amended, restated, varied, replaced, novated and/or supplemented from time to time including on 17 January 2012 and 11 November 2014) between the Account Bank, the Issuer and the Trustee (the **Bank Account Agreement**), The Bank of New York Mellon has agreed to operate the Transaction Account (the **Bank Account**) in accordance with the instructions given by the Issuer. In addition, the Account Bank has also agreed to operate certain cash and securities collateral accounts as required from time to time to hold cash or securities respectively with respect to the Issuer's obligations to maintain the Set-off Reserve.

Custody Agreement

The Issuer entered into a custody agreement with respect to certain cash and securities collateral accounts on 18 July 2011 (as the same may be amended, restated, varied, replaced, novated and/or supplemented from time to time), between, *inter alios*, the Custodian and the Issuer (the **Custody Agreement**).

Transaction Documents

The Programme Agreement, each Subscription Agreement, the Agency Agreement, the Trust Deed, the Custody Agreement, the Bank Account Agreement, the Covered Bond Monitor Agreement, the Master Definitions and Construction Schedule, each of the Final Terms, the Conditions, the Hedging Agreements, together with any additional document entered into in respect of the Covered Bonds and/or the Cover Pool and/or with respect to any other security created by the Issuer and designated as a Transaction Document by the Issuer and the Trustee, are together referred to as the **Transaction Documents**.

Subscription Agreement means an agreement supplemental to the Programme Agreement (by whatever name called) in or substantially in the form set out in the Programme Agreement or in such other form as may be agreed between the Issuer and the lead manager in respect of an issue of Covered Bonds or one or more Dealers (as the case may be).

RISK FACTORS

The following is a description of the principal risks associated with an investment in the Covered Bonds. In purchasing Covered Bonds, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Covered Bonds or that the Cover Pool is not sufficient to make payments in respect of the Covered Bonds. There is a wide range of factors which individually or together could affect the Issuer's ability to make all payments due in respect of the Covered Bonds or affect the value of the Cover Pool. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer may not be aware of all relevant factors and certain factors which it currently deems not to be material may become material as a result of the occurrence of events outside the Issuer's control. The Issuer has identified in this Base Prospectus a number of factors which could materially adversely affect its business, the value of the Cover Pool and the ability to make payments due under the Covered Bonds.

In addition, factors which are material for the purpose of assessing the market risks associated with Covered Bonds issued under the Programme are also described below.

Prospective investors should carefully read and consider all the information contained in this Base Prospectus, including the risk factors set out in this section, and reach their own views prior to making any investment decision. Any of the risks described below or additional risks not currently known to the Issuer could have a material adverse effect on the business, financial condition, operations or prospects of the Issuer and could result in a corresponding decline in the value of the Covered Bonds or the Cover Pool. If potential investors are in doubt about the contents of this Base Prospectus they should consult with an appropriate professional adviser to make their own legal, tax, accounting and financial evaluation of the merits and risk of investment in such Covered Bonds.

Risks Relating to the Economic Crisis in Cyprus

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

As of 31 December 2013, 94.4% and 91.2% of the Issuer's total assets and total liabilities, respectively, and 88.0% of the Issuer's total income from continuing operations in 2013, were derived from its operations in Cyprus. As of 30 June 2014, 93.8% and 91.7% of the Issuer's total assets and total liabilities, respectively, and 90.5% of the Issuer's total income from continuing operations for the first half of 2014, were derived from its operations in Cyprus. Given its high credit exposure to Cypriot businesses and households, the Issuer'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% in 2010 to a decline of 2.4% in 2012. The contraction in real GDP increased to 5.4% in 2013, with a decline in all components in domestic demand. The recession is expected to continue through 2014, with the decline in real GDP projected at 3.2% by the International Monetary Fund (IMF) (Article IV Consultation Country Report for Cyprus, October 2014) and at 2.8% by the European Commission (European Economic Forecast, Autumn 2014). In the labour market, unemployment remains high, with an average unemployment rate of 15.9% in 2013 and 15.4% in first half of 2014.

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

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

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

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

delayed recovery and a further adverse effect on the Issuer's business, financial condition and results of operations.

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

For example, on 13 October 2014, a meeting of the main forum for the management of the single currency area, consisting of the finance ministers of the countries whose currency is the euro (the **Eurogroup**) convened to discuss Cyprus' progress with the implementation of the MoU. The Eurogroup concluded that the fifth Troika review of the EAP, and the payment of the next tranche of funds from the ESM and IMF, would be delayed until the Supreme Court issued its decision on the constitutionality of the four supplementary foreclosure-related bills, passed by the Cypriot parliament in September 2014. On 31 October 2014, the Supreme Court unanimously held that the four supplementary foreclosure-related bills were unconstitutional. However, it is still unclear whether the Troika will conclude that the package of foreclosure law reforms passed by the Cypriot parliament in September 2014 substantially meets the MoU's objectives for the reform of the foreclosure regime in Cyprus, and, therefore, whether the next tranche of funds from the ESM and IMF would be further withheld or delayed (also, see "*— Regulatory and Legal Risks — The Issuer is subject to certain regulatory and legal constraints in originating new loans, managing existing loans and foreclosing on collateral*").

Further, the failure to implement certain structural reforms specified in the MoU, such as the reduction of the government deficit and enhancement of revenue collection, could result in Cyprus' failure to restore its economy and credit ratings. Moreover, there can be no assurances that financial assistance to the Government from the Troika will continue in the future as a result of increasing public discontent regarding the support of Cyprus and other countries which are Member States that have adopted the euro as their national currency (in accordance with the Treaty on EU signed at Maastricht on 7 February 1992) (the **Eurozone**).

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

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

The protracted period of poor economic conditions in Cyprus is materially and adversely affecting the liquidity, business activity and financial conditions of the Issuer's borrowers which in turn leads to further decreases in demand for borrowing in general and increases the Group's loans with a specific provision (impaired loans) and loans past due for more than 90 days but not impaired (**90+DPD**), impairment charges on loans and other financial assets and deposit outflows. In addition, the Group's loans and advances to customers declined from €27.4 billion as at 31 December 2011 to €21.8 billion as at 31 December 2013 and to €20.1 billion as at 30 June 2014, and the Group's loans that were 90+DPD increased from €5.0 billion as at 31 December 2011 to €13.0 billion as at 31 December 2013 and €12.6 billion as at 30 June 2014. The ratio of loans that were 90+DPD to gross loans (the **90+DPD Ratio**) was 48.6% and 49.8% as at 31 December 2013 and 30 June 2014, respectively. Although the loans that were 90+DPD decreased from €13.0 billion as at 31 December 2013 to €12.6 billion as at 30 June 2014, there can be no assurance that the Group will be able to maintain this decrease in the Group's delinquent loans.

It should also be noted that the Issuer's non-performing loans calculated on the basis of the new definition provided by the CBC increased from €14.0 billion as at 31 December 2013 to €14.6 billion as at 30 June 2014. For an explanation of the CBC definition of non-performing loans and a discussion of the Issuer's non-performing loan portfolio, see "*Operating and Financial Review and Prospects — Presentation and*

Comparability of Financial Information — Non-Performing Loans" and "Selected Statistical and Other Information — Credit Risk — Non-performing loans", respectively. If the financial performance and creditworthiness of the Group's borrowers in Cyprus worsen or do not improve, the quality of the Group's domestic loan portfolio will continue to deteriorate and, consequently, this would have a material adverse impact on the Group's financial condition and results of operations.

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

In the years prior to 2009, population increase, economic growth, declines in unemployment rates and increases in levels of household disposable income, together with low interest rates within the EU and increased foreign demand, led to an increase in the demand for mortgage loans in Cyprus. This increased demand and the widespread availability of mortgage loans affected housing prices, which rose significantly. After this buoyant period, Cyprus' real estate market began to decline mainly as a result of the global financial crisis from late 2008 onwards. As a result of the Cypriot economic crisis, Cyprus suffered its largest decline in real estate prices in 2013 on annual basis. The residential property price index maintained by the CBC recorded a 6.8% annual average decrease from 2012 to 2013, which was the largest decrease since the CBC's first publication of this index in 2006. In the first half of 2014, the residential property price index recorded a decrease of 9.4%, compared with a decrease of 5.7% in the first half of 2013 (on a year-on-year basis).

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

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

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

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

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

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

- changes in the level of interest rates imposed by the ECB;
- fluctuations in consumer confidence and the level of consumer spending;
- EU regulations and directives relating to the banking and other sectors;
- political instability or military conflict that impact Europe and/or on other regions (see "*—The Group's operations and assets in Russia, Ukraine and Romania have been, and may continue to be, adversely affected by recent economic and political events.*"); and
- taxation and other political, economic or social developments affecting Cyprus, Russia, the United Kingdom or the EU. For example, on 18 March 2014, the Russian Ministry of Finance published a draft law which proposes to impose tax on the income of companies that are registered in offshore jurisdictions (such as Cyprus) and are owned by Russian ultimate beneficiaries. If this law is passed, it could have a material adverse impact on the Issuer's deposits from Russian customers.

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

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

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

Since the second half of 2007, disruption in the global credit markets has created increasingly difficult conditions in the financial markets. These conditions have resulted in decreased liquidity and greater volatility in global financial markets, and continue to affect the functioning of financial markets and the global economy. Although the IMF marginally reduced its global growth projections for 2014, the outlook remains positive and is expected to improve further in 2015, but this is primarily supported by the ongoing accommodative monetary policy, combined with less severe fiscal tightening, in most major economies. In particular, the U.S. economy grew in the second half of 2013, mainly as a result of an improvement in the housing and labour market, an expansionary monetary policy, as well as declining fiscal risks related to the rise of the U.S. government's debt ceiling. The deceleration in the growth of the Chinese economy in 2013 was offset by the Chinese government's proactive fiscal and monetary policy and China's economy remains subject to significant risks including a significant concentration of debt financing in public infrastructure projects and oversupply in the manufacturing and real estate sectors. The Eurozone economy exited recession in the second quarter of 2013 following six quarters of negative economic activity. However, the Eurosystem remains on a monetary easing mode in 2014 and it is using more unconventional monetary policy tools, such as Targeted Long Term Refinancing Operations (or **TLTROs**), lower policy rates and asset purchases, to reduce the risk of deflation. Accordingly, the continuing recovery of the global economy remains subject to the continued employment of accommodative and expansionary monetary policies by

major economies and there can be no assurance that the governments of these economies will continue to do so or that the employment of these policies will be sufficient to address the fiscal risks which remain. In particular, in Europe, despite measures taken by several governments, international and supranational organisations and monetary authorities to provide financial assistance to Eurozone countries in economic difficulty and to mitigate the possibility of default by such countries on their sovereign debt obligations, concerns persist regarding the debt and/or deficit burden of certain Eurozone countries, including Cyprus, and their ability to meet future financial obligations, given the diverse economic and political circumstances in individual member states of the Eurozone. It remains difficult to predict the effect of these measures on the economy and on the financial system, how long the crisis will last and to what extent the Group's business, results of operations and financial condition may be adversely affected. As a result of the foregoing risks concerning the continued recovery of the global economy, the Group's ability to access the international capital and financial markets to meet the financial requirements of the Group may be adversely impacted and costs of financing may significantly increase. This could materially and adversely affect the business, financial condition and results of operations of the Group.

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

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

The Group operates in Russia mainly through its Russian subsidiary, CB Uniastrum Bank LLC (**Uniastrum**). Russia is the Group's largest market outside of Cyprus, representing 5.6% of income from continuing operations, 4.2% of total assets and 5.0% of total liabilities during the six months ended 30 June 2014. Even though the Issuer disposed of certain assets and liabilities of its Romanian operations to Marfin Bank (Romania) SA (**Marfin Bank Romania**) pursuant to the Sale of certain operations in Romania of Bank of Cyprus Public Company Ltd Decree of 2013 (the **Romanian Operations Decree**) and sold its 9.99% equity stake in Banca Transilvania, a Romanian bank, in April 2014 and its interest in GHES, which owns a hotel in Romania, in September 2014, the Issuer still operates a branch in Romania which is managing the Issuer's remaining loan portfolio and the disposal of loan collateral assets which are primarily comprised of real estate in Romania. As of 30 June 2014, the Group's gross loans and advances to customers in Romania before fair value adjustments on initial recognition were €466.6 million, including loans and advances classified as held for sale. The Group's investment property in Romania at 30 June 2014 amounted to €35.2 million. The Issuer also has significant intragroup funding exposures with respect to Uniastrum and its remaining operations in Romania. As of 30 June 2014, the Issuer's total net intragroup funding to its units in Russia and in Romania was €261.4 million and €336.2 million, respectively. In addition, the Issuer may be required to provide additional funding or capital to Uniastrum if the Central Bank of the Russian Federation (the **CBR**) determines that Uniastrum requires additional capital as a result of its review of Uniastrum's loan portfolio which commenced on 31 July 2014.

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

In April 2014, the Group sold its business in Ukraine comprising its 99.77% holding in PJSC Bank of Cyprus, the funding provided by the Group to PJSC Bank of Cyprus and its loans with Ukrainian exposures,

to the Alfa Group, the Russian banking group. The Group continues to have residual exposure to Ukraine pursuant to the terms of the transaction agreement.

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

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

Risks Relating to the Group's Business

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

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

As from 1 January 2014, CRD IV and the CRR became effective comprising the European regulatory package designed to transpose the new capital, liquidity and leverage standards of Basel III into the European Union's legal framework. The CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by and is immediately binding on all EU Member States. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency. Unlike the CRR, CRD IV must be transposed into national law and national regulators, such as the CBC, can impose additional capital buffer requirements. The CRR introduces significant changes in the prudential regulatory regime applicable to banks including amended minimum capital ratios, changes to the definition of capital and the calculation of risk-weighted assets (**RWAs**) and the introduction of new measures relating to leverage, liquidity and funding. The CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which are not expected to be fully implemented until 2018. For more detail on CRD IV and the CRR, see "*Regulation and Supervision of the Banks in Cyprus—The Regulatory Framework*" and "*Regulation and Supervision of Banks in Cyprus — Guidelines for Capital Requirements*". As of 30 June 2014, the Issuer's Common Equity Tier 1 (**CET1**) ratio was 11.3%.

The CBC has determined the extent of phasing-in of the transitional provisions relating to CET 1 deductions and, on 29 May 2014, set the minimum CET 1 capital ratio at 8%. The CBC will also impose additional

capital requirements for risks which are not covered by the above-mentioned capital requirements, taking also into account the provisions of CRD IV/CRR and the results of the AQR and the EU-wide stress test.

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

Compliance with new regulations might also restrict certain types of transactions, affect the Issuer's strategy and limit or imply the modification of the rates or fees charged by the Issuer for certain loans and other products, where any of the foregoing might reduce the yield of its investments, assets or holdings. Accordingly, the Issuer 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 Issuer.

The Issuer'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 Issuer and the Issuer's access to capital depends on its credit rating.

The Issuer currently has a long-term deposit rating from Moody's of Ca, which is on review for upgrade, and a long-term issuer default rating from Fitch of CC . These ratings reflect in part the sovereign ratings of Cyprus (Caa3 from Moody's and B- from Fitch) which take into account the capital control measures imposed by the Ministry of Finance of Cyprus which are still in place (see "*Regulation and Supervision of Banks in Cyprus — Capital Control Measures*"). The Issuer'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 Issuer*"), further downgrade of Cyprus' rating may occur in the event of a failure to implement the requirements of the MoU or if the structural reforms implemented under the MoU do not produce the economic results expected. Accordingly, the cost of funding for Cyprus would increase further, with negative effects on the cost of funding and credit ratings for Cypriot banks. Further downgrades of the Issuer's credit rating (including as a result of downgrades of the sovereign rating of Cyprus) would exacerbate this and could potentially exclude the Issuer from private sources of wholesale funding.

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

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

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

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

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

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

Central bank funding that the Issuer 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 Issuer provides, including the market value of Government securities and own issued Government guaranteed securities and the value of its loan portfolio, which may also decline in value. If the value of the Issuer's assets declines, then the amount of funding the Issuer can obtain from these facilities may be correspondingly limited. In particular, the CBC performs its own valuation of the Issuer's loan portfolio and, if the CBC were to determine that the credit quality of the Issuer's loan portfolio has deteriorated, the value of the Issuer's eligible ELA collateral would also decrease and this, in turn, could result in material reduction in ELA funding available to the Issuer. It should also be noted that, although the Issuer 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 Issuer did not make use of such Government guarantees at the time of approval, and the Issuer 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 Issuer is not allowed to repurchase its own shares or provide any discretionary bonuses to members of the board of directors of the Issuer (which is also the Group's main board of directors) (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 Issuer were no longer eligible to serve as collateral for central bank funding, the Issuer's funding costs could increase and its access to liquidity could be limited. Currently, own issued government guaranteed securities held by the Issuer are not eligible collateral for ECB funding and can only be used as collateral for ELA funding. For a discussion of the Issuer's liquidity risk management, funding and liquidity sources and liquidity reserves, see "*Risk Management — Liquidity and Funding Risk*" and "*Operating and Financial Review and Prospects — Liquidity and Capital Resources*".

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

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

One of the Issuer's principal sources of funds are customer deposits. As of 31 December 2013 and 30 June 2014, customer deposits accounted for 56.0% and 55.7%, respectively, of the Group's funding. Since the Issuer relies on customer deposits for the majority of its funding, if the Issuer's depositors withdraw their funds at a rate faster than the rate at which borrowers repay their loans, or if the Issuer is unable to obtain the necessary liquidity by other means, the Issuer 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 Issuer 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 Issuer's loan portfolio from customer deposits is subject to potential changes in certain factors outside the Issuer's control, such as depositors' concerns relating to the economy in general, the financial services industry or the Issuer specifically, significant further deterioration in economic conditions in Cyprus and the availability and extent of deposit guarantees. Any of these factors separately or in combination could lead to a sustained reduction in the Issuer's ability to access customer deposit funding on appropriate terms in the future, which would impact on the Issuer'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 Issuer or another member of the Group may not be in a position to continue to operate without additional funding support, triggering the need for additional external funding and/or further capital, which it may be unable to secure.

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

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

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

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

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

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

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

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

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

Deferred tax assets are recognised by the Group in respect of tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies. These variables have been established on the basis of significant management judgment and are subject to uncertainty. As of 30 June 2014, the Group had recognised deferred tax assets of €472.2 million, mainly as a result of Laiki Bank's tax losses transferred to the Issuer in accordance with the Laiki Transfer Decrees. The deferred tax asset recognised on the transfer

of these tax losses from Laiki Bank amounted to €417.0 million and can be set off against the taxable future profits of the Issuer for a period of 15 years at the prevailing tax rate (currently 12.5%). If it is possible that the Issuer will not generate sufficient future taxable profits to utilise its deferred tax assets fully within their expiry period, it will have to write-off these deferred tax assets which would reduce the Group's net profit and, in turn, the Group's capital. For example, the Group's loss on disposal of its Greek operations resulted in a write-off in 2012 of deferred tax assets of €0.3 billion as this was no longer considered as recoverable.

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

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

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

The independent auditor's report in respect of the Issuer's consolidated financial statements as at and for the year ended 31 December 2013 and the independent auditor's review report in respect of the Issuer's unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2014 are qualified and contain an emphasis of matter.

The independent auditor's report in respect of the Issuer's consolidated financial statements as at and for the year ended 31 December 2013 is qualified with respect to (a) the inability of the Issuer to apply the requirements of IFRS for the bail-in of uninsured deposits, subordinated securities and other products of the Issuer pursuant to the Recapitalisation in 2013 due to the specific conditions and uncertainties that existed at the time of the transaction and (b) for any adjustments that could have been determined to be necessary had the auditors been able to satisfy themselves as to the fair value of the ordinary shares issued as a result of the bail-in of uninsured deposits, subordinated securities and other products of the Issuer pursuant to the Recapitalisation in 2013 and as the consideration for the acquisition of certain assets and liabilities of Laiki Bank. The Group's equity and financial position were not affected by the transactions giving rise to the above qualifications. For a discussion of the resolution of Laiki Bank and the Recapitalisation, see "*Restructuring of the Issuer 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 Issuer) extinguished and the consideration paid (i.e., shares issued by the Issuer), should have been recognised in profit or loss. Because the Issuer 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 Issuer, the unavailability of financial information and the continued negotiations between the Government and the Troika that resulted in the MoU and EAP, the Issuer 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 Issuer

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 Issuer, 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 Issuer, the unavailability of financial information and the continued negotiations between the Government and the Troika that resulted in the MoU and EAP, the Issuer 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 Issuer has concluded that it was appropriate to determine the fair value of the consideration transferred by reference to the fair value of the individually identifiable assets and liabilities acquired for which a reliable fair value could be established. As a result of the above accounting treatment, no profit or loss arises from these transactions.

The independent auditor's report in respect of the Issuer's unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2014 is qualified because the unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2014 do not include comparative statements of consolidated income and consolidated comprehensive income for the comparable interim period for the immediately preceding financial year.

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

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

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

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

As of 31 December 2013 and 30 June 2014, 48.6% and 49.8% of the Group's gross loan portfolio, respectively, was 90+DPD. In particular, a significant proportion of its non-performing loans are comprised of loans to large corporates which are in the real estate and construction sector of the Cypriot economy. As of 30 June 2014, the Group's loan and advances to corporate borrowers and borrowers in the real estate and construction sectors (including loans and advances classified as held for sale) comprised 40.2% and 30.7% of the Group's gross loan portfolio. The Group's ability to recover on these loans remains limited, mainly as a result of the continuing depression in the Cypriot real estate market in terms of demand and price (see "*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 Issuer'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 Issuer's future earnings and its capital adequacy.

An increase in financial market volatility or adverse changes in the marketability of the Issuer's assets could impair its ability to value certain of its assets and exposures. The value ultimately realised by the Issuer 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 Issuer to realise additional impairment charges, which could adversely affect the Issuer's financial condition and results of operations, as well as the Issuer's capital.

The global economic slowdown and economic crisis in Cyprus from 2009 to the present day have resulted in an increase in past due loans and significant changes in the fair values of the Issuer's financial assets. The sharp increase in unemployment during the economic crisis, which in the first half of 2014 averaged 15.4% on a seasonally adjusted basis, aggravated the situation, with mortgage delinquencies increasing further.

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

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

A continued decline in the Cypriot economy, or a deterioration of economic conditions in any industry in which the Issuer'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 Issuer's inability to obtain additional collateral, may require the Issuer to establish additional allowance for loan losses.

The Issuer 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 Issuer 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 Issuer'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 Issuer. While credit market conditions have improved in the last few months and most of the counterparties have reopened lines of credit with the Issuer, the risk remains that the credit situation may deteriorate as a result of deterioration in the sovereign credit outlook and the credit outlook for Cypriot financial institutions. In addition, the Issuer's current credit rating and risk profile has led to the Issuer having to provide higher amounts of collateral, particularly cash collateral, to secure its transactions with international counterparties. This has had, and may continue to have, a negative impact on the Issuer'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 Issuer enters expose it to significant credit risk in the event of default by one of its significant counterparties. A default by a significant financial counterparty, or liquidity problems in the financial services industry in general, could have a material adverse effect on the Group's business, financial condition and results of operations.

Risk of fluctuation of prevailing share and other securities prices.

The risk of fluctuations in the market price of shares and other traded securities arises from adverse changes in the prices of securities (mainly equity and bond securities) held by the Group. Changes in the prices of equity securities that are classified as investments at fair value through profit and loss, affect the profit of the Group, whereas changes in the value of equity securities classified as "available for sale" affect the equity of the Group. Debt securities price risk is the risk of loss as a result of adverse changes in the prices of debt securities held by the Group. The Group invests a significant part of its liquid assets in debt securities issued mostly by governments, particularly the debt securities issued by the Government. As of 30 June 2014, the Group had a €2.8 billion portfolio of Cyprus government bonds. Changes in the prices of debt securities classified as investments at fair value through profit and loss, affect the profit of the Group, whereas changes

in the value of debt securities classified as 'available for sale' affect the equity of the Group (assuming no impairment).

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

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

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

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

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

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

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

Changes in currency exchange rates may adversely affect the Group.

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

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

The general scarcity of wholesale funding since the onset of the economic crisis has led to a significant increase in competition for retail deposits in Cyprus. In particular, the Issuer faces significant competition from both domestic banks and banks in general because, unlike the Issuer, 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 Issuer 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 Issuer's (in particular, many of the Greek banks have received financial support from the Greek government) and, in recent years, have refocused their operations to cater for domestic retail, SME and corporate clients as well as international clients. In addition, with respect to international clients, Cyprus as a country competes with other tax-friendly jurisdictions focused on the provision of financial services. The lifting of capital control measures currently restricting the transfer of funds outside of Cyprus could lead to customers of the Issuer transferring their funds to other jurisdictions (see "*A material decrease in funds available from customer deposits, particularly retail deposits, could impact the Group's funding and there can be no assurance that the lifting of capital controls in Cyprus will not result in an increase of deposit outflows from the Issuer or the banking sector in Cyprus*" above). Further, as the Issuer 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.

The composition of the Board of Directors has changed significantly in each of the last two years. As a result of the Recapitalisation in 2013, new members were elected to the Board of Directors by the Issuer's shareholders, a significant proportion of which were bailed-in depositors and other creditors of the Issuer. Further, on 22 September 2014, in a letter to the Issuer, the CBC requested that all members of the Board of Directors resign (with the possibility of re-election) effective as of the date of the annual general meeting (the AGM) on 20 November 2014, in order to allow a new Board of directors to be chosen by shareholders, including new shareholders following the Capital Raising.

Further, failure to manage trade union relationships effectively, including the renewal of a collective bargaining agreement with the union of bank employees, may result in disruption to the business and the Group's operations causing potential financial loss.

Most of the Issuer's employees are members of a union and any prolonged labour unrest could have a material adverse effect on the Issuer's operations in Cyprus, either directly or indirectly (for example, on the willingness or ability of the Government to pass the necessary reforms to implement the EAP successfully).

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

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

In addition, the quality of the underlying data entered into the Group's financial reporting and management information systems is dependent on processing and reporting accurately and efficiently a high volume of

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

The Group is exposed to operational risk.

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

The Group is exposed to conduct risk.

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

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

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

The Issuer'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 Issuer'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 Issuer 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 Issuer'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 Issuer (such as for repairing systems or adding new personnel or protection technologies), regulatory penalties and financial losses to both the Issuer and its clients. Such events could also cause interruptions or malfunctions in the operations of the Issuer (such as the lack of availability of the Issuer's online banking systems), as well as the operations of its clients, customers or other third parties. Given the volume of transactions at the Issuer, 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 Issuer conducts business under stringent contractual agreements may also be sources of cyber security or other technological risks. Although the Issuer 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 Issuer as those discussed above.

While the Issuer 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 Issuer has significant exposures to subsidiaries of Laiki Bank.

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

As of 30 June 2014, the Issuer's total net exposure (net of the fair value adjustment on initial recognition and of impairments) to subsidiaries of Laiki Bank was €332.2 million. Any inability of these subsidiaries to repay the Issuer could have a significant negative effect on the Group's liquidity, capital and funding positions.

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

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

The Group is exposed to insurance and reinsurance risks.

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

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

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

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

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 Issuer, the bail-in of shareholders, uninsured depositors and other creditors of the Issuer 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 Issuer in relation to the mis-selling to retail investors in Greece and Cyprus of Euro Capital Securities issued by the Issuer and the bail-in of shareholders, uninsured depositors and other creditors of the Issuer pursuant to the Recapitalisation from March to July 2013. In addition, the Issuer is under a number of investigations by CySEC and the Hellenic Capital Markets Commission (HCMC) and there is a risk that the outcome or conclusions of these investigations could result in an increase in legal claims brought against the Issuer. If the Group is unsuccessful in defending itself against these claims or appealing against the fines and penalties being imposed on it, these claims could have a material adverse impact on its financial condition and reputation. For a discussion of these mis-selling and bail-in proceedings, the CySEC and HCMC investigations and certain other legal proceedings to which the Group is a party, see "*Business Description of the Group — Litigation and Related Matters, including Regulatory Proceedings*".

Furthermore, in the event that legal issues are not properly dealt with by the Group, these may give rise to the unenforceability of contracts with customers, legal actions against the Group, adverse judgments and a negative impact on the reputation of the Group. All these events may disrupt the operations of the Group, possibly reducing the Group's equity and profits.

Legislative action and regulatory measures in response to the global financial crisis may materially impact the Issuer 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 Issuer 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 Issuer), taxes on financial transactions, limits or taxes on employee compensation over specified levels, limits on the types of activities that commercial banks can undertake (particularly proprietary trading and investment and ownership in private equity funds and hedge funds) or new ring-fencing requirements relating to certain activities, restrictions on certain types of financial activities or products such as derivatives, mandatory write-down or conversion into equity of certain debt instruments, enhanced recovery and resolution regimes, revised risk-weighting methodologies (particularly with respect to insurance businesses) and the creation of new and strengthened regulatory bodies, including the assignment to the ECB of a supervisory role for all banks in the Eurozone area (referred to as the **SSM**). Some of the new measures are proposals that are under discussion and that are subject to revision and interpretation, and need adapting to each country's framework by national regulators. For example, changes in law to address tax compliance issues such as compliance with Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) may increase the Group's compliance costs. The Issuer 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 Issuer.

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

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

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

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

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

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

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

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

as a collateral for their claims against the bank and (b) any transfer of securities, assets, rights or liabilities (which could include Covered Bonds) to another legal entity by the Resolution Authority in exercise of its powers under the Resolution Law. Further, any member state of the European Union (a **Member State**) which has nationally implemented Directive 2001/24/EC on the reorganisation and winding up of credit institutions (the **CIWUD**) is likely to recognise resolution measures taken by the Resolution Authority under the Resolution Law with respect to any credit institution for which Cyprus is its home member state.

In March 2013, both the Issuer 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 Issuer, see "*Restructuring of the Issuer and Laiki Bank*". Both the Issuer'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 Issuer is no longer viable or is likely to be no longer viable, further resolution measures may be imposed on the Issuer and any such measures would have a material adverse impact on the Issuer, including its shareholders and unsecured creditors.

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

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

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

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

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

In addition, during the first quarter of 2013, a comprehensive review was commissioned by the Government and the Troika of the effectiveness of Cyprus's anti-money laundering regime (the **AML Review**). Further, in

accordance with the AML action plan on customer due diligence and entity transparency as set out in the MoU, the CBC has recently commenced its onsite inspections of banks in Cyprus to test for compliance with the provisions of its Directive on the Prevention of Money Laundering and Terrorism Financing issued in December 2013. It is expected that the CBC will commence its audit of the Issuer later in 2014. There is a risk that financial or other penalties could be imposed on, and/or published in relation to, the Issuer 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 Issuer 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 Issuer is subject to supervision by the CBC regarding, among other things, capital adequacy, liquidity and solvency. Certain of the Group's subsidiaries and operations are subject to the supervision of other local supervisory authorities. Increased regulatory intervention may lead to requests from regulators to carry out wide-ranging reviews of past sales and/or sales practices. The Group is unable to predict what regulatory changes may be imposed in the future as a result of regulatory initiatives in the EU and elsewhere or by the CBC and other supervisory authorities. If the Group is required to make additional provisions or to increase its reserves as a result of potential regulatory changes, this could adversely affect the results of operations of the Group. In addition, failure by the Group to comply with regulatory requirements could result in significant penalties. For example, the Issuer is currently not in compliance with its regulatory liquidity requirements. For more detail on these regulatory liquidity requirements, see "*Operating and Financial Review and Prospects — Liquidity and Capital Resources — Liquidity Ratios*".

The Group is also subject to EU regulations with direct applicability and to EU directives which are adopted by the European Economic Area Member States and implemented through local laws. For example, on 16 August 2012, the European Market Infrastructure Regulation (Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012) (**EMIR**) came into force. EMIR introduces certain requirements in respect of derivative contracts, which apply primarily to financial counterparties, such as investment firms, credit institutions, insurance companies. Broadly, EMIR's requirements in respect of derivative contracts, as they apply to financial counterparties, are (i) mandatory clearing of over-the-counter (**OTC**) derivative contracts declared subject to the clearing obligation through an authorised or recognised central counterparty; (ii) risk mitigation techniques in respect of uncleared OTC derivative contracts; and (iii) reporting and record-keeping requirements in respect of all derivative contracts. Accordingly, the introduction of EMIR is likely to increase the costs of transacting OTC derivative contracts for the Group. In addition, MiFID II and MiFIR could also require the implementation of additional compliance and other processes which could result in increased costs for the Group. MiFID II and MiFIR will also need to be supplemented by delegated acts and technical standards and, therefore, the scope of the final regulations and their impact on the Group remains unclear.

In addition, on 20 December 2013, the Committee of Permanent Representatives published the final approved informal text agreed between the Council of the EU (the **Council**), the European Parliament and the European Commission for Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012 (the **BRRD**). The BRRD was approved by the European Parliament and the Council of the EU on 15 April 2014 and 6 May 2014, respectively, and entered into force on 2 July 2014 (the 20th

day following its publication in the Official Journal of the EU on 12 June 2014). The stated aim of the BRRD is to provide supervisory authorities, including the relevant Cypriot resolution authority, with common tools and powers to address banking crises pre-emptively in order to ensure the continuity of the institution's critical financial and economic functions whilst safeguarding financial stability and minimising taxpayers' exposure to losses.

Going forward, the BRRD is also likely to have an impact on how large a capital buffer a bank will need, in addition to those set out in the CRR and CRD IV. To ensure that banks always have sufficient loss-absorbing capacity, the BRRD provides for national resolution authorities to set minimum requirements for own funds and eligible liabilities for each institution, based on, amongst other criteria, its size, risk and business model.

The national resolution authorities will also have powers to request changes in the structure and operations of financial institutions, if such changes are deemed necessary, in order to ensure these institutions are resolvable, in case they become non-viable.

The powers granted to supervisory authorities under the BRRD include (but are not limited to) the introduction of a statutory "write-down and conversion power" and a "bail-in" power, which, if implemented into Cypriot law as currently envisaged, should give the relevant Cypriot resolution authority the power to cancel all or a portion of the principal amount of, or interest on, certain unsecured liabilities of a failing financial institution and/or to convert certain debt claims into another security, including ordinary shares of the surviving entity, if any. It is expected that the Resolution Law will be further amended in due course to reflect the provisions of the BRRD (see "*Regulation and Supervision of Banks in Cyprus – Resolution Law*"). The majority of measures set out in the BRRD will need to be implemented with effect from 1 January 2015, with the bail-in power to apply from 1 January 2016 at the latest. In addition to a "write-down and conversion power" and a "bail-in" power, the powers to be granted to the resolution authorities under the BRRD include the power to (i) direct the sale of the relevant financial institution or the whole or part of its business on commercial terms without requiring the consent of the shareholders or complying with the procedural requirements that would otherwise apply, (ii) transfer all or part of the business of the relevant financial institution to a "bridge bank" (a publicly controlled entity), (iii) transfer the impaired or problem assets of the relevant financial institution to an asset management vehicle to allow them to be managed over time and (iv) to write down the claims of unsecured creditors of a failing institution and convert debt claims to equity. In addition, among the broader powers to be granted to the relevant resolution authority under the BRRD is the power to amend the maturity date and/or any interest payment date of debt instruments or other eligible liabilities of the relevant financial institution and/or impose a temporary suspension of payments.

The BRRD contains safeguards for shareholders and creditors in respect of the application of the "write-down and conversion" and "bail-in" powers which aim to ensure that they do not incur greater losses than they would have incurred had the relevant financial institution been wound up under normal insolvency proceedings.

Although the "bail-in" powers are not intended to apply to secured debt (such as the rights of Covered Bondholders in respect of the Cover Pool), there remains significant uncertainty regarding the ultimate nature and scope of these powers and how they would affect the Group and the Covered Bondholders. Accordingly, it is not yet possible to assess the full impact of the BRRD on the Group and on Covered Bondholders, and there can be no assurance that, once it is implemented, the manner in which it is implemented or the taking of any actions by the relevant resolution authority currently contemplated in the BRRD would not adversely affect the rights of Covered Bondholders, the price or value of an investment in the Covered Bonds and/or the Issuer's ability to satisfy its obligations under the Covered Bonds. The exercise of any bail-in power or any suggestion of such exercise could, therefore, adversely affect the value of the Covered Bonds. Relevant claims for the purposes of the bail-in tool would include the claims of holders in respect of any Covered Bonds issued under the Programme if and only to the extent that the Covered Bond liability exceeded the value of the Cover Pool against which it is secured.

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

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

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

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

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

For more detail on these directives, see "*Regulation and Supervision of Banks in Cyprus — CBC Credit Risk Directives*".

These directives impose significant constraints on the Issuer'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 Issuer's borrowers, such as individuals and SMEs, may have few or no other sources of income, thereby restricting their restructuring options.

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

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

pay the balance between the proceeds of sale of the mortgaged property and the amount of the debt. Another bill, provides additional protection to small business property owners from re-possession.

Four of the supplementary bills were referred to the Supreme Court of Cyprus (the **Supreme Court**) by the Cypriot President for a ruling on their constitutionality, and, on 31 October 2014, the Supreme Court unanimously held that the four supplementary bills were unconstitutional. In addition, the Cypriot President declined to sign into law two supplementary bills, which were, accordingly, sent back to the Cypriot parliament for further consideration. One supplementary bill has been withdrawn by the Cypriot parliament and referred to the ECB for its consideration. However, the other supplementary bill was re-confirmed with amendments, sent back to the Cypriot President for his approval and finally enacted into law in October 2014.

Since the Foreclosure Law and the supplementary laws passed by the Cypriot Parliament have only come into effect recently, the impact of these laws from an operational and procedural perspective is highly uncertain. It is also unclear whether the Troika will conclude that that the package of foreclosure law reforms passed substantially meets MoU's objectives for the reform of the foreclosure regime in Cyprus (see, "*The implementation, conditions and requirements of the MoU entered into between Cyprus and the Troika, and any government actions aimed at alleviating the economic crisis, are uncertain and may create adverse results or have an adverse effect on the Issuer*"). For additional information on the status of amendments to foreclosure legislation, see "*Regulation and Supervision of Banks in Cyprus – Laws relating to Foreclosures*".

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

Changes in consumer protection laws in the jurisdictions where the Group has operations could limit the fees that banks can charge for certain products and services such as mortgages, unsecured loans and credit cards.

For example, The Liberalisation of Interest Rates and Related Matters (Amending) Law of 2014, passed by the Cypriot parliament in September 2014, renders void and unenforceable certain terms in agreements relating to the payment of interest in credit facilities and prohibits default interest being charged in such agreements above 2%. 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 Issuer is not a party may have adverse consequences for the Issuer.

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 Issuer 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 Issuer have commenced an action against the Council of the European Union, the Eurogroup, the European Commission and the ECB seeking compensation for damages allegedly suffered as

a result of the recapitalisation of the Issuer on the basis that the relevant decrees effecting the bail-in violated their right to property. Although the Issuer 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 Issuer 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% to 12.5%, the immovable property tax rates as of 1 January 2013 and the special levy paid by banking institutions on deposits. Amendments to the MoU are negotiated and agreed between the Government and the Troika from time to time and, accordingly, there is a risk that further additional taxes could be imposed which may have a material adverse effect on the Group's business, financial condition and results of operations.

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

As of the date of this Base Prospectus, 0.3% of the Issuer's total issued share capital is admitted for listing on the main market of the Cyprus Stock Exchange (CSE) and the Athens Exchange (ATHEX) and the Issuer's existing shares are currently suspended from trading on both stock exchanges. Accordingly, there is no liquid market for the ordinary shares. In addition, as a result of the Recapitalisation in 2013, Bail-in Shares, which are ordinary shares issued to bailed in holders of uninsured conventional cash deposits, capital guaranteed structured deposit products, investment products and *schuldschein* loans, constitute 43.4% of the Issuer's share capital as of the date of this Base Prospectus. It is not known how many of these shareholders will seek to sell their ordinary shares if and when trading resumes.

Even if trading does resume, liquidity in the ordinary shares of the Issuer may be limited and the share price may be subject to significant volatility. Any significant sales of the ordinary shares following the resumption of trading would adversely affect the price of the ordinary shares and make it difficult for the Issuer to raise CET 1 capital should it need to do so to meet regulatory requirements.

In addition, pursuant to the provisions of the Laiki Transfer Decrees, Laiki Bank was granted ordinary shares representing 18.1% and 9.624% of the share capital of the Issuer as of 30 July 2013 and as of the date of this Base Prospectus, respectively, and accordingly currently is the Issuer's single largest shareholder. Laiki Bank remains under resolution and the administration of the ordinary shares held by it is in the hands of the Resolution Authority. According to the MoU, the Resolution Authority has instructed Laiki Bank's special administrator to appoint a well-recognised and independent consulting or auditing firm or international institution to be entrusted with the voting rights associated with the ordinary shares held by Laiki Bank. It is expected that these ordinary shares will be sold with a view to maximising returns for Laiki Bank's creditors. The Issuer 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 Issuer's other holders of equity or debt securities.

Risks Relating to the Covered Bonds

The Covered Bonds will be obligations of the Issuer only

The Covered Bonds will be solely obligations of the Issuer and will not be obligations of or guaranteed by the Trustee, the Covered Bond Monitor, the Covered Bond Business Administrator, the Competent Authority, the Account Bank, the Paying Agents, the Hedging Counterparties, the Arrangers, the Dealers or the Listing Agent (as defined above). No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Covered Bonds shall be accepted by any of the Arrangers, the Dealers, the Hedging Counterparties the Trustee, the Covered Bond Monitor, the Paying Agents, the Covered Bond Business Administrator, the Competent Authority, the Account Bank, any company in the same group of companies as such entities or any other party to the transaction documents relating to the Programme.

The Covered Bonds will not represent an obligation or be the responsibility of any of the Arrangers, the Dealers, the Trustee or any other party to the Programme, their officers, members, directors, employees, security holders or incorporators, other than the Issuer. The Issuer will be liable solely in its corporate capacity for its obligations in respect of the Covered Bonds and such obligations will not be the obligations of its respective officers, members, directors, employees, security holders or incorporators.

Maintenance of the Cover Pool

Pursuant to the Covered Bond Legislation the Cover Pool is subject to the Cover Pool Adequacy Criteria set out in the Covered Bond Legislation. Failure of the Issuer to take prompt remedial action to cure any breach of these tests will result in the Issuer not being able to issue further Covered Bonds and any failure to satisfy the Cover Pool Adequacy Criteria may have an adverse affect on the ability of the Issuer to meet its payment obligations in respect of the Covered Bonds.

Transfer of money from the Collection Account to the Transaction Account

All collections of interest and principal the Issuer receives on the Cover Pool Assets shall be paid into the Collection Account). The Issuer has agreed, pursuant to the Trust Deed, to transfer to the Transaction Account within one Business Day of receipt all collections of interest and principal standing to the credit of the Collection Account which derive from Cover Pool Assets. In addition, to the extent any cash amounts standing to the credit of the Collection Account have not been transferred to the Transaction Account, such amounts do not comprise part of the Cover Pool for purposes of the Statutory Tests and may, in the case of an insolvency of the Issuer, not form part of the Cover Pool for the purposes of satisfying the amounts outstanding under the Covered Bonds. As such, the Issuer's ability to meet its obligations under the Covered Bonds and with respect to the Cover Pool Adequacy Criteria will be dependent on the Issuer transferring amounts so collected to the Transaction Account.

Factors that may affect the realisable value of the Cover Pool or any part thereof

The realisable value of Loans and their Related Security comprising part of the Cover Pool may be reduced by:

- (a) default by borrowers (each borrower being, in respect of a Loan Asset, the individual specified as such in the relevant mortgage terms together with each individual (if any) who assumes from time to time an obligation to repay such Loan Asset (the **Borrower**) in payment of amounts due on their Loans;
- (b) changes to the lending criteria of the Issuer; and
- (c) possible regulatory changes by the regulatory authorities.

Each of these factors is considered in more detail below. However, it should be noted that the Cover Pool Adequacy Criteria and the Eligibility Criteria are intended (but there is no assurance) to ensure that there will be an adequate amount of Loan Assets in the Cover Pool to enable the Issuer to repay the Covered Bonds following service of a Notice of Default and/or the appointment of a Covered Bond Business Administrator and accordingly it is expected (but there is no assurance) that the Cover Pool Assets could be realised for sufficient value to enable the Issuer to meet its obligations under the Covered Bonds. However, a deterioration in the value of the Cover Pool Assets could have an adverse effect on Covered Bondholders receiving amounts due under the Covered Bonds.

Default by Borrowers in paying amounts due on their Loan Assets

Borrowers may default on their obligations under the Loan Assets in the Cover Pool. Defaults may occur for a variety of reasons. The Loans are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Other factors in Borrowers' individual, personal or financial circumstances may affect the ability of Borrowers to repay the Loan Assets. Loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies by and bankruptcies of Borrowers, and could ultimately have an adverse impact on the ability of Borrowers to repay the Loan Assets. In addition, the ability of a Borrower to sell a property given as security for a Loan Asset at a price sufficient to repay the amounts outstanding under that Loan Asset will depend upon a number of factors, including the availability of buyers for that property, the value of that property and property values in general at the time.

Changes to the Lending Criteria of the Issuer

Each of the Loan Assets originated by the Issuer will have been originated in accordance with its Lending Criteria at the time of origination. It is expected that the Issuer's Lending Criteria will generally consider, inter alia, type of property, term of loan, age of applicant, the loan-to-value ratio, status of applicant and credit history. The Issuer retains the right to revise its Lending Criteria from time to time but would do so only to the extent that such a change would be acceptable to a reasonable, prudent mortgage lender. If the Lending Criteria change in a manner that affects the creditworthiness of the Loan Assets, that may lead to increased defaults by Borrowers and may affect the realisable value of the Cover Pool, or part thereof, and the ability of the Issuer to make payments under the Covered Bonds.

Sale of Loan Assets and their Related Security by the CBBA

Following the appointment of the CBBA, the CBBA, or any person appointed by the CBBA, will be entitled to sell in whole or in part the Loan Assets in order to help satisfy the Issuer's obligations in respect of the Covered Bonds. The proceeds from any such sale will be credited to the Transaction Account and applied in accordance with the applicable Priority of Payments. There is no guarantee that the CBBA will be able to sell in whole or in part the Loan Assets as the CBBA may not be able to find a buyer at the time it chooses to sell or sell for a price that would enable all amounts to be paid in full under the Covered Bonds.

Reliance on Hedging Counterparties

To provide a hedge against possible variances in the rates of interest payable on the Loan Assets in the Cover Pool (which may, for instance, include discounted rates of interest, fixed rates of interest or rates of interest which track a base rate and other variable rates of interest) and Euro-zone inter-bank offered rate (**EURIBOR**) for 1, 3 or 6 month euro deposits, the Issuer may enter into an Interest Rate Swap with the Interest Rate Swap Provider in respect of each Series of Covered Bonds under the Interest Rate Swap Agreement.

In addition, to provide a hedge against interest rate, currency and/or other risks in respect of amounts received by the Issuer under the Loan Assets in the Cover Pool and the Interest Rate Swaps and amounts payable by the Issuer under the Covered Bonds, the Issuer may enter into a Covered Bond Swap with a Covered Bond Swap Provider in respect of a Series of Covered Bonds under the Covered Bond Swap Agreement.

If the Issuer fails to make timely payments of amounts due under any Hedging Agreement, then it will have defaulted under that Hedging Agreement. A Hedging Counterparty is only obliged to make payments to the Issuer as long as the Issuer complies with its payment obligations under the relevant Hedging Agreement. If the Hedging Counterparty is not obliged to make payments or if it defaults on its obligations to make payments of amounts in the relevant currency equal to the full amount to be paid to the Issuer on the due date for payment under the relevant Hedging Agreement, the Issuer will be exposed to any changes in the relevant currency exchange rates to Euro and to any changes in the relevant rates of interest. Unless a replacement swap is entered into, the Issuer may have insufficient funds to make payments under the Covered Bonds.

If a Hedging Agreement terminates, then the Issuer may be obliged to make a termination payment to the relevant Hedging Counterparty. There can be no assurance that the Issuer will have sufficient funds available to make a termination payment under the relevant Hedging Agreement, nor can there be any assurance that the Issuer will be able to enter into a replacement swap agreement, or if one is entered into, that the credit rating of the replacement swap counterparty will be sufficiently high to prevent a downgrade of the then current ratings of the Covered Bonds by a Rating Agency.

If the Issuer is obliged to pay a termination payment under any Hedging Agreement, such termination payment will rank ahead of amounts due on the Covered Bonds (in respect of the Interest Rate Swaps) and *pari passu* with amounts due on the Covered Bonds (in respect of the Covered Bond Swaps), except where default by, or downgrade of, the relevant Hedging Counterparty has caused the relevant swap agreement to terminate.

Differences in timings of obligations of the Issuer and the Covered Bond Swap Provider under the Covered Bond Swaps

With respect to each of the Covered Bond Swaps, the Issuer will, periodically, pay or provide for payment of an amount to each corresponding Covered Bond Swap Provider based on EURIBOR for Euro deposits for the agreed period. The Covered Bond Swap Provider may not be obliged to make corresponding swap payments to the Issuer under a Covered Bond Swap until amounts are due and payable by the Issuer under the Covered Bonds. If a Covered Bond Swap Provider does not meet its payment obligations to the Issuer under the relevant Covered Bond Swap Agreement or such Covered Bond Swap Provider does not make a termination payment that has become due from it to the Issuer under the Covered Bond Swap Agreement, the Issuer may have a shortfall in funds with which to make payments under the Covered Bonds. Hence, the difference in timing between the obligations of the Issuer and the obligations of the Covered Bond Swap Providers under the Covered Bond Swaps may affect the Issuer's ability to make payments with respect to the Covered Bonds. A Covered Bond Swap Provider may be required, pursuant to the terms of the relevant Covered Bond Swap Agreement, to post collateral with the Issuer if the relevant rating of the Covered Bond Swap Provider is downgraded by a Rating Agency below the rating specified in the relevant Covered Bond Swap Agreement.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Covered Bonds 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 other than the Specified Currency (the **Investor's Currency**). These 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 Covered Bonds, (2) the Investor's Currency-equivalent value of the principal payable on the Covered Bonds and (3) the Investor's Currency-equivalent market value of the Covered Bonds.

Government 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.

Conflicts of Interest

Certain parties to the Transaction Documents act in more than one capacity. The fact that these entities fulfil more than one role could lead to a conflict between the rights and obligations of these entities in one capacity and the rights and obligations of these entities in another capacity. In addition, this could also lead to a conflict between the interests of these entities and the interests of the Covered Bondholders. Any such conflict may adversely affect the ability of the Issuer to make payments of principal and/or interest in respect of the Covered Bonds.

Change of counterparties

The parties to the Transaction Documents who receive and hold moneys pursuant to the terms of such documents (such as the Account Bank) are required to satisfy certain criteria in order that they can continue to receive and hold moneys.

These criteria include requirements in relation to the "Issuer Default Ratings" by Fitch and the short-term, unguaranteed and unsecured credit ratings ascribed to such party by Moody's (or such other credit ratings criteria that may be agreed by Moody's and notified to Fitch from time to time). If the party concerned ceases to satisfy the applicable criteria, including the ratings criteria detailed above, then the rights and obligations of that party (including the right or obligation to receive moneys on behalf of the Issuer) may be required to be transferred to another entity which does satisfy the applicable criteria. In these circumstances, the terms agreed with the replacement entity may not be as favourable as those agreed with the original party pursuant to the relevant Transaction Document, see "*Description of Principal Documents*" below.

In addition, should the applicable criteria cease to be satisfied, then the parties to the relevant Transaction Document may agree to amend or waive certain of the terms of such document, including the applicable criteria, in order to avoid the need for a replacement entity to be appointed. The consent of Covered Bondholders may not be required in relation to such amendments and/or waivers.

Geographical Concentration of the Loan Assets

The security for the Covered Bonds may be affected by, among other things, a decline in real estate values. Certain geographic regions will from time to time experience weaker regional economic conditions and housing markets than will other regions and, consequently, may experience higher rates of loss and delinquency on mortgage loans generally. Although borrowers are located throughout Cyprus, the borrowers may be concentrated in certain locations, such as densely populated areas. Any deterioration in the economic condition of the areas in which the borrowers are located, or any deterioration in the economic condition of other areas that causes an adverse effect on the ability of the borrowers to repay the Loan Assets could increase the risk of losses on the Loan Assets. A concentration of borrowers in such areas may therefore result in a greater risk of loss than would be the case if such concentration had not been present. Such losses, if they occur, could have an adverse effect on the yield to maturity of the Covered Bonds as well as on the repayment of principal and interest due on the Covered Bonds. Certain areas of Cyprus may from time to time experience declines in real estate values. No assurance can be given that values of the underlying properties have remained or will remain at their levels on the dates of origination of the related Loans. If the residential real estate market in Cyprus in general, or in any particular region, should experience an overall decline in property values such that the outstanding balances of the Loans become equal to or greater than

the value of the underlying properties, such a decline could in certain circumstances result in the value of the interest in the underlying property securing the Loans being significantly reduced and, ultimately, may affect the repayment of the Covered Bonds.

Security and insolvency considerations

In accordance with the Cypriot Covered Bond Law and the laws of any other relevant Member State, by virtue of the Covered Bond Legislation and the Transaction Documents, the Cover Pool and all cash flows derived therefrom (including any amounts standing to the credit of the Transaction Account) will be available both prior to and following the commencement of dissolution proceedings in respect of the Issuer to satisfy the obligations of the Issuer to the Covered Bondholders in respect of the Cover Pool and the other Cover Pool Creditors in respect of the Cover Pool in priority to the Issuer's obligations to any other creditors, until the repayment in full of the Covered Bonds. In certain circumstances, including the occurrence of certain insolvency events in respect of the Issuer, the ability to realise any such security may be delayed and/or the value of the security impaired. There can be no assurance that the Issuer will not become insolvent and/or the subject of insolvency proceedings and/or that the Covered Bondholders would not be adversely affected by the application of insolvency laws (including Cypriot insolvency laws). If, following the commencement of dissolution proceedings in respect of the Issuer, the Cover Pool Creditors have not received the full amount due to them pursuant to the terms of the Cypriot Covered Bond Law and the Transaction Documents, then they may still have an unsecured claim against the Issuer for the shortfall. There is no guarantee that the Issuer will have sufficient funds to pay that shortfall.

The Covered Bonds may be subject to withholding taxes in circumstances where the Issuer is not obliged to make gross up payments and this would result in holders receiving less interest than expected and could significantly adversely affect their return on their Covered Bonds.

Withholding under the EU Savings Directive

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

On 24 March 2014, the Council of the European Union adopted a Council Directive (the **EU Savings Amending Directive**) amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the EU Savings Directive, in particular to include additional types of income payable on securities. The EU Savings Amending Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented. In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the EU Savings Directive.

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).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent (as defined in the Conditions of the Covered Bonds) nor any other person would be obliged to pay additional amounts with respect to any Covered Bond as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the EU Savings Directive.

Cyprus has transposed the said EU Savings Directive into its legislation by virtue of the provisions of the Assessment and Collection of Taxes (Amendment) Law 146(I) of 2004 and the Assessment and Collection of Taxes (Amendment) Law 106(I) of 2005. Pursuant to these laws, the Council of Ministers issued the Assessment and Collection of Taxes (Provision of Information Regarding Interest Payments) Regulations of 2005. These regulations impose Directive standards on economic operators making EU cross-border savings interest payments to individuals resident in (i) other EU Member States, (ii) certain associated or dependant territories of EU Member States, (iii) certain other States with which the European Union has concluded relevant agreements, such as automatic reporting to the tax authorities of the other EU Member States of (a) the individual's identity and permanent address, (b) the name and address of the paying agent and (c) bank account details.

Foreign Account Tax Compliance Act Withholding

FATCA imposes a new reporting regime and, potentially, a 30% withholding tax with respect to (i) certain payments from sources within the United States, (ii) "foreign passthru payments" (a term not defined by legislation or regulation) made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. Whilst the Covered Bonds are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems. 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) and 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. The Issuer's obligations under the Covered Bonds are discharged once it has paid the clearing systems, and the Issuer has therefore no responsibility for any amount thereafter transmitted through the clearing systems and custodians or intermediaries. Prospective investors should refer to the section "*Taxation — Foreign Account Tax Compliance Act*".

Limited description of the Cover Pool

Other than receipt of the Monthly Investor Report the Covered Bondholders will not receive detailed statistics or information in relation to the Loan Assets in the Cover Pool because it is expected that the constitution of the Cover Pool will frequently change due to, for instance:

- (i) the Issuer assigning Additional Cover Pool Assets to the Cover Pool; and
- (ii) the Issuer removing Cover Pool Assets from the Cover Pool or substituting existing Cover Pool Assets in the Cover Pool with Additional Cover Pool Assets.

There is no assurance that the characteristics of the Loan Assets assigned to the Cover Pool on the relevant Issue Date will be the same as those Loan Assets in the Cover Pool as at any date thereafter. However, each

Loan Asset will be required to meet the Eligibility Criteria. In addition, the Cover Pool Adequacy Criteria (and the Issuer's obligations to remedy breaches of the Cover Pool Adequacy Criteria) are intended to ensure that the Statutory Value of the Cover Pool is greater than the Principal Amount Outstanding of the Covered Bonds secured by the Cover Pool (although there is no assurance that it will do so) and the Covered Bond Monitor will submit the CBM Report to the Competent Authority (with a copy to the Issuer and the CBBA (if appointed), in each case, on a six-monthly basis (or such other time period as may be required by the Competent Authority). The CBM Report will set out (i) verification of the accuracy and completeness of information included in the Register; (ii) examination of the valuation process in relation to cover assets; (iii) compliance by the Issuer on an ongoing basis with respect to the Cover Pool Adequacy Criteria; and (iv) examination of the entries into a removals from the Register.

Ratings of the Covered Bonds

The credit ratings assigned to the Covered Bonds (where applicable) address:

- (i) the likelihood of full and timely payment to Covered Bondholders of all payments of interest on each Interest Payment Date; and
- (ii) the likelihood of ultimate payment of principal in relation to Covered Bonds on (a) the Final Maturity Date thereof, or (b) if the Covered Bonds are subject to an Extended Final Maturity Date in accordance with the applicable Final Terms, the Extended Final Maturity Date thereof.

The expected credit ratings of the Covered Bonds, if applicable, are set out in the applicable Final Terms for each Series of Covered Bonds. In addition to issuing Covered Bonds that are rated, the Issuer may also issue Covered Bonds which are unrated. A Rating Agency may lower its rating or withdraw its rating if, in the sole judgment of that Rating Agency, the credit quality of the Covered Bonds has declined or is in question. If any credit rating assigned to the Covered Bonds is lowered or withdrawn, the market value of the Covered Bonds may reduce. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. 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 Covered Bonds.

Covered Bonds issued under the Programme

Covered Bonds issued under the Programme will either be fungible with an existing Series of Covered Bonds or have different terms to an existing Series of Covered Bonds (in which case they will constitute a new Series). All Covered Bonds will rank *pari passu* and *pro rata* without any preference or priority among themselves, irrespective of their Series, except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Following the occurrence of an Event of Default and service by the Trustee of a Notice of Default, the Covered Bonds of all outstanding Series will become immediately due and payable against the Issuer.

The conditions of the Covered Bonds contain provisions which may permit their modification without the consent of all investors and confer significant discretions on the Trustee which may be exercised without the consent of the Covered Bondholders and without regard to the individual interests of particular Covered Bondholders

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

The Trustee may agree to modifications to the Transaction Documents without the Covered Bondholders' or Cover Pool Creditors' prior consent

Pursuant to the terms of the Trust Deed, the Trustee may, without the consent or sanction of any of the Covered Bondholders or any of the other Cover Pool Creditors concur with the Issuer or any person in making or sanctioning any modification to the Transaction Documents and the Conditions:

- (i) provided that the Trustee is of the opinion that such modification, waiver or authorisation will not be materially prejudicial to the interests of any of the Covered Bondholders; or
- (ii) which in the sole opinion of the Trustee is of a formal, minor or technical nature or is to correct a manifest error or to comply with mandatory provisions of law.

Certain decisions of Covered Bondholders taken at Programme level.

Any Extraordinary Resolution to direct the Trustee to take any enforcement action must be passed at a single meeting of the holders of all Covered Bonds of all Series then outstanding.

An active secondary market in respect of the Covered Bonds may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Covered Bonds.

Covered Bonds may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Covered Bonds 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 Covered Bonds 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. These types of Covered Bonds generally would have a more limited secondary market and more price volatility than conventional debt securities.

Covered Bonds not in physical form

Unless the Global Covered Bonds are exchanged for bearer Definitive Covered Bonds, respectively, which exchange will only occur in the limited circumstances following the occurrence of an Exchange Event, the beneficial ownership of the Covered Bonds will be recorded in book-entry form only with Euroclear and Clearstream, Luxembourg. The fact that the Covered Bonds are not represented in physical form could, among other things:

- result in payment delays on the Covered Bonds because distributions on the Covered Bonds will be sent by or on behalf of the Issuer to Euroclear, Clearstream, Luxembourg instead of directly to Covered Bondholders;
- make it difficult for Covered Bondholders to pledge the Covered Bonds as security if Covered Bonds in physical form are required or necessary for such purposes; and
- hinder the ability of Covered Bondholders to resell the Covered Bonds because some investors may be unwilling to buy Covered Bonds that are not in physical form.

Risks related to Cypriot law

Cypriot insolvency proceedings

If winding up (insolvency) proceedings were commenced against the Issuer in Cyprus, a liquidator would be appointed for the purpose of conducting the winding up of the Issuer. However, the commencement of such

proceedings would not, as a matter of Cyprus law, affect the ability of the CBBA to undertake the servicing functions of the Issuer in relation to the Cover Pool and/or to take action on behalf of the Cover Pool Creditors. In relation to a winding up of the Issuer, CIWUD was transposed into Cypriot law through the passing of Banking (Amendment) Law 151(I)/2004 in April 2004. The CIWUD applies to credit institutions and their branches set up in Member States other than those in which they have their head offices, as defined in Directive 2000/12/EC, subject to the conditions and exemptions laid down in the CIWUD. Other than the commencement of a voluntary winding up only the administrative or judicial authorities of the home member state which are responsible for winding up are empowered to decide on the commencement of winding up.

Risks related to the structure of a particular issue of Covered Bonds

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

The Cover Pool

The Covered Bondholders and the other Cover Pool Creditors shall have recourse to the Cover Pool. The Issuer may create multiple cover pools pursuant to Covered Bond Legislation but the Issuer does not intend to maintain more than one cover pool in respect of the Programme.

Extendable obligations under the Covered Bonds

Unless previously redeemed as provided in the Conditions, the Covered Bonds of each Series will be redeemed at their Principal Amount Outstanding on the relevant Final Maturity Date. If the Covered Bonds are not redeemed in full on the relevant Final Maturity Date or (as described below) where the Covered Bonds are subject to an Extended Final Maturity Date, on the relevant Extended Final Maturity Date, then the Trustee may serve a Notice of Default on the Issuer pursuant to the Conditions. Following the service of a Notice of Default: (a) any Covered Bond which has not been redeemed on or prior to its Final Maturity Date or, as applicable, Extended Final Maturity Date shall remain outstanding at its Principal Amount Outstanding, until the date on which such Covered Bond is cancelled or redeemed; and (b) interest shall continue to accrue on any Covered Bond which has not been redeemed on its Final Maturity Date or, as applicable, Extended Final Maturity Date and any payments of interest or principal in respect of such Covered Bond shall be made in accordance with the relevant Priority of Payments until the date on which such Covered Bond is cancelled or redeemed.

The applicable Final Terms may provide that the Issuer's obligations under the relevant Covered Bonds to pay the Principal Amount Outstanding on the relevant Final Maturity Date may be deferred past the Final Maturity Date until the Extended Final Maturity Date (as specified in the applicable Final Terms) (such date the **Extended Final Maturity Date**). In such case, such deferral will occur automatically if the Issuer fails to pay any amount representing the amount due on the Final Maturity Date as set out in the applicable Final Terms (the **Final Redemption Amount**) in respect of the relevant Series of Covered Bonds on their Final Maturity Date provided that, any amount representing the Final Redemption Amount due and remaining unpaid on the Final Maturity Date may be paid by the Issuer on any Interest Payment Date thereafter up to (and including) the relevant Extended Final Maturity Date. Interest will continue to accrue and be payable on any unpaid amounts on each Interest Payment Date up to the Extended Final Maturity Date in accordance with the Conditions and the Issuer will make payments on each relevant Interest Payment Date and Extended Final Maturity Date.

Covered Bonds where denominations involve integral multiples: definitive Covered Bonds

In relation to any issue of Covered Bonds that have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Covered Bonds 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 Covered Bondholder who, as a result of trading such amounts, holds an amount which (after deducting integral multiples of such minimum Specified Denomination) is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Covered Bond in respect of such holding (should definitive Covered Bonds be printed) and would need to purchase a principal amount of Covered Bonds such that its holding amounts to a Specified Denomination.

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

Risks Applicable to all Covered Bonds

If the Issuer has the right to redeem any Covered Bonds at its option, this may limit the market value of the Covered Bonds concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return

An optional redemption feature of Covered Bonds is likely to limit their market value. During any period when the Issuer may elect to redeem Covered Bonds, the market value of those Covered Bonds 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 Issuer may be expected to redeem Covered Bonds when its cost of borrowing is lower than the interest rate on the Covered Bonds. 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 Covered Bonds 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.

Covered Bonds subject to Redemption for Taxation reasons

Unless in the case of any particular tranche or Series of Covered Bonds the relevant Final Terms specify otherwise, in the event that the Issuer would be obliged to increase the amounts payable in respect of any Covered Bonds due to any withholding or deduction for or on account of any present or future taxes, duties, or other charges of whatever nature imposed or levied by or on behalf of Cyprus or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Covered Bonds in accordance with the Terms and Conditions.

Fixed/Floating Rate Covered Bonds

If the Issuer has the right to convert the interest rate on any Covered Bonds from a fixed rate to a floating rate, or vice versa, this may affect the secondary market value of the Covered Bonds concerned.

Fixed/Floating Rate Covered Bonds may bear interest at a rate that converts from a fixed rate to a floating rate or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Covered Bonds since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Covered Bonds may be less favourable than then prevailing spreads on comparable Floating Rate Covered Bonds tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Covered Bonds. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing market rates.

Covered Bonds which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates

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

General risk factors

Covered Bond Legislation

The Covered Bond Legislation came into force on 23 December 2010. The transactions contemplated in this Base Prospectus are based on and subject to the provisions of the Covered Bond Legislation. So far as the Issuer is aware, as at the date of this Base Prospectus there have been a very small number of similar issues of securities based upon the Covered Bond Legislation but there has been no judicial authority as to the interpretation of any of the provisions of the Covered Bond Legislation. For further information on the Covered Bond Legislation, see "*Overview of the Covered Bond Legislation*". There are a number of aspects of Cypriot law which are referred to in this Base Prospectus with which potential Covered Bondholders are likely to be unfamiliar. Particular attention should be paid to the sections of this Base Prospectus containing such references.

Changes of law

The structure of the issue of the Covered Bonds and the ratings which are to be assigned to them are based on English and Cypriot law, respectively, in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English or Cypriot law or administrative practice in the UK or Cyprus after the date of this Base Prospectus and any such change could materially adversely impact the value of the Covered Bonds affected by it.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Base Prospectus and have been filed with the CSSF shall be incorporated by reference, and form part of, this Base Prospectus:

- (a) the audited consolidated annual financial statements of the Issuer as at and for the financial year ended 31 December 2012 and as at and for the financial year ended 31 December 2013 (that includes comparative information for the financial year ended 31 December 2012), together, in each case, with the audit report thereon, including the information set out at the following pages in particular:

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

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.

- (b) the unaudited interim condensed consolidated financial statements of the Issuer as at and for the six month period ended 30 June 2014 (that includes comparative information for the six month period ended 30 June 2013 in respect of income statement and other comprehensive income items and at 31 December 2013 in respect of balance sheet items) together with the review report thereon, including the information set out at the following pages in particular:

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

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.

- (c) the Terms and Conditions of the Covered Bonds contained in the previous Base Prospectus dated 18 July 2011, pages 68-100 (inclusive) prepared by the Issuer in connection with the Programme. Any non-incorporated parts of such previous Base Prospectus are either deemed not relevant for an investor or are otherwise covered elsewhere in this Base Prospectus.

Copies of documents incorporated by reference in this Base Prospectus may be obtained from (i) the registered office of the Issuer, and/or (ii) the website of the Luxembourg Stock Exchange (*www.bourse.lu*). Such documents shall be incorporated by and form part of this Base 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 Base 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 Base Prospectus.

PROSPECTUS SUPPLEMENT

If at any time the Issuer shall be required to prepare a prospectus supplement pursuant to Article 13 of the Luxembourg Act, the Issuer will prepare and make available an appropriate supplement to this Base Prospectus or a further Base Prospectus which shall be approved by the CSSF and which, in respect of any subsequent issue of Covered Bonds to be listed on the Official List and admitted to trading on the Luxembourg Stock Exchange's regulated market, shall constitute a supplement to the base prospectus as required by Article 13 of the Luxembourg Act.

The Issuer 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 Base Prospectus which is capable of affecting the assessment of any Covered Bonds and whose inclusion in this Base 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 Issuer and the rights attaching to the Covered Bonds, the Issuer shall prepare a supplement to this Base Prospectus or publish a replacement Base Prospectus for use in connection with any subsequent offering of the Covered Bonds and shall supply to each Dealer such number of copies of such supplement hereto as such Dealer may reasonably request.

TERMS AND CONDITIONS OF THE COVERED BONDS

The following are the Terms and Conditions of the Covered Bonds which will be incorporated by reference into each Global Covered Bond (as defined below) and each definitive Covered Bond, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Covered Bond will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Covered Bond and Definitive Covered Bond. Reference should be made to "Applicable Final Terms" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Covered Bonds.

This Covered Bond is one of a Series (as defined below) of Covered Bonds issued by Bank of Cyprus Public Company Limited (the **Issuer**) pursuant to the Trust Deed and the Covered Bond Legislation (as defined below).

References herein to the Covered Bonds shall be references to the Covered Bonds of this Series and shall mean:

- (a) in relation to any Covered Bonds represented by a global Covered Bond (a **Global Covered Bond**), units of the lowest denomination specified in the applicable Final Terms (**Specified Denomination**) in the currency specified in the applicable Final Terms (**Specified Currency**);
- (b) any Global Covered Bond; and
- (c) any definitive Covered Bonds (each a **Definitive Covered Bond**) issued in exchange for a Global Covered Bond.

The Covered Bonds and the Coupons are constituted by a trust deed dated 18 July 2011 as amended and restated on 17 January 2012, 6 June 2014 and 11 November 2014 (such trust deed as amended and/or supplemented and/or restated from time to time, the **Trust Deed**) and made between, *inter alios*, the Issuer and BNY Mellon Corporate Trustee Services Limited (the **Trustee**, which expression includes the trustee or trustees for the time being of the Trust Deed) as trustee for the Covered Bondholders. The Trustee and each of the other Cover Pool Creditors shall be, for the avoidance of doubt, a "cover pool creditor" in accordance with paragraph (g) of the definition of "covered pool creditor" as set out in Section 2(1) of the Cypriot Covered Bond Law (a **Covered Pool Creditor**).

The Covered Bonds and the Coupons (as defined below) have the benefit of an agency agreement (such agency agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 18 July 2011 as amended and restated on as amended and restated on 17 January 2012 and 11 November 2014 and made between, *inter alios*, the Issuer, The Bank of New York Mellon as principal paying agent (the **Principal Paying Agent**, which expression shall include any successor principal paying agent), any other paying agents from time to time (together with the Principal Paying Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents) and the Trustee.

The Final Terms for this Covered Bond (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Covered Bond which complete these Terms and Conditions (the **Conditions**). References to the **applicable Final Terms** are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Covered Bond. The expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive) to the extent implemented in the relevant Member State of the European Economic Area and includes any relevant implementing measure in the relevant Member State and the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

Interest bearing Definitive Covered Bonds have interest coupons (**Coupons**) (unless they are Zero Coupon Covered Bonds in which case references to Coupons and Couponholders in these Conditions are not applicable) and, in the case of Covered Bonds which, when issued in definitive form, have more than 27 interest payments remaining, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Global Covered Bonds do not have Coupons or Talons attached on issue.

Any reference to **Covered Bondholders** or **holders** in relation to any Covered Bonds shall mean the holders of the Covered Bonds and shall, in relation to any Covered Bonds represented by a Global Covered Bond, be construed as provided below. Any reference herein to **Couponholders** shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, **Series** means a tranche of Covered Bonds together with any further tranche or tranches of Covered Bonds which (a) are expressed to be consolidated and form a single series and (b) have the same terms and conditions or terms and conditions which are the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue.

If this Covered Bond is to be admitted to trading on the regulated market of the Luxembourg Stock Exchange the applicable Final Terms will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu). If this Covered Bond is neither admitted to trading on a regulated market in 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, the applicable Final Terms will only be obtainable by a Covered Bondholder holding one or more Covered Bonds and such Covered Bondholder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of such Covered Bonds and identity. The Covered Bondholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed.

Except where the context otherwise requires, capitalised terms used and not otherwise defined in these Conditions shall bear the meanings given to them in the applicable Final Terms and/or the master definitions and construction schedule made between the parties to the Transaction Documents on or about 11 November 2014 (the **Master Definitions and Construction Schedule**), a copy of each of which may be obtained as described above.

In these Conditions, **euro** means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

1. Form, Denomination and Title

The Covered Bonds are in bearer form and, in the case of Definitive Covered Bonds, serially numbered, in the currency (the **Specified Currency**) and the denominations (the **Specified Denomination(s)**) specified in the applicable Final Terms. Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination.

This Covered Bond may be a Fixed Rate Covered Bond, a Floating Rate Covered Bond, a Zero Coupon Covered Bond or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

The Covered Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) and set out in the applicable Final Terms save that the minimum denomination of each Covered Bond will be €100,000 (or, if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency) or such other higher amount as is required

from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.

It is a condition precedent to the issuance of a new Series of Covered Bonds that (A) pursuant to the Covered Bond Legislation, the Covered Bond Monitor has verified that the Issuer as at the date of issuance (i) satisfies all requirements for registration as an approved institution pursuant to Part II of the Cypriot Covered Bond Law; (ii) complies with all provisions of the Covered Bond Legislation with respect to any outstanding Series of Covered Bonds (iii) complies with the requirements of Article 11 of the Cypriot Covered Bond Directive and (iv) complies with the provisions of Sections 14(1)(d) and (e) of the Cypriot Covered Bond Law; and (B) where the applicable Series of Covered Bonds is to be rated, the Rating Agencies have been notified of such issuance. For the avoidance of doubt, to the extent the Issuer is subject to dissolution proceedings it will not be compliant with the provisions of Part II of the Cypriot Covered Bond Law and therefore would be prohibited from issuing further Series of Covered Bonds.

Subject as set out below, title to the Covered Bonds and Coupons will pass by delivery. The Issuer, the Paying Agents and the Trustee will (except as otherwise required by law) deem and treat the bearer of any Covered Bond or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Covered Bond, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Covered Bonds are represented by a Global Covered Bond held on behalf of Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**) (each an **ICSD**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Covered Bonds (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Covered Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error and any such certificate or other document may comprise any form of statement or printout of electronic records provided by the relevant clearing system (including, without limitation, Euroclear's EUCLID or Clearstream, Luxembourg's Creation Online system) in accordance with its usual procedures and in which the holder of a particular nominal amount of the Covered Bonds is clearly identified with the amount of such holding) shall be treated by the Issuer, the Paying Agents and the Trustee as the holder of such nominal amount of such Covered Bonds for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Covered Bonds, for which purpose the bearer of the relevant Global Covered Bond shall be treated by the Issuer, any Paying Agent and the Trustee as the holder of such nominal amount of such Covered Bonds in accordance with and subject to the terms of the relevant Global Covered Bond and the expressions **Covered Bondholder** and **holder of Covered Bonds** and related expressions shall be construed accordingly.

Covered Bonds which are represented by a Global Covered Bond will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in Part B of the applicable Final Terms (including the address of the alternative clearing system).

2. Status of the Covered Bonds

Status

The Covered Bonds constitute direct, unconditional and unsubordinated obligations of the Issuer secured by the Cypriot Statutory Charge and together with, where applicable, any other security documents. They are issued in accordance with Covered Bond Legislation and are backed by the assets of the Cover Pool. They will at all times rank *pari passu* without any preference among themselves with all other outstanding unsubordinated obligations of the Issuer that have been provided with equivalent priority of claim to the Cover Pool.

3. Priorities of Payments

Prior to the delivery of a Notice of Default, the Issuer shall apply (i) all Covered Bonds Available Funds in respect of the Cover Pool (which funds shall include all amounts standing to the credit of the Transaction Account) and (ii) to the extent the Covered Bonds Available Funds are insufficient to satisfy all amounts set out in the Pre-Event of Default Priority of Payments any other funds available to the Issuer on each Cover Pool Payment Date in making the following payments and provisions in the following order of priority (the **Pre-Event of Default Priority of Payments**) (in each case only if and to the extent that payments of a higher priority have been made in full):

- (i) *first, pari passu* and *pro rata* according to the respective amounts thereof, in or towards satisfaction of all amounts then due and payable or to become due and payable prior to the next Cover Pool Payment Date to the Trustee or any Appointee (including remuneration or amounts by way of indemnity payable to it) under the provisions of the Trust Deed or any other Transaction Document together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein and any additional fees, costs, expenses and taxes due and payable on the Cover Pool Payment Date or to provide for all such amounts that will become due and payable prior to the next Cover Pool Payment Date to fund any notice to be given to any parties in accordance with any of the Transaction Documents or to the Covered Bondholders;
- (ii) *then*, to pay all amounts due and payable on the Cover Pool Payment Date, or to provide for all such amounts that will become due and payable prior to the next Cover Pool Payment Date (and for which payment has not been provided for elsewhere in the relevant Priorities of Payments), to any Cover Pool Creditors other than the Covered Bondholders and with the exception of any amount due to be paid, or that will become due and payable prior to the next Cover Pool Payment Date, to the Hedging Counterparties under the Hedging Agreements;
- (iii) *then, pari passu* and *pro rata*, according to the respective amounts thereof (a) to pay all amounts of interest due and payable on the Covered Bonds on the Cover Pool Payment Date, or to provide for all such amounts that will become due and payable prior to the next Cover Pool Payment Date or are otherwise required to be provisioned for with respect to the relevant Liquidity Tests on any Covered Bonds and (b) to pay any amounts due and payable on the Cover Pool Payment Date, or to provide for all such amounts that will become due and payable prior to the next Cover Pool Payment Date under any Hedging Agreement other than Subordinated Termination Payments to any Hedging Counterparties under any such Hedging Agreements;
- (iv) *then*, to pay all amounts of principal due and payable on the Covered Bonds on the Cover Pool Payment Date, or to provide for all such amounts that will become due and payable prior to the next Cover Pool Payment Date or are otherwise required to be provisioned for with respect to the relevant Liquidity Tests (if any) on any Covered Bonds;

- (v) *then*, to pay *pari passu* and *pro rata*, according to the respective amounts thereof, any amount due and payable on the Cover Pool Payment Date, or to provide for all such amounts that will become due and payable prior to the next Cover Pool Payment Date to any Hedging Counterparties arising out of any Subordinated Termination Payment; and
- (vi) *finally*, for so long as the Issuer is in compliance with the Cover Pool Adequacy Criteria, to pay any excess to the Issuer and, for so long as the Issuer is not in compliance with the Cover Pool Adequacy Criteria, shall be: (a) utilised for the creation or acquisition of Cover Pool Assets; or (b) deposited in the Transaction Account to the extent not utilised with respect to (a) above.

Any amounts held in the Transaction Account pursuant to item (vi)(b) above may be used at any time for the purposes of acquiring or creating new assets in the Cover Pool.

Subordinated Termination Payment means, subject as set out below, any termination payments due and payable to any Hedging Counterparty under a Hedging Agreement where such termination results from (a) an Additional Termination Event "*Ratings Event*" as specified in the schedule to the relevant Hedging Agreement, (b) the bankruptcy of the relevant Hedging Counterparty, or (c) any default and/or failure to perform by such Hedging Counterparty under the relevant Hedging Agreement, other than, in the event of (a) or (b) above, the amount of any termination payment due and payable to such Hedging Counterparty in relation to the termination of such transaction to the extent of any premium received by the Issuer from a replacement hedging counterparty.

Following delivery of a Notice of Default, all Covered Bonds Available Funds with respect to the Cover Pool shall be applied on any Business Day in making the following payments and provisions in the following order of priority (the **Post-Event of Default Priority of Payments**) (in each case only if and to the extent that payments of a higher priority have been made in full):

- (i) *first*, in or towards satisfaction of all amounts then due and payable to the Trustee or any Appointee (including remuneration or amounts by way of indemnity payable to it) under the provisions of the Trust Deed or any other Transaction Document together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein;
- (ii) *then, pari passu* and *pro rata* according to the respective amounts thereof to pay any additional fees, costs, expenses and taxes due and payable to fund any notice to be given to any parties in accordance with any of the Transaction Documents or to the Covered Bondholders;
- (iii) *then, pari passu* and *pro rata* according to the respective amounts thereof to pay all amounts due and payable (and for which payment has not been provided for elsewhere in the relevant Priorities of Payments), to any Cover Pool Creditors other than the Covered Bondholders and with the exception of any amount due to be paid to the Hedging Counterparties under the Hedging Agreements;
- (iv) *then, pari passu* and *pro rata*, according to the respective amounts thereof (a) to pay all amounts of interest and principal then due and payable on any Covered Bonds and (b) to pay any amounts then due and payable, under any Hedging Agreement other than Subordinated Termination Payments to any Hedging Counterparties under any such Hedging Agreements;
- (v) *then*, to pay *pari passu* and *pro rata*, according to the respective amounts thereof, any amount then due and payable on the Cover Pool Payment Date to any Hedging Counterparties arising out of any Subordinated Termination Payment; and
- (vi) *finally*, once all Covered Bonds have been redeemed, to pay any excess to the Issuer.

Where the Issuer is subject to dissolution proceedings and the Cover Pool is sold or otherwise disposed of in its entirety, all proceeds of such disposal (the **Cover Pool Disposal Proceeds**) shall be applied on any Business Day in accordance with the order of priority of payments (the **Cover Pool Disposal Priority of Payments** and, together with the Pre-Event of Default Priority of Payments and the **Post-Event of Default Priority of Payments**, the **Priorities of Payments** and, each of them a **Priority of Payments**) provided in Sections 43 to 45 (inclusive) of the Cypriot Covered Bond Law provided that such amounts will be distributed first, *pari passu* and *pro rata*, towards payment of all amounts due and payable to any Covered Bond Business Administrator and the Covered Bond Monitor (provided that all amounts due and payable to the Trustee (a) in respect of activities, services or other matters performed at the behest, or with the consent, of the Covered Bond Business Administrator and/or the Competent Authority or (b) resulting from or in connection with the holding of any meetings of Covered Bondholders or (c) resulting from or related to any actions taken or to be taken pursuant to resolutions passed at such meetings (provided that the amounts due and payable to the Trustee in respect of such actions have been approved by the Covered Bondholders at any such meetings) will be treated as amounts due and payable to the Covered Bond Business Administrator and be paid at this level of priority).

4. Interest

4.1 Interest on Fixed Rate Covered Bonds

Each Fixed Rate Covered Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable, subject as provided in these Conditions, in arrear on the Interest Payment Date(s) in each year up to (and including) the Final Maturity Date.

Except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on but excluding such date (**Fixed Coupon Amount**). Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the broken amount specified in the applicable Final Terms (the **Broken Amount**) so specified.

As used in these Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

4.2 Floating Rate Covered Bond Provisions

(a) Interest on Payment Dates

Each Floating Rate Covered Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms;
- or

- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the **Specified Period** in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In these Conditions, the expression **Interest Period** shall mean the period from (and including) an Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

(b) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Covered Bonds will be determined in the manner specified in the applicable Final Terms.

(i) ISDA Determination for Floating Rate Covered Bonds

Where **ISDA Determination** is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent or other person specified in the applicable Final Terms under an interest rate swap transaction if the Principal Paying Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Series of the Covered Bonds (the **ISDA Definitions**), and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is the period specified in the applicable Final Terms; and
- (C) the relevant Reset Date is the day specified in the applicable Final Terms.

For the purposes of this subparagraph (i), **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

When this subparagraph (i) applies, in respect of each relevant Interest Period the Principal Paying Agent or the above-mentioned person will be deemed to have discharged its obligations under Condition 4.2(d) below in respect of the determination of the Rate of Interest if it has determined the Rate of Interest in respect of such Interest Period in the manner provided in this subparagraph (i).

(ii) Screen Rate Determination for Floating Rate Covered Bonds

Where **Screen Rate Determination** is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (A) the offered quotation (if there is only one quotation on the Relevant Screen Page); or

- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either LIBOR or EURIBOR, as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) as at 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 plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Principal Paying 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 Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest pursuant to this subparagraph (ii) in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph. In particular, if the Relevant Screen Page is not available or if, in the case of Condition 4.2(b)(ii)(A) no offered quotation appears or, in the case of Condition 4.2(b)(ii)(B), fewer than three offered quotations appear, in each case as at the Specified Time, the Principal Paying Agent shall request each of the Reference Banks to provide the Principal Paying Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Principal Paying Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Principal Paying Agent.

(c) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Final Terms for a Floating Rate Covered Bond specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms for a Floating Rate Covered Bond specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) Determination of Rate of Interest and calculation of Interest Amounts

The Principal Paying Agent will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Principal Paying Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Covered Bonds for the relevant Interest Period by applying the Rate of Interest to:

- (i) in the case of Floating Rate Covered Bonds which are represented by a Global Covered Bond, the aggregate outstanding nominal amount of the Covered Bonds represented by such Global Covered Bond; or
- (ii) in the case of Floating Rate Covered Bonds in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Covered Bond in definitive form comprises more than one Calculation Amount, the Interest Amount payable in respect of such Covered Bond shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

The applicable Final Terms will specify the Interest Basis of each Series of Covered Bonds and will specify if there is a Change of Interest Basis at any point prior to the Final Maturity Date or the Extended Final Maturity Date of the Covered Bonds, as the case may be.

(e) Linear Interpolation

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

Designated Maturity means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

(f) Notification of Rate of Interest and Interest Amounts

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee and to any stock exchange or other relevant competent authority or quotation system on which the relevant Floating Rate Covered Bonds are for the time being listed, quoted and/or traded or by which they have been admitted to listing or trading and to be published in accordance with Condition 15 (*Notices*) as soon as possible after their determination but in no event later than the fourth Business Day (as defined in Condition 4.5) thereafter and in the case of any notification to be given to the Luxembourg Stock Exchange on or before the first Business Day of each Interest Period. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. Any such amendment or alternative arrangements will be promptly notified by the Principal Paying Agent or the Issuer to the Trustee and each stock exchange or other relevant authority on which the relevant Floating Rate Covered Bonds are for the time being listed, quoted and/or traded or by which they have been admitted to listing or trading and to Covered Bondholders in accordance with Condition 15 (*Notices*).

(g) Determination or Calculation by Trustee

If for any reason at any relevant time after the Issue Date, the Principal Paying Agent defaults in its obligation to determine the Rate of Interest or in its obligation to calculate any Interest Amount in accordance with subparagraph 4.2(b)(i) or 4.2(b)(ii) above, as the case may be, and in each case in accordance with paragraph 4.2(d) above, the Trustee may determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it may think fit to the foregoing provisions of this Condition 4.2, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee may calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances. In making any such determination or calculation, the Trustee may appoint and rely on a determination or calculation by a calculation agent (which shall be an investment bank or other suitable entity of international repute). If such determination or calculation is made the Trustee shall as soon as reasonably practicable notify the Issuer and the Stock Exchange of such determination or calculation and each such determination or calculation shall be deemed to have been made by the Principal Paying Agent.

(h) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4.2, whether by the Principal Paying Agent or the Trustee shall (in the absence of wilful default or manifest error) be binding on the Issuer, the Principal Paying Agent, the other Paying Agents, the Trustee and all Covered Bondholders and Couponholders and (in the absence of wilful default, gross negligence, bad faith or fraud) no liability to the Issuer the Covered Bondholders or the Couponholders shall attach to the Principal Paying Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

4.3 Interest on Zero Coupon Covered Bonds

Zero Coupon Covered Bonds will be offered and sold at a discount to their nominal amount and will not bear interest. When a Zero Coupon Covered Bond becomes repayable prior to its Final Maturity Date it will be redeemed at the Early Redemption Amount calculated in accordance with Condition 6.5 (*Early Redemption Amounts*). In the case of late payment the amount due and repayable shall be calculated in accordance with Condition 6.8 (*Late Payment*).

4.4 Accrual of interest

Interest (if any) will cease to accrue on each Covered Bond (or in the case of the redemption of part only of a Covered Bond, that part only of such Covered Bond) on the due date for redemption thereof unless, upon due presentation thereof, payment of principal is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event, interest will continue to accrue as provided in Condition 6.8 (*Late Payment*).

4.5 Business Day, Business Day Convention, Day Count Fractions and other adjustments

(a) In these Conditions, **Business Day** means:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in each Additional Business Centre specified in the applicable Final Terms; and
- (ii) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for

general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (**TARGET2**) System (the **TARGET2 System**) is open.

- (b) If a **Business Day Convention** is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:
- (i) in any case where Specified Periods are specified in accordance with Condition 4.2(a)(ii), the **Floating Rate Convention**, such Interest Payment Date (1) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (II) below shall apply *mutatis mutandis*, or (2) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (I) such Interest Payment Date shall be brought forward to the immediately preceding Business Day, and (II) each subsequent Interest Payment Date shall be the last Business Day in the month which falls within the Specified Period after the preceding applicable Interest Payment Date occurred; or
 - (ii) the **Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
 - (iii) the **Modified Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
 - (iv) the **Preceding Business Day Convention**, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.
- (c) **Day Count Fraction** means, in respect of the calculation of an amount of interest for any Interest Period:
- (i) if **Actual/Actual (ICMA)** is specified in the applicable Final Terms:
 - (A) in the case of Covered Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period (as defined in Condition 4.5(e)) during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
 - (B) in the case of Covered Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of (I) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and (II) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in

such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;

- (ii) if **Actual/Actual** or **Actual/Actual (ISDA)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366, and (ii) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (iii) if **Actual/365 (Fixed)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iv) if **Actual/365 (Sterling)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (v) if **Actual/360** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (vi) if **30/360, 360/360** or **Bond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y^2 - Y^1)] + [30x(M^2 - M^1)] + (D^2 - D^1)}{360}$$

where:

"Y¹" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y²" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M¹" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M²" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D¹" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D¹ will be 30; and

"D²" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D¹ is greater than 29, in which case D² will be 30;

- (vii) if **30E/360** or **Eurobond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y^2 - Y^1)] + [30x(M^2 - M^1)] + (D^2 - D^1)}{360}$$

where:

"Y¹" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y²" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M¹" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M²" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D¹" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D¹ will be 30; and

"D²" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D² will be 30; or

- (viii) if **30E/360 (ISDA)** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y^2 - Y^1)] + [30 \times (M^2 - M^1)] + (D^2 - D^1)}{360}$$

where:

"Y¹" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y²" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M¹" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M²" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D¹" is the first calendar day, expressed as a number, of the Interest 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

"D²" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Final Maturity Date or (ii) such number would be 31 and D² will be 30.

- (d) **Determination Date** has the meaning given in the applicable Final Terms.
- (e) **Determination Period** means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).

- (f) **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.
- (g) **Interest Commencement Date** means in the case of interest-bearing Covered Bonds, the date specified in the applicable Final Terms from (and including) which the relevant Covered Bonds will accrue interest.
- (h) **Interest Payment Date** means, in respect of Fixed Rate Covered Bonds, the meaning given in the applicable Final Terms and in respect of Floating Rate Covered Bonds, the meaning given in Condition 4.2, together the **Interest Payment Dates**.
- (i) **Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.
- (j) **Principal Amount Outstanding** means in respect of a Covered Bond on any day the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant Covered Bondholder in respect thereof on or prior to that day provided that the Principal Amount Outstanding in respect of a Covered Bond that has been purchased and cancelled by the Issuer shall be zero.
- (k) If **adjusted** is specified in the applicable Final Terms against the Day Count Fraction, interest in respect of the relevant Interest Period shall be payable in arrear on the relevant Interest Payment Date and calculated from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date, as such Interest Payment Date shall, where applicable, be adjusted in accordance with the Business Day Convention.
- (l) If **not adjusted** is specified in the applicable Final Terms against the Day Count Fraction, interest in respect of the relevant Interest Period shall be payable in arrear on the relevant Interest Payment Date and calculated from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date, but such Interest Payment Dates shall not be adjusted in accordance with any Business Day Convention.
- (m) **sub-unit** means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, euro 0.01.

5. Payments

5.1 Method of payment

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively);
- (ii) payments will be made in euro by credit or electronic transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque; and

- (iii) payments in U.S. Dollars will be made by transfer to a U.S. Dollar account maintained by the payee with a bank outside of the United States (which expression, as used in this Condition 5, means the United States of America, including the State and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction), or by cheque drawn on a United States bank.

In no event will payment in respect of Covered Bonds be made by a cheque mailed to an address in the United States. All payments of interest in respect of Covered Bonds will be made to accounts located outside the United States except as may be permitted by United States tax law in effect at the time of such payment without detriment to the Issuer.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment but without prejudice to the provisions of Condition 7 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 or otherwise imposed pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, any regulations or agreements thereunder, any official interpretations thereof, or any law, rules or regulations implementing an intergovernmental approach thereto. References to Specified Currency will include any successor currency under applicable law.

5.2 Presentation of Definitive Covered Bonds and Coupons

Payments of principal and interest (if any) (other than instalments of principal prior to the final instalment) will (subject as provided below) be made in accordance with Condition 5.1 (*Method of payment*) only against presentation and surrender of Definitive Covered Bonds or Coupons (or, in the case of part payment of any sum due, endorsement of the Definitive Covered Bond (or Coupon)), as the case may be, only at a specified office of any Paying Agent outside the **United States** (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Fixed Rate Covered Bonds in definitive bearer form (other than Long Maturity Covered Bonds) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall include Coupons falling to be issued on exchange of matured Talons), failing which an amount equal to the face value of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of ten years after the Relevant Date (as defined in Condition 9 (*Prescription*)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9 (*Prescription*)) or, if later, five years from the date on which such Coupon would otherwise have become due but in no event thereafter.

Upon amounts in respect of any Fixed Rate Covered Bond in definitive bearer form becoming due and repayable by the Issuer prior to its Final Maturity Date (or, as the case may be, Extended Final Maturity Date), all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the due date for redemption of any Floating Rate Covered Bond or Long Maturity Covered Bond in definitive bearer form, all unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Covered Bond** is a Fixed Rate Covered Bond (other than a Fixed Rate Covered Bond which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Covered Bond shall cease to be a Long Maturity Covered Bond on the Interest Payment Date on

which the aggregate amount of interest remaining to be paid after that date is less than the Principal Amount Outstanding of such Covered Bond.

If the due date for redemption of any Definitive Covered Bond is not an Interest Payment Date, interest (if any) accrued in respect of such Covered Bond from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against presentation and surrender of the relevant Definitive Covered Bond.

5.3 Payments in respect of Global Covered Bonds

Payments of principal and interest (if any) in respect of Covered Bonds represented by any Global Covered Bond will (subject as provided below) be made in the manner specified above in relation to Definitive Covered Bonds and otherwise in the manner specified in the relevant Global Covered Bond, where applicable, against presentation or surrender, as the case may be, of such Global Covered Bond if the Global Covered Bond is not intended to be issued in new global covered bond (NGCB) form at the specified office of any Paying Agent outside the United States. On the occasion of each payment, (i) in the case of any Global Covered Bond which is not issued in NGCB form, a record of such payment made on such Global Covered Bond, distinguishing between any payment of principal and any payment of interest, will be made either on such Global Covered Bond by the Paying Agent and such record shall be prima facie evidence that the payment in question has been made and (ii) in the case of any Global Covered Bond which is issued in NGCB form, the Paying Agent shall instruct Euroclear and Clearstream, Luxembourg to make appropriate entries in their records to reflect such payment.

No payments of principal, interest or other amounts due in respect of a Global Covered Bond will be made by mail to an address in the United States or by transfer to an account maintained in the United States.

5.4 General provisions applicable to payments

The bearer of a Global Covered Bond (or, as provided in the Trust Deed) the Trustee shall be the only person entitled to receive payments in respect of Covered Bonds represented by such Global Covered Bond and the obligations of the Issuer will be discharged by payment to, or to the order of, the holder of such Global Covered Bond (or the Trustee, as the case may be) in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Covered Bonds represented by such Global Covered Bond must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Covered Bond (or the Trustee, as the case may be). No person other than the holder of the relevant Global Covered Bond (or, as provided in the Trust Deed, the Trustee) shall have any claim against the Issuer in respect of any payments due on that Global Covered Bond.

Notwithstanding the foregoing provisions of this Condition 5.4, payments of principal and/or interest in respect of Covered Bonds in U.S. Dollars will only be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. Dollars at such specified offices outside the United States of the full amount of principal and/or interest on the Covered Bonds in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. Dollars; and

- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer adverse tax consequences to the Issuer.

5.5 Payment Day

If the date for payment of any amount in respect of any Covered Bond or Coupon is not a Payment Day (as defined below), the holder thereof shall not be entitled to payment of the relevant amount due until the next following Payment Day and shall not be entitled to any interest or other sum in respect of any such delay. In this Condition 5.5 (unless otherwise specified in the applicable Final Terms), **Payment Day** means any day which (subject to Condition 9 (*Prescription*)) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (A) in the case of Covered Bonds in definitive form only, the relevant place of presentation;
 - (B) each Additional Financial Centre specified in the applicable Final Terms; and
- (ii) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

5.6 Interpretation of principal and interest

Any reference in these Conditions to principal in respect of the Covered Bonds shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 7 (*Taxation*) or under any undertakings or covenants given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;
- (ii) the Final Redemption Amount (as defined in the Final Terms) (the **Final Redemption Amount**) of the Covered Bonds;
- (iii) the Early Redemption Amount of the Covered Bonds but excluding any amount of interest referred to therein;
- (iv) the Optional Redemption Amount(s) (if any) of the Covered Bonds;
- (v) in relation to Zero Coupon Covered Bonds, the Amortised Face Amount (as defined in Condition 6.5(iii)); and
- (vi) any premium and any other amounts (other than interest) which may be payable under or in respect of the Covered Bonds.

Any reference in these Conditions to interest in respect of the Covered Bonds shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under

Condition 7 (*Taxation*) or under any undertakings given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

5.7 Definitions

In these Conditions, the following expressions have the following meanings:

Accrual Yield has, in relation to a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms.

Calculation Amount has the meaning given in the applicable Final Terms.

Cover Pool Creditors means with respect to the Cover Pool, the Covered Bondholders, the Couponholders, the Receiptholders, the Trustee, the Custodian, the Covered Bond Monitor, the Covered Bond Business Administrator, the Account Bank, the Paying Agents, the Hedging Counterparties and any other creditor of the Issuer having the benefit of the Charged Property in accordance with the Cypriot Covered Bond Law or pursuant to any transaction document entered into in respect of the Programme having recourse to the Cover Pool. Each of the Cover Pool Creditors set out above shall be, for the avoidance of doubt "cover pool creditors" in accordance with paragraph (g) of the definition of "cover pool creditor" as set out in Section 2(1) of the Cypriot Covered Bond Law.

Earliest Maturing Covered Bonds means, at any time, the Series of the Covered Bonds (other than any Series which is fully collateralised by amounts standing to the credit of the Transaction Account) that has or have the earliest Final Maturity Date as specified in the applicable Final Terms (ignoring any acceleration of amounts due under the Covered Bonds prior to an Event of Default).

Early Redemption Amount means the amount calculated in accordance with Condition 6.5 (*Early Redemption Amounts*).

Established Rate means the rate for the conversion (if any) of the relevant Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 123 of the Treaty.

Extraordinary Resolution means a resolution of the Covered Bondholders passed as such under the terms of the Trust Deed.

Minimum Rate of Interest means in respect of Floating Rate Covered Bonds, the percentage rate per annum (if any) specified as such in the applicable Final Terms.

Notice of Default has the meaning given to it in Condition 8 (*Events of Default and Enforcement*).

Optional Redemption Amount(s) has the meaning (if any) given in the applicable Final Terms.

Potential Event of Default means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an Event of Default.

Rate(s) of Interest means the rate of interest payable from time to time in respect of Fixed Rate Covered Bonds and Floating Rate Covered Bonds, as determined in the applicable Final Terms.

Receiptholders means holders of a receipt for payment of instalments of principal (other than the final instalment) attached on issue to the Bearer Definitive Covered Bonds repayable instalments, such receipt being substantially in the form set out in Part 4 Schedule 2 of the Original Trust Deed or in such other form as may have been agreed between the Issuer, Principal Paying Agent, the Trustee and the relevant Dealer(s) or Lead Manager (in the case of syndicated issues).

Reference Price has, in respect of a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms.

Screen Rate Determination means, if specified as applicable in the applicable Final Terms, the manner in which the Rate of Interest on Floating Rate Covered Bonds is to be determined in accordance with Condition 4.2(b)(ii).

Treaty means the Treaty establishing the European Community, as amended.

6. Redemption and Purchase

6.1 Final redemption

- (i) Unless previously redeemed in full or purchased and cancelled as specified below, each Covered Bond will be redeemed by the Issuer at par at its Final Redemption Amount in the relevant Specified Currency on the Final Maturity Date specified in the applicable Final Terms.
- (ii) If an Extended Final Maturity Date is specified in the applicable Final Terms for a Series of Covered Bonds and the Issuer has failed to pay the Final Redemption Amount on the Final Maturity Date specified in the applicable Final Terms, then (subject as provided below) payment of the unpaid amount by the Issuer shall be deferred until the Extended Final Maturity Date, provided that any amount representing the Final Redemption Amount due and remaining unpaid on the Final Maturity Date may be paid by the Issuer on any Interest Payment Date occurring thereafter up to (and including) the relevant Extended Final Maturity Date specified in the applicable Final Terms.
- (iii) The Issuer shall confirm to the Competent Authority, the Covered Bond Monitor, the CBBA (if appointed), the Rating Agencies, any relevant Hedging Counterparty, the Trustee and the Principal Paying Agent as soon as reasonably practicable and in any event at least 2 Business Days prior to the Final Maturity Date of any inability of the Issuer to pay in full the Final Redemption Amount in respect of a Series of Covered Bonds on the Final Maturity Date. Any failure by the Issuer to notify such parties shall not affect the validity or effectiveness of the extension nor give rise to any rights in any such party.
- (iv) Where the applicable Final Terms for a relevant Series of Covered Bonds provides that such Covered Bonds are subject to an Extended Final Maturity Date, such failure to pay by the Issuer on the Final Maturity Date shall not constitute a default in payment.

6.2 Redemption for taxation reasons

Subject to Condition 6.5 (*Early Redemption Amounts*), the Covered Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time (if the relevant Covered Bond is not a Floating Rate Covered Bond) or on any Interest Payment Date (if the relevant Covered Bond is a Floating Rate Covered Bond), on giving not less than the minimum period and not more than the maximum period of notice specified in the applicable Final Terms to the Trustee and, in accordance with Condition 15 (*Notices*), the Covered Bondholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately before the giving of such notice that on the occasion of the

next date for payment of interest on the relevant Covered Bonds, the Issuer is or would be required to pay additional amounts as provided or referred to in Condition 7 (*Taxation*). Covered Bonds redeemed pursuant to this Condition 6.2 will be redeemed at their Early Redemption Amount referred to in Condition 6.5 together (if appropriate) with interest accrued to (but excluding) the date of redemption.

6.3 Redemption at the option of the Issuer (Issuer Call)

If Issuer Call is specified as being applicable in the applicable Final Terms (**Issuer Call**), the Issuer may, having given not less than the minimum period nor more than the maximum period of notice specified in applicable Final Terms to the Covered Bondholders in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable and shall specify the date fixed for redemption (the **Optional Redemption Date**)), redeem all or some only of the Covered Bonds then outstanding on any Optional Redemption Date and at the **Optional Redemption Amount(s)** specified in the applicable Final Terms together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount (if any) as specified in the applicable Final Terms.

In the case of a partial redemption of Covered Bonds, the Covered Bonds to be redeemed (the **Redeemed Covered Bonds**) (i) in the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, will be selected individually by lot not more than 30 days prior to the date fixed for redemption and (ii) in the case of Redeemed Covered Bonds represented by a Global Covered Bond, in accordance with the rules of Euroclear and/or 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). In the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, a list of the serial numbers of such Redeemed Covered Bonds will be published in accordance with Condition 15 (*Notices*) not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Covered Bonds represented by Definitive Covered Bonds or represented by Global Covered Bonds shall, in each case, bear the same proportion to the aggregate nominal amount of all Redeemed Covered Bonds as the aggregate nominal amount of Definitive Covered Bonds or Global Covered Bonds outstanding bears, in each case, to the aggregate nominal amount of the Covered Bonds outstanding on the selection date, provided that such nominal amounts shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination.

6.4 Redemption at the option of the Covered Bondholders (Investor Put)

- (i) If an investor put is specified as being applicable in the applicable Final Terms (the **Investor Put**), then upon the holder of this Covered Bond giving to the Issuer not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms (which notice shall be irrevocable), the Issuer will, upon the expiry of such notice, redeem such Covered Bond on the Optional Redemption Date and at the relevant Optional Redemption Amount as specified in the applicable Final Terms, together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date.
- (ii) If this Covered Bond is in definitive form, to exercise the right to require redemption of this Covered Bond, the holder of this Covered Bond must deliver such Covered Bond, on any Business Day (as defined in Condition 4.5) falling within the above-mentioned notice period at the specified office of any Paying Agent, accompanied by a duly signed and completed notice of exercise of the Investor Put in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is by cheque, an address) to which payment is to be made under this Condition 6.4.

- (iii) Any Put Notice given by a Covered Bondholder of any Covered Bond pursuant to this Condition 6.4 shall be irrevocable.

6.5 Early Redemption Amounts

For the purpose of Condition 6.1 (*Final redemption*), Condition 6.2 (*Redemption for taxation reasons*) and Condition 8 (*Events of Default and Enforcement*), each Covered Bond will be redeemed at the Early Redemption Amount calculated as follows:

- (i) in the case of a Covered Bond with a Final Redemption Amount equal to the Issue Price of the first tranche of the Series, at the Final Redemption Amount thereof;
- (ii) in the case of a Covered Bond other than a Zero Coupon Covered Bond, with a Final Redemption Amount which is or may be less or greater than the Issue Price of the first tranche of the Series, at the amount specified in the applicable Final Terms or, if no such amount is so specified in the applicable Final Terms, at its Principal Amount Outstanding, together with interest accrued to (but excluding) the date fixed for redemption; and
- (iii) in the case of a Zero Coupon Covered Bond, at an amount (the **Amortised Face Amount**) equal to the sum of:
 - (A) the Reference Price; and
 - (B) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date of the first Series of the Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable.

Where such calculation in paragraph (ii) above is to be made for a period which is not a whole number of years, it shall be made (A) in the case of a Zero Coupon Covered Bond payable in a Specified Currency other than euro, on the basis of a 360-day year consisting of 12 months of 30 days each, or (B) in the case of a Zero Coupon Covered Bond payable in euro, on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed falls in a leap year, the sum of (x) the number of those days falling in a leap year divided by 366 and (y) the number of those days falling in a non leap year divided by 365).

6.6 Purchases

The Issuer or any subsidiary of the Issuer may at any time purchase or otherwise acquire Covered Bonds (provided that, in the case of Definitive Covered Bonds, all unmatured Coupons and Talons appertaining thereto are attached thereto or surrendered therewith) at any price in the open market either by tender or private agreement or otherwise. If purchases are made by tender, tenders must be available to all Covered Bondholders alike. Such Covered Bonds may be held, reissued, resold or, at the option of the Issuer or the relevant subsidiary, surrendered to any Paying Agent for cancellation.

6.7 Cancellation

All Covered Bonds which are redeemed will forthwith be cancelled (together with, in the case of Definitive Covered Bonds, all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Covered Bonds so cancelled and any Covered Bonds purchased and surrendered for cancellation pursuant to Condition 6.6 (*Purchases*) and cancelled (together with, in the case of Definitive Covered Bonds, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

6.8 Late Payment

If any amount payable in respect of any Covered Bond is improperly withheld or refused upon its becoming due and repayable or is paid after its due date, the amount due and repayable in respect of such Covered Bond (the **Late Payment**) shall itself accrue interest (both before and after any judgment or other order of a court of competent jurisdiction) from (and including) the date on which such payment was improperly withheld or refused or, as the case may be, became due, to (but excluding) the Late Payment Date in accordance with the following provisions:

- (i) in the case of a Covered Bond other than a Zero Coupon Covered Bond at the rate determined in accordance with Condition 4.1 (*Interest on Fixed Rate Covered Bonds*) or 4.2 (*Floating Rate Covered Bond Provisions*), as the case may be; and
- (ii) in the case of a Zero Coupon Covered Bond, at a rate equal to the Accrual Yield,

in each case on the basis of the Day Count Fraction specified in the applicable Final Terms or, if none is specified, on a 30/360 basis.

For the purpose of this Condition 6.8, the **Late Payment Date** shall mean the earlier of:

- (i) the date which the Principal Paying Agent determines to be the date on which, upon further presentation of the relevant Covered Bond, payment of the full amount (including interest as aforesaid) in the relevant currency in respect of such Covered Bond is to be made; and
- (ii) the seventh day after notice is given to the relevant Covered Bondholder (whether individually or in accordance with Condition 15 (*Notices*)) that the full amount (including interest as aforesaid) in the relevant currency in respect of such Covered Bond is available for payment,

provided that in the case of both (i) and (ii), upon further presentation thereof being duly made, such payment is made.

7. Taxation

- (a) The Issuer shall make all payments to be made by it without any Tax Deduction (as defined below), unless a Tax Deduction is required by law.
- (b) If a Tax Deduction is required by law to be made by the Issuer, the amount of the payment due from the Issuer shall be increased to an amount which (after making any Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required.
- (c) The Issuer is not required to make an increased payment to a Covered Bondholder under paragraph (b) above for a Tax Deduction if on the date on which the payment falls due:
 - (i) the Covered Bondholder is a person who is a tax resident of the Republic of Cyprus that has not declared to the Issuer that it earns such interest within the ordinary course of its business or that the earning of such interest is closely connected to its ordinary course of business;
 - (ii) the Covered Bondholder is a tax resident of a state with which the Republic of Cyprus has a tax treaty that provides for payments to be made without a Tax Deduction and the Issuer is able to demonstrate that the payment could have been made to the Covered Bondholder without the Tax Deduction had that Covered Bondholder complied with its obligations under paragraph (e) below;

- (iii) the Covered Bondholder would not be liable or subject to a Tax Deduction if it were to comply with a statutory requirement or to make a declaration of non residence or other similar claim but fails to do so; or
 - (iv) such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive or law 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.
- (d) If the Issuer is required to make a Tax Deduction, the Issuer shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law.
 - (e) If the Covered Bondholder to which the Issuer makes a payment is a tax resident of a state with which the Republic of Cyprus has a tax treaty that provides for payments to be made without a Tax Deduction, the Covered Bondholder and the Issuer shall co-operate in completing any procedural formalities necessary for the Issuer to obtain authorisation to make that payment without a Tax Deduction.
 - (f) If the Issuer becomes subject at any time to any taxing jurisdiction other than the Republic of Cyprus, references in the Conditions to the Republic of Cyprus shall be construed as references to the Republic of Cyprus and/or such other jurisdiction.

For these purposes a **Tax Deduction** means a deduction or withholding for on account of tax, imposed by the Republic of Cyprus or any political subdivision or any authority thereof, from a payment.

- (g) Notwithstanding the foregoing provisions of this Section 7 (*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 of 1986, or otherwise imposed pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, 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 of 1986, and no additional amounts will be required to be paid on account of any such deduction or withholding.

8. Events of Default and Enforcement

8.1 Events of Default

If any of the following events occurs, and is continuing:

- (a) on the Final Maturity Date (in respect only of any Series to which an Extended Final Maturity Date is not applicable) or Extended Final Maturity Date, as applicable, in respect of any Series or on any Interest Payment Date on which principal is due and payable thereon, there is a failure to pay any amount of principal due on such Covered Bonds on such date and such default is not remedied within a period of seven Business Days from the due date thereof; or
- (b) on any Interest Payment Date, a default in the payment of the amount of interest due on any Series occurs and such default is not remedied within a period of 14 Business Days from the due date thereof; or

- (c) dissolution proceedings are entered into with respect to the Issuer and no Covered Bond Business Administrator is appointed by the Competent Authority within a period of 10 Business Days thereafter,

then the Trustee shall, if it has been so directed by an Extraordinary Resolution of all the Covered Bondholders of all Series (with the Covered Bonds of all Series taken together as a single Series and (if applicable) converted into Euro at either the relevant Covered Bond Swap Rate (if applicable) or the Established Rate) or by a request in writing by the holders of not less than 25.0% of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (with the Covered Bonds of all Series taken together as a single Series and (if applicable) converted into Euro at either the relevant Covered Bond Swap Rate (if applicable) or the Established Rate) and, in either case then only if it shall have received the consent of the Competent Authority (subject to being indemnified and/or secured and/or prefunded to its satisfaction), serve a notice (a **Notice of Default**) on the Issuer (copied to the Covered Bond Monitor, the Competent Authority, the Custodian and, if appointed the CBBA). Following the service of a Notice of Default, (i) no further Covered Bonds will be issued and (ii) the Covered Bonds of each Series shall become immediately due and payable. Service of a Notice of Default may, if so requested by the Covered Bondholders in such Extraordinary Resolution or, as the case may be, such written request be deemed to be approval from all the Covered Bondholders for the immediate settlement of the Covered Bonds by the CBBA as set out in Section 62(1)(a) of the Cypriot Covered Bond Law.

If the Trustee receives, or has been notified by the Issuer, the Competent Authority or the Covered Bond Monitor that it has received, notice from the CBBA that it wishes to exercise its powers under Section 62(2) of the Cypriot Covered Bond Law, the Trustee shall be required to seek directions from the Covered Bondholders (by way of an Extraordinary Resolution of the Covered Bondholders of all Series taken as a single Series) as to what action they wish the CBBA to take.

8.2 Enforcement

The Trustee may (subject to the consent of the Competent Authority) at any time, at its discretion and without notice, take such proceedings, action or steps against the Issuer and/or any other person as it may think fit to enforce the provisions of the Trust Deed, the Covered Bonds or any other Transaction Document in accordance with its terms but it shall not be bound to take any such proceedings, action or steps unless (i) it shall have been so directed by an Extraordinary Resolution of all the Covered Bondholders of all Series (with the Covered Bonds of all Series taken together as a single Series and (if applicable) converted into euro at either the relevant Covered Bond Swap Rate (if applicable) or the Established Rate) or by a request in writing by the holders of not less than 25.0% of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (with the Covered Bonds of all Series taken together as a single Series and (if applicable) converted into euro at either the relevant Covered Bond Swap Rate (if applicable) or the Established Rate), and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

Following the delivery of a Notice of Default, any enforcement of the Cypriot Statutory Charge shall be undertaken only by the Covered Bond Business Administrator, who shall also have the right, subject as follows, to direct the Trustee in writing in relation to the enforcement of its rights in respect of the Cypriot Statutory Charge under the Trust Deed and the other Transaction Documents. Upon being so directed in accordance with this Condition 8.2, the Trustee will be bound to take the relevant action(s) in the manner instructed by the Covered Bond Business Administrator provided that the Trustee has been indemnified and/or secured to its satisfaction against all Liabilities to which it may render itself liable or which it may incur by so doing and, for this purpose, the Trustee may demand, prior to taking any such action, that there be paid to it in advance such sums as it considers (without prejudice to any further demand) shall be sufficient so to indemnify it and provided further

that the Trustee cannot be directed or instructed to take any action contrary to any law or regulation that would expose it to any Liability for which indemnity in full is not assured to it.

The Trustee shall not be liable to any Covered Bondholder or any other Cover Pool Creditor or to the Issuer for any action it may take in accordance with any direction or instruction received pursuant to this Condition 8.2 or Clause 8(f) of the Trust Deed. The Trustee shall be entitled to seek clarification from the Covered Bond Business Administrator with regard to any such direction or instruction and may in its discretion elect not to act pending receipt of such clarification to its satisfaction from the Covered Bond Business Administrator.

In exercising any of its powers, trusts, authorities and discretions under this Condition 8.2 the Trustee shall only have regard to the general interests of the Covered Bondholders of all Series taken together and shall not have regard to the interests of any other Cover Pool Creditors.

No Covered Bondholder or Couponholder shall be entitled to proceed directly against the Issuer or to take any action with respect to the Trust Deed, any other Transaction Document, the Covered Bonds, the Coupons, or the Security unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and such failure shall be continuing.

For these purposes, **Liability** means any loss, damage, cost, charge, claim, demand, expense, judgment, decree, action, proceeding or other liability whatsoever (including, without limitation in respect of Taxes, duties, levies, imposts and other charges) and including any amounts in respect of VAT or other Tax charged or chargeable in respect thereof and legal fees and expenses on a full indemnity basis and **Liabilities** shall be construed accordingly

9. Prescription

Claims against the Issuer for payment of principal and interest in respect of the Covered Bonds will be prescribed and become void unless made, in the case of principal, within ten years or, in the case of interest, five years after the Relevant Date.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for paying in respect of which would be void pursuant to this Condition 9 or Condition 5 (*Payments*).

As used herein, the **Relevant Date** means the date on which payment in respect of the Covered Bond or Coupon first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent on or prior to such date, the Relevant Date shall be the date on which such moneys shall have been so received and notice to that effect has been given to Covered Bondholders in accordance with Condition 15 (*Notices*).

10. Replacement of Covered Bonds, Coupons and Talons

If any Covered Bond, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent (and, if the Covered Bonds are then listed on any stock exchange which requires the appointment of a Paying Agent in any particular place, the Paying Agent having its specified office in the place required by such stock exchange), subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Covered Bonds, Talons or Coupons must be surrendered before replacements will be issued.

11. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Covered Bond to which it appertains) a further Talon, subject to the provisions of Condition 9 (*Prescription*). Each Talon shall, for the purposes of these Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relevant Coupon sheet matures.

12. Trustee and Agents

- (a) In acting under the Agency Agreement and in connection with the Covered Bonds and the Coupons, the Paying Agents act solely as agents of the Issuer and, in certain circumstances specified therein, the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Covered Bondholders or Couponholders.
- (b) The initial Paying Agents and their initial specified offices are set forth in the Base Prospectus and in the Master Definitions and Construction Schedule. The Issuer reserves the right at any time, with the prior written approval of the Trustee, to vary or terminate the appointment of any Paying Agent and to appoint a successor Principal Paying Agent and additional or successor paying agents provided, however, that for so long as any Covered Bond is outstanding, or until monies for the payment of all amounts in respect of all outstanding Covered Bonds have been made available to the Principal Paying Agent and have been returned to the Issuer, as the case may be:
 - (i) there will at all times be a Principal Paying Agent;
 - (ii) the Issuer will maintain a Paying Agent (which may be the Principal Paying Agent) having a specified office in a city approved by the Trustee in Europe;
 - (iii) so long as any Covered Bonds are listed on any stock exchange or admitted to listing by any other relevant authority there will at all times be a Paying Agent (which may be the Principal Paying Agent), with a specified office in such place as may be required by the rules and regulations of such stock exchange or, as the case may be, other relevant authority;
 - (iv) the Issuer will ensure that it maintains a Paying Agent in a Member State of the European Union that is not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with or introduced in order to conform to such Directive, if any (if there is any such Member State), provided that the Issuer shall not, under any circumstances, be obliged to maintain a Paying Agent with a specified office in a Member State of the European Union unless at least one Member State does not require a Paying Agent making payments through a specified office in that Member State to so withhold or deduct tax.

Notice of any change in any of the Paying Agents or in their specified offices shall promptly be given by the Issuer to the Covered Bondholders in accordance with Condition 15 (*Notices*).

- (c) Under the Trust Deed, the Trustee is entitled to be indemnified and/or secured and/or prefunded to its satisfaction and relieved from responsibility in certain circumstances and to be paid its remuneration, costs and expenses in priority to the claims of the Covered Bondholders and the other Cover Pool Creditors.

13. Meetings of Covered Bondholders, Modification and Waiver

- (a) *Meetings of Covered Bondholders:* The Trust Deed contains provisions for convening meetings of Covered Bondholders of each Series to consider matters relating to the Covered Bonds, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution of the Covered Bondholders of the relevant Series. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer upon the request in writing signed by Covered Bondholders holding not less than one-tenth of the aggregate principal amount of the outstanding Covered Bonds of the relevant Series. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing more than half of the aggregate principal amount of the outstanding Covered Bonds of the relevant Series or, at any adjourned meeting, one or more persons being or representing Covered Bondholders of such Series whatever the principal amount of the Covered Bonds of such Series held or represented; *provided, however, that* Series Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Covered Bondholders of the relevant Series at which one or more persons holding or representing more than half or, at any adjourned meeting, more than one-quarter of the aggregate principal amount of the outstanding Covered Bonds of the relevant Series form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Covered Bondholders and Couponholders of the relevant Series, whether present or not.

Notwithstanding the provisions of the immediately preceding paragraph, any Extraordinary Resolution to direct the Trustee to take any enforcement action pursuant to Condition 8.2 (*Enforcement*) (each a **Programme Resolution**) shall only be capable of being passed at a single meeting of the holders of the Covered Bonds of all Series then outstanding. Any such meeting to consider a Programme Resolution may be convened by the Issuer or the Trustee. The quorum at any such meeting for passing a Programme Resolution is one or more persons holding or representing at least a clear majority of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing Covered Bonds whatever the nominal amount of the Covered Bonds of all Series then outstanding. A Programme Resolution passed at any meeting of the Covered Bondholders of all Series shall be binding on all Covered Bondholders of all Series, whether or not they are present at the meeting, and on all Couponholders in respect of such Covered Bonds.

In connection with any meeting of the holders of Covered Bonds of more than one Series where such Covered Bonds are not denominated in Euro, the nominal amount of the Covered Bonds of any Series not denominated in Euro shall be converted into Euro at either the relevant Covered Bond Swap Rate (if applicable) or the Established Rate.

In addition, a resolution in writing signed by or on behalf of 90% of Covered Bondholders of any Series who for the time being are entitled to receive notice of a meeting of Covered Bondholders will take effect as if it were an Extraordinary Resolution of such Series. 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 Covered Bondholders of such Series.

- (b) *Modification:* The Trustee may, without the consent or sanction of any of the Covered Bondholders, Couponholders of any Series or any of the other Cover Pool Creditors (other than the Hedging Counterparties in respect of modification to the Pre-Event of Default Priority of Payments, the Post-Event of Default Priority of Payments, these Conditions, the Eligibility Criteria or any provision of the Trust Deed) at any time and from time to time concur with the Issuer and any other party, to:
- (i) any modification (other than in respect of a Series Reserved Matter) of the terms and conditions applying to the Covered Bonds of one or more Series (including these Conditions), the related Coupons or any Transaction Document provided that in the sole

opinion of the Trustee such modification is not materially prejudicial to the interests of the Covered Bondholders of any Series, or

- (ii) any modification of the terms and conditions applying to Covered Bonds of any one or more Series (including these Conditions), the related Coupons or any Transaction Document which is in the sole opinion of the Trustee of a formal, minor or technical nature or is to correct a manifest or proven (in the opinion of the Trustee) error.

Series Reserved Matter in relation to Covered Bonds of a Series means:

- (i) reduction or cancellation of the amount payable or, where applicable, modification of the method of calculating the amount payable or modification of the date of payment or, where applicable, modification of the method of calculating the date of payment in respect of any principal or interest in respect of the Covered Bonds of such Series other than in accordance with the terms thereof;
 - (ii) alteration of the currency in which payments under the Covered Bonds and Coupons of such Series are to be made;
 - (iii) alteration of the quorum or majority required to pass an Extraordinary Resolution;
 - (iv) the sanctioning of any such scheme or proposal for the exchange or sale of the Covered Bonds of such Series for or the conversion of the Covered Bonds of such Series into, or the cancellation of the Covered Bonds of such Series in consideration of, shares, stock, covered bonds, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, bonds, covered bonds, debentures, debenture stock and/or other obligations; and
 - (v) alteration of this definition of Series Reserved Matter.
- (c) The definitions of Issuer Eligibility Criteria and the Cover Pool Adequacy Criteria may be amended by the Issuer from time to time as a consequence of including New Asset Types in the Cover Pool and/or changes to the hedging policies or servicing and collection procedures of the Issuer without the consent of the Trustee provided that (i) the Rating Agencies then rating the Covered Bonds, the Competent Authority, the Covered Bond Monitor and, if applicable, the CBBA are notified of such amendments and (ii) the Competent Authority consents to such amendments.
- (d) The Issuer agrees that, prior to making any modification in accordance with this Condition 13, it shall have obtained consent from the Competent Authority.

14. Further Issues

The Issuer may from time to time, without the consent of the Covered Bondholders or the Couponholders, create and issue further Covered Bonds having the same terms and conditions as the Covered Bonds in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue and so as to form a single series with the outstanding Covered Bonds provided that (A) pursuant to the Covered Bond Legislation, the Covered Bond Monitor has verified that the Issuer as at the date of issuance (i) satisfies all requirements for registration as an approved institution pursuant to Part II of the Cypriot Covered Bond Law; (ii) complies with all provision of the Covered Bond Legislation with respect to any outstanding Series of Covered Bonds (iii) complies with the requirements of Article 11 of the Cypriot Covered Bond Directive and (iv) complies with the provisions of Sections 14(1)(d) and (e) of the Cypriot Covered Bond Law; and (B) the Rating Agencies have been notified of such issuance.

For the avoidance of doubt, to the extent the Issuer is subject to dissolution proceedings it will not be compliant with the provisions of Part II of the Cypriot Covered Bond Law and therefore would be prohibited from issuing further Series of Covered Bonds.

15. Notices

All notices regarding the Covered Bonds will be valid if published in one leading English language daily newspaper of general circulation in London or any other daily newspaper in London approved by the Trustee and, (for so long as any Covered Bonds are listed on the official list of the Luxembourg Stock Exchange) if published in a daily newspaper of general circulation in Luxembourg or on the website of the Luxembourg Stock Exchange; www.bourse.lu. It is expected that such publication will be made in the Financial Times in London and (in relation to Covered Bonds listed on the official list of the Luxembourg Stock Exchange) in the *Luxemburger Wort* or the *Tageblatt* in Luxembourg. The Issuer or, in the case of a notice given by the Trustee, the Trustee shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or any other relevant authority on which the Covered Bonds are for the time being listed. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers or where published in such newspapers on different dates, the last date of such first publication). If publication as provided above is not practicable, notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee shall approve.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Covered Bondholders.

Notices to be given by any Covered Bondholder shall be in writing and given by lodging the same, together (in the case of any Covered Bond in definitive form) with the relevant Covered Bond or Covered Bonds, with the Principal Paying Agent. Whilst the Covered Bonds are represented by Global Covered Bonds any notice shall be deemed to have been duly given to the relevant Covered Bondholder if sent to the clearing systems for communication by them to the holders of the Covered Bonds and shall be deemed to be given on the date on which it was so sent and (so long as the relevant Covered Bonds are admitted to trading on, and listed on the official list of, the Luxembourg Stock Exchange), any notice shall also be published in accordance with the relevant listing rules (which includes publication on the website of the Luxembourg Stock Exchange, www.bourse.lu).

16. Substitution of the Issuer

- (a) If so requested by the Issuer, the Trustee shall, in accordance with Section 35 of the Cypriot Covered Bond Law, with the prior consent by Extraordinary Resolution of the Covered Bondholders, agree with the Issuer to the substitution in place of the Issuer of any other body incorporated in any country in the world as the debtor in respect of the Covered Bonds, any Coupons and the Trust Deed (the **New Company**) upon notice by the Issuer and the New Company to be given in accordance with Condition 15 (*Notices*), *provided that*:
- (i) the Issuer is not in default in respect of any amount payable under the Covered Bonds or the Trust Deed;
 - (ii) the Issuer and the New Company have entered into such documents (the **Documents**) as are necessary to give effect to the substitution and in which the New Company has undertaken in favour of the Trustee and each Covered Bondholder to be bound by these Conditions and the provisions of the Trust Deed as the debtor in respect of the Covered Bonds in place of the Issuer (or of any previous substitute under this Condition 16);

- (iii) if the New Company is resident for tax purposes in a territory (the **New Residence**) other than that in which the Issuer prior to such substitution was resident for tax purposes (the **Former Residence**), the Documents contain an undertaking and/or such other provisions as may be necessary to ensure that the Trustee and each Covered Bondholder has the benefit of an undertaking in terms corresponding to the provisions of this Condition 16, with the substitution of references to the Former Residence with references to the New Residence;
 - (iv) the New Company and the Issuer have obtained all necessary governmental approvals and consents for such substitution and for the performance by the New Company of its obligations under the Documents;
 - (v) legal opinions shall have been delivered to the Trustee (with a copy of such legal opinions also to be provided to the Rating Agencies) from lawyers of recognised standing in the jurisdiction of incorporation of the New Company, in England and in Cyprus as to matters of law relating to the fulfilment of the requirements of this Condition 16 and that the Covered Bonds and any Coupons and/or Talons are legal, valid and binding obligations of the New Company;
 - (vi) each Rating Agency has been notified by the Issuer of the proposed substitution;
 - (vii) each stock exchange on which the Covered Bonds are listed shall have confirmed in writing to the Trustee that, following the proposed substitution of the New Company, the Covered Bonds will continue to be listed on such stock exchange; and
 - (viii) if applicable, the New Company has appointed a process agent in England to receive service of process on its behalf in relation to any legal proceedings arising out of or in connection with the Covered Bonds and any Coupons.
- (b) Upon such substitution the New Company shall succeed to, and be substituted for, and may exercise every right and power, of the Issuer under the Covered Bonds, any Coupons and the Trust Deed with the same effect as if the New Company has been named as the Issuer therein, and the Issuer shall be released from its obligations under the Covered Bonds, Coupons and/or Talons and under the Trust Deed.
 - (c) After a substitution pursuant to Condition 16(a) the New Company may, in accordance with Section 35 of the Cypriot Covered Bond Law, with the consent by Extraordinary Resolution of the Covered Bondholders, effect a further substitution. All the provisions specified in Conditions 16(a) and 16(b) shall apply *mutatis mutandis*, and references in these Conditions to the Issuer shall, where the context so requires, be deemed to be or include references to any such further New Company.
 - (d) After a substitution pursuant to Condition 16(a) or 16(c) any New Company may, in accordance with Section 35 of the Cypriot Covered Bond Law, with the consent by Extraordinary Resolution of the Covered Bondholders, reverse the substitution, *mutatis mutandis*.
 - (e) The Documents shall be delivered to, and kept by, the Principal Paying Agent. Copies of the Documents will be available free of charge during normal business hours at the specified office of the Principal Paying Agent.

17. **Governing Law and Jurisdiction**

The Covered Bonds and all matters arising from or connected with the Covered Bonds are governed by, and shall be construed in accordance with, English law, save that Condition 2 (*Status of the Covered Bonds*) above, shall be governed by, and construed in accordance with Cypriot law.

The courts of England have exclusive jurisdiction to settle any dispute arising from or connected with the Covered Bonds (including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Covered Bonds (a **Dispute**).

The Issuer irrevocably and unconditionally with respect to any Dispute (i) waives any right to claim sovereign or other immunity from jurisdiction, recognition or enforcement and any similar argument in any jurisdiction, (ii) submits to the jurisdiction of the English courts and the courts of any other jurisdiction in relation to the recognition of any judgment or order of the English courts or the courts of any competent jurisdiction in relation to any Dispute and (iii) consents to the giving of any relief (whether by way of injunction, attachment, specific performance or other relief) or the issue of any related process, in any jurisdiction, whether before or after final judgment, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment in connection with any Dispute.

18. Third Parties

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

FORMS OF THE COVERED BONDS

The Covered Bonds of each Series will be in bearer form, with or without interest coupons and/or talons attached. Covered Bonds will be issued outside the United States in reliance on Regulation S.

Each Series of Covered Bonds will be in bearer form and will initially be issued in the form of a temporary global covered bond (a **Temporary Global Covered Bond**) or, if specified in the applicable Final Terms, a permanent global covered bond (a **Permanent Global Covered Bond** and, together with the Temporary Global Covered Bonds, the **Global Covered Bonds** and each a **Global Covered Bond**) which will:

- (a) if the Global Covered Bonds (as defined below) are issued in new global covered bond (**NGCB**) form, as stated in the applicable Final Terms, be delivered on or prior to the issue date of the relevant Series to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**); and
- (b) if the Global Covered Bonds are not issued in NGCB form, be delivered on or prior to the issue date of the relevant Series to a common depository (the **Common Depository**) for Euroclear and Clearstream, Luxembourg.

The Covered Bonds will only be delivered outside the United States and its possessions.

Where the Global Covered Bonds issued in respect of any Series are in NGCB form, the applicable Final Terms will also indicate whether such Global Covered Bonds are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Global Covered Bonds are to be so held does not necessarily mean that the Covered Bonds of the relevant Series will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for NGCBs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg, as indicated in the applicable Final Terms.

Whilst any Covered Bond is represented by a Temporary Global Covered Bond, payments of principal, interest (if any) and any other amount payable in respect of the Covered Bonds due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Covered Bond if the Temporary Global Covered Bond is not issued in NGCB form) only outside the United States and its possessions and to the extent that certification (in a form to be provided by Euroclear and/or Clearstream, Luxembourg) to the effect that the beneficial owners of interests in such Covered Bond are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the **Exchange Date**) which is 40 days after a Temporary Global Covered Bond is issued, interests in such Temporary Global Covered Bond will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a Permanent Global Covered Bond of the same Series or (b) for Definitive Covered Bonds of the same Series with, where applicable, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of Definitive Covered Bonds, to such notice period as is specified in the applicable Final Terms), in each case against certification of non-U.S. beneficial ownership as described above unless such certification has already been given. Purchasers in the United States and certain U.S. persons will not be able to receive Definitive Covered Bonds or interests in the Permanent Global Covered Bond. The holder of a Temporary Global Covered Bond will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date

unless, upon due certification, exchange of the Temporary Global Covered Bond for an interest in a Permanent Global Covered Bond or for Definitive Covered Bonds is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Covered Bond will be made outside the United States and its possession and through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Global Covered Bond (if the Permanent Global Covered Bond is not issued in NGCB form) without any requirement for certification.

The applicable Final Terms will specify that a Permanent Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Definitive Covered Bonds with, where applicable, interest coupons and talons attached upon either the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, whether statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Global Covered Bond (and any interests therein) exchanged for Definitive Covered Bonds. The Issuer will promptly give notice to Covered Bondholders of each Series of Global Covered Bonds in accordance with Condition 15 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Covered Bond) or the Trustee may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (b) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

Global Covered Bonds, Definitive Covered Bonds and any Coupons or Talons attached thereto will be issued pursuant to the Trust Deed.

The following legend will appear on all Covered Bonds that have an original maturity of more than one year and on all interest coupons relating to such Covered Bonds:

"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."

The sections referred to provide that United States persons (as defined for U.S. federal tax purposes), with certain exceptions, will not be entitled to deduct any loss on Covered Bonds or interest coupons and will not be entitled to capital gains treatment of any gain on any sale or other disposition in respect of such Covered Bonds, talons or interest coupons.

Covered Bonds which are represented by a Global Covered Bond will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

General

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Covered Bonds*"), the Principal Paying Agent shall arrange that, where a further Series of Covered Bonds is issued which is intended to form a single Series with an existing Series of Covered Bonds at a point after the Issue Date of the further tranche, the Covered Bonds of such further Series shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Covered Bonds of any other Series of the same Series until such time as the Series are consolidated and form a single Series, which shall not be prior

to the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Covered Bonds of such further Series.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any successor operator and/or successor clearing system and/or additional or alternative clearing system specified in the applicable Final Terms.

No Covered Bondholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become so bound to proceed, fails so to do within a reasonable period and the failure shall be continuing.

FORM OF APPLICABLE FINAL TERMS

Set out below is the form of applicable Final Terms which will be completed for each Series of Covered Bonds issued under the Programme. Text in this section appearing in italics does not form part of the applicable Final Terms but denotes directions for completing the applicable Final Terms.

[Date]

BANK OF CYPRUS PUBLIC COMPANY LIMITED
Issue of [Aggregate Nominal Amount of Series] [Title of Covered Bonds]
Under the €5 billion
Covered Bond Programme

PART A – CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Base Prospectus dated [date] [and the supplement[s] to it dated [date] [and [date]]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the **Base Prospectus**). This document constitutes the final terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of this Final Terms and the Base Prospectus. The Base Prospectus has been published on the Luxembourg Stock Exchange's website (www.bourse.lu).]

(The following alternative language applies if the first Series of an issue which is being increased was issued under a Base Prospectus with an earlier date. N.B. when using a post-1 July 2012 approved Base Prospectus to tap a previous issue under a pre-1 July 2012 approved Base Prospectus, the final terms in the post-1 July 2012 Base Prospectus will take a different form due to the more restrictive approach to final terms. The Conditions of the original issue being tapped should be reviewed to ensure that they would not require the final terms documenting the further issue to include information which is no longer permitted in final terms. Where the final terms documenting the further issue would need to include such information, it will not be possible to tap using final terms and a drawdown prospectus (incorporating the original Conditions and final terms) will instead need to be prepared.)

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the **Terms and Conditions**) set forth in the Base Prospectus dated [18 July 2011]. This document constitutes the final terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus dated [current date] [and the supplement[s] to the Base Prospectus dated [date] [and [date]]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the Base Prospectus), including the Terms and Conditions which are incorporated by reference in the Base Prospectus. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of this Final Terms and the Base Prospectus. The Base Prospectus has been published on the Luxembourg Stock Exchange's website (www.bourse.lu).]

(Include whichever of the following apply or specify as "Not Applicable". Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs (in which case the subparagraphs of the paragraphs which are not applicable can be deleted).)

1. (i) Series Number: [●]
- (ii) Consolidation provisions in [Not Applicable]

Condition 14 (*Further Issues*) apply:

[Applicable - the Covered Bonds will be consolidated and form a single Series with [*identify earlier Series*] on [the Issue Date/exchange of the Temporary Global Covered Bond for interests in the Permanent Global Covered Bond, as referred to in paragraph [21] below, which is expected to occur on or about [date]]

2. Specified Currency: [●]

3. Aggregate Principal Amount of Covered Bonds:

[(i)] Aggregate Principal Amount of Series: [●]

[(ii)] Aggregate Principal Amount of further Covered Bonds being issued under these Final Terms: [●]

4. Issue Price: []% of the Aggregate Principal Amount [plus accrued interest from [*insert date*] (*if applicable*)]

5. (i) Specified Denomination(s): [●]

(N.B. 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 Covered Bonds 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: [*specify/Issue Date/Not Applicable*]

(N.B. An Interest Commencement Date will not be relevant for certain Covered Bonds, for example Zero Coupon Covered Bonds.)

7. (i) Final Maturity Date: [*Specify date or for Floating Rate Covered Bonds- Interest Payment Date falling in or nearest to [specify month and year]*]

(ii) Extended Final Maturity Date [Fixed rate – specify date/Floating rate – Interest Payment Date falling in or nearest to [*specify month and year, in each case falling one year after the Final Maturity Date*]]

[If an Extended Final Maturity Date is specified and the Final Redemption Amount is not paid in full on the Final Maturity Date, payment of the unpaid amount will be automatically deferred until the Extended Final Maturity Date, provided that any amount representing the Final Redemption Amount due and remaining unpaid on the Final Maturity Date may be paid by the Issuer on any Interest Payment Date occurring thereafter up to (and including) the relevant Extended Final Maturity Date. See Condition 5 (*Payments*)

N.B. Zero Coupon Covered Bonds are not to be issued with an Extended Final Maturity Date unless otherwise agreed with the Dealers and the Trustee

8. Interest Basis: [[●]% Fixed Rate]
[[●] month [LIBOR/EURIBOR] +/- [●]%]
[Floating Rate]
[Zero Coupon]
(see paragraph [15]/[16]/[17] below)

9. Change of Interest Basis: [For the period from (and including) the Interest Commencement Date, up to (but excluding) [*date*/Final Maturity Date] paragraph [13] [14] applies and for the period from (and including) [*date*/Final Maturity Date] to (but excluding) the [Final Maturity Date/Extended Final Maturity Date], paragraph [13] [14] applies – *amend as applicable*]/[Not Applicable]

10. Put/Call Options: [Investor Put]
[Issuer Call]
[(see paragraph [17]/[18] below)]

11. [Date [Board] approval for issuance of Covered Bonds obtained:] [[●] [and [●]]][Not Applicable]
(N.B. Only relevant where Board (or similar) authorisation is required for the particular Series of Covered Bonds)

12. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13. **Fixed Rate Covered Bond Provisions**

[Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph, replicate relevant parts of this paragraph if Change of Interest Basis is stated as applicable)

- (i) Rate(s) of Interest: % per annum [payable [annually/semi-annually/quarterly/monthly/other (specify)] in arrear on each Interest Payment Date]
- (ii) Interest Payment Date(s): in each year up to and including the Final Maturity Date, or the Extended Final Maturity Date, if applicable]/
- (Amend appropriately in the case of irregular coupons)*
- (iii) Business Day Convention [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[Not Applicable]
- (iv) Additional Business Centre(s)
- (v) Fixed Coupon Amount(s): per Calculation Amount][Not Applicable]
(Applicable to Covered Bonds in definitive form)
- (vi) Broken Amount(s): per Calculation Amount payable on the Interest Payment Date falling [in/on]][Not Applicable]
(Applicable to Covered Bonds in definitive form)
- (vii) Day Count Fraction: [30/360/Actual/Actual [(ICMA/ISDA)]]
[adjusted/not adjusted] *(N.B. If interest is not payable on a regular basis (for example, if Broken Amounts are specified) Actual/Actual (ICMA) may not be a suitable Day Count Fraction)*
- (viii) Determination Date in each year][Not Applicable]

(N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)

14. **Floating Rate Covered Bond Provisions**

[Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph, replicate relevant parts of this paragraph if Change of Interest Basis is stated as applicable)

- (i) Specified Interest Payment Dates: [●]
- (ii) First Interest Payment Date: [●]
- (iii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]/Not Applicable]
- (iv) Additional Business Centre(s): [●]
- (v) Manner in which the Rate(s) of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination]
- (vi) Party responsible for calculating the Rate(s) of Interest and Interest Amount (if not the Principal Paying Agent): [●]
- (vii) Screen Rate Determination:
- Reference Rate: [●] month [LIBOR/EURIBOR]
 - Interest Determination Date(s): [●]
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or Euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or Euro LIBOR)

N.B. Specify the Interest Determination Date(s) up to and including the Extended Final Maturity Date, if applicable
 - Relevant Screen Page: [●]
(In the case of EURIBOR, if not Reuters EURIBOR 01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (viii) ISDA Determination:
- Floating Rate Option: [●]
 - Designated Maturity: [●]
 - Reset Date: [●]
(In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period)
- (ix) 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*)

- (x) Margin(s): [+/-][●]% per annum
- (xi) Minimum Rate of Interest: [●]% per annum
- (xii) Maximum Rate of Interest: [●]% per annum
- (xiii) Day Count Fraction: [[Actual/ Actual [(ISDA)/(ICMA)]]
[Actual/365 (Fixed)]
[Actual/365 (Sterling)]
[Actual/360]
[30/360][360/360][Bond Basis]
[30E/360][Eurobond Basis]
30E/360 (ISDA)
[adjusted/not adjusted]

15. **Zero Coupon Covered Bond Provisions** [Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

- (i) Accrual Yield: [●]% per annum
- (ii) Reference Price: [●]
- (iii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
- (iv) Business Day(s): [●]
- (v) Additional Business Centre(s): [●]
- (vi) Day Count Fraction in relation to Early Redemption Amounts and Late Payments: [30/360][Actual/360][Actual/365 ((Sterling/Fixed))][Not Applicable]

PROVISIONS RELATING TO REDEMPTION

- 16. Notice periods for Condition 6.2: Minimum period: [30] days
Maximum period: [60] days

17. **Issuer Call** [Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s) of [●] per Calculation Amount

each Covered Bond and method, if any, of calculation of such amount(s):

- (iii) If redeemable in part: [Applicable/Not Applicable]
 - (a) Minimum Redemption Amount: [●] per Calculation Amount
 - (b) Maximum Redemption Amount: [●] per Calculation Amount
- (iv) Notice period: Minimum period: [15] days
Maximum period: [30] days

(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries for example, clearing systems (which require a minimum of 15 clearing system business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent and the Trustee)

18. **Investor Put**

[Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s) of each Covered Bond and method, if any, of calculation of such amount(s): [●] per Calculation Amount
- (iii) Notice period: Minimum period: [15] days
Maximum period: [30] days

(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries for example, clearing systems (which require a minimum of 15 clearing system business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent and the Trustee)

19. **Final Redemption Amount of each Covered Bond** [●] per Calculation Amount

20. **Early Redemption Amount**

Early Redemption Amount(s) payable on [●] per Calculation Amount redemption for taxation reasons or on event of default:

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

21. Form of Covered Bonds:

[Temporary Global Covered Bond exchangeable for Definitive Covered Bonds or a Permanent Global Covered Bond which is exchangeable for Definitive Covered Bonds [on 60 days' notice given at any time/only upon an Exchange Event]]

[Permanent Global Covered Bond exchangeable for Definitive Covered Bonds [on 60 days' notice given at any time/only upon an Exchange Event]]

(N.B. The exchange upon notice should not be expressed to be applicable if the Specified Denomination of the Covered Bonds in paragraph 5 includes language substantially to the following effect: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000].")

22. New Global Covered Bond:

[Yes/No]

23. Additional Financial Centre(s):

[Not Applicable/[●]]. *Note that this item relates to the date and place of payment, and not the end dates of interest periods for the purposes of calculating the amount of interest, to which item [13(ii)] relates*

24. Talons for future Coupons to be attached to Definitive Covered Bonds (and dates on which such Talons mature):

[Yes, as the Covered Bonds 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/No.]

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Listing and admission to trading: [Application [has been/is expected to be] made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the regulated market of the Luxembourg Stock Exchange) and listed on the official list of the Luxembourg Stock Exchange with effect from [●].]

(Where documenting a fungible issue need to indicate that original Covered Bonds are already admitted to trading.)

- (ii) Estimate of total expenses related to admission to trading: [●]

2. RATINGS

Ratings: [The Covered Bonds to be issued [have been/are expected to be] rated]/[The following ratings reflect ratings assigned to Covered Bonds of this type issued under the Programme generally]:

[Moody's Investors Service Limited: [●]]

[Fitch Ratings Ltd.: [●]]

[[Other]: [●]]

[Moody's/Fitch] [is/are] established in the European Union and is registered under Regulation (EC) No.1060/2009 (as amended) (the **CRA Regulation**). As such [Moody's/Fitch] [is/are] included in the list of the credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.]

[Other] is established in the European Union and is registered under Regulation (EC) No.1060/2009 (as amended) (the **CRA Regulation**). As such [other] [is] included in the list of the credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation – *amend as appropriate.*]

(The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

3. [COVERED BOND SWAP

Covered Bond Swap Provider [●]

Nature of Covered Bond Swap [Forward Starting Covered Bond Swap/Non-Forward Starting Covered Bond Swap/[●]]

4. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers /Dealers], so far as the Issuer is aware, no person involved in the issue of the Covered Bonds has an interest material to the offer. The [Managers/Dealers] 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 Issuer and its affiliates in the ordinary course of business — *Amend as appropriate if there are other interests*]

5. YIELD (*Fixed Rate Covered Bonds only*)

Indication of yield: [[●]/ Not Applicable]

6. [HISTORIC INTEREST RATES: (*Floating Rate Covered Bonds only*)

[Details of historic [LIBOR/EURIBOR] rates can be obtained from [Reuters]]./ Not Applicable]

7. OPERATIONAL INFORMATION

ISIN: [●]

Common Code: [●]

(*insert here any other relevant codes such as CINS codes*): [●]

Clearing System: Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme* and [other]

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme* and the relevant identification number(s): [Not Applicable/give name(s) and number(s) and address]

Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any): [●]

Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation "yes" simply means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Covered Bonds 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 Covered Bonds are capable of meeting them the Covered Bonds may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Covered Bonds 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.]

8. DISTRIBUTION

- (i) Method of Distribution: [Syndicated/Non-syndicated]
- (ii) If syndicated, names of Managers: [Not Applicable/*give names*]
- (iii) Stabilisation Manager(s) (if any): [Not Applicable/*give name*]
- (iv) If non-syndicated, name of Dealer: [Not Applicable/*give name*]
- (v) U.S. Selling Restrictions: [TEFRA C/ TEFRA D/TEFRA not applicable]

USE OF PROCEEDS

The net proceeds from each issue of Covered Bonds will be applied by the Issuer for its general corporate purposes.

OVERVIEW OF THE COVERED BOND LEGISLATION

The following is an overview of the provisions of the Covered Bond Legislation relevant to the transactions described in this Base Prospectus and of which prospective Covered Bondholders should be aware. The overview does not purport to be, and is not, a complete description of all aspects of the Cypriot legislative and regulatory framework pertaining to covered bonds and prospective Covered Bondholders should also read the detailed information set out elsewhere in this Base Prospectus.

Introduction

The Covered Bond Legislation was enacted in December 2010 following promotion of the legislation by the Central Bank of Cyprus and consultation with the Ministry of Finance, the Co-operative Societies Supervision and Development Authority and local banks in Cyprus. The introduction of the Covered Bond Legislation has also received the positive opinion of the European Central Bank.

Registration

In accordance with the provisions of the Covered Bond Legislation the Competent Authority (which, with respect to banks and credit institutions, is the Central Bank of Cyprus), shall maintain the Register of Approved Institutions (the **Register of Approved Institutions**). In order to be registered on the Register of Approved Institutions as an approved institution (each such institution an **Approved Institution**), the applicant institution must satisfy the Competent Authority that:

- (a) it is able to carry out the obligations set out in the Cypriot Covered Bond Law; and
- (b) it fulfils the criteria set out in Article 5(3) of the Cypriot Covered Bond Directive which require the applicant institution to show that:
 - (i) it is incorporated in Cyprus;
 - (ii) it maintains Core Tier 1 capital of at least €50 million and satisfies the capital adequacy ratios set by the Competent Authority under Pillar I and Pillar II of the Capital Requirements Directive;
 - (iii) its activities include the granting of residential loans and/or commercial loans and/or maritime loans and/or incurring public sector exposures;
 - (iv) the conduct of its covered bonds business is integrated into the corporate strategy of the institution, approved by its board of directors and the support of the activity is ensured through well documented policies and procedures;
 - (v) it has necessary organisational structure ensuring a clear delegation of functions and responsibilities and assignment of authority limits for each bank section involved for the support and effective performance of covered bond business;
 - (vi) it has necessary automated infrastructure;
 - (vii) it has required resources, systems, policies and procedures for the recognition, management, monitoring and control of the risks that may arise from the conduct of the covered bond business; and

- (viii) it has in place procedures, policies and systems for the support of any other relevant business of the covered bond business such as issue and servicing of covered bonds and valuation of collateral.

Once the Competent Authority is satisfied that these conditions are met, it will register the relevant institution in the Register of Approved Institutions (subject to any further conditions it may deem appropriate). Only an Approved Institution that remains on the Register of Approved Institutions can issue covered bonds under the Covered Bond Legislation.

An Approved Institution shall be removed from the Register of Approved Institutions if:

- (i) it applies for removal;
- (ii) dissolution proceedings are commenced against it;
- (iii) it ceases to exist as a legal entity in Cyprus;
- (iv) it does not issue Covered Bonds within 18 months of the date of its registration on the Register of Approved Institutions;
- (v) it does not carry on a covered bond business for 18 consecutive months;
- (vi) the registration was achieved on the basis of misleading or false representations;
- (vii) it no longer complies with any of the registration conditions set out in Part II of the Cypriot Covered Bond Law;
- (viii) there are reasons to appoint a CBBA;
- (ix) it has violated or violates or has failed or fails to comply with any provision of the Covered Bond Legislation;
- (x) it has violated or violates or has failed or fails to comply with any provision of the Banking Law or any Directives, Regulations or Administrative Order issued thereunder.

The Central Bank of Cyprus may, if there are reasons to remove an Approved Institution from the Register of Approved Institutions, choose instead to prohibit the Approved Institution from issuing further covered bonds and give time to comply under penalty of removal, in case of failure to comply with any such demands.

Eligibility Criteria

Statutory Eligibility Criteria

Each Loan Asset to be included in the Cover Pool shall comply with the eligibility criteria set out in section 18 of the Cypriot Covered Bond Law and Part IV of the Cypriot Covered Bond Directive (the **Statutory Eligibility Criteria**). The Statutory Eligibility Criteria with respect to each Loan are as follows:

- (a) It is an existing Loan.
- (b) It is governed by the laws of Cyprus or any other Member State and the terms and conditions of such Loan do not provide for the jurisdiction of any court outside Cyprus or other applicable Member State (as the case may be).

- (c) It is secured by a valid and enforceable first ranking mortgage and/or equivalent tangible charge. Each such mortgage must:
- (i) create a clear and complete tangible charge over the relevant property;
 - (ii) have been registered properly and in a timely manner;
 - (iii) have met all necessary legal requirements concerning completion and registration of the mortgage to ensure that the mortgage is legally effective and enforceable in all relevant jurisdictions; and
 - (iv) enable the Issuer to realise the underlying property within a reasonable timeframe.
- (d) In the case where a mortgage and/or equivalent tangible charge also secures other obligations of the underlying obligor, Loans which are secured by subsequent mortgages and/or equivalent tangible charges may be included in the Cover Pool provided that: (i) all preceding mortgages on the underlying property are in favour of the Issuer and are also included in the same Cover Pool and (ii) the Issuer ensures that the Loans included in the Cover Pool have priority over the security against all other loans and/or obligations of the customer to the Issuer which are not included in the Cover Pool.
- (e) The mortgage or the equivalent charge on immovable property securing the Loan is created for an amount at least equal to the value of the Loan.
- (f) The immovable property securing the Loan must be situated in the territory of Cyprus or in the jurisdiction of other Member States. The total amount of loans secured by immovable property located in Member States that the Issuer has no physical presence (i.e. a subsidiary or branch) shall not exceed 10% of the total value of the Cover Pool.
- (g) An institution may include in the Cover Pool a residential or commercial loan secured by buildings under construction provided that the total value in the Cover Pool of the Loans secured by buildings under construction does not exceed 10% of the Cover Pool value.
- (h) If the Loan is a Rescheduled Loan, it has not been rescheduled more than three times; at least six months have elapsed since the date of the first rescheduled loan instalments; and, at the date of inclusion, no amount of principal, interest or other loan instalment is more than one month overdue.
- (i) Such Loan, together with all other Loans to the same counterparty included in the Cover Pool do not exceed 2% of the total value of that Cover Pool.
- (j) The terms of such Loan do not prohibit its inclusion in the Cover Pool.
- (k) Throughout the term of the Loan the underlying buildings shall be insured against all relevant risks, taking into consideration the location and type of the property, for an amount equal, at least, to the lower of the replacement cost of the buildings and the loan amount.
- (l) The Issuer shall ensure that the insurance cover is assigned in favour of the Cover Pool. The Issuer shall also have in place adequate procedures enabling it to monitor, on an ongoing basis, whether the underlying property is adequately insured against possible damage.
- (m) The Loan does not breach the Loan to Value Test and the underlying property related thereto has been subject to an independent valuation.

- (n) No principal or interest instalment in respect of the Loan is in arrears for a period of one month or more.

Rescheduled Loan means (i) any Loan which has presented one or more instalment(s) in arrear following which the Issuer has agreed to a revision of the relevant repayment programme (including by way of extension of any grace period, suspension of payment of one or more loan instalment(s), reduction in the amount of any instalment, write off of any instalments of principal and/or interest in arrear); and (ii) any Loan whose interest and/or principal instalments have been repaid from the proceeds of a new loan.

An instalment shall not be construed to be in arrear unless the borrower has failed to meet scheduled payments of at least 10% or more of the relevant payment.

Issuer Eligibility Criteria

In addition to the Statutory Eligibility Criteria, the Issuer has warranted that each Loan Asset to be included in the Cover Pool shall comply with the following criteria (the **Issuer Eligibility Criteria**):

- (a) Each Cypriot Loan is denominated and payable in euros;
- (b) All construction with respect to buildings over which security has been taken under a Cypriot Loan has been completed;
- (c) The immovable property securing a Cypriot Loan is a residential house or a flat located in Cyprus;
- (d) No prior charge exists in respect of the Cypriot Loan;
- (e) No provision has been made in respect of a Cypriot Loan;
- (f) Each Borrower under a Cypriot Loan is an individual or natural person;
- (g) Each Cypriot Loan is governed by the laws of Cyprus and the terms and conditions of such Cypriot Loan do not provide for the jurisdiction of any court outside of Cyprus;
- (h) Each Cypriot Loan was advanced for one or more of the following purposes:
 - (i) acquisition of residential properties; and/or
 - (ii) repairs, renovations, modifications and alterations to residential dwellings or buildings; and/or
 - (iii) release of equity in respect of a residential property; and/or
 - (iv) refinancing of a loan granted by another bank with respect to any of (i), (ii) or (iii) above;
- (i) No Cypriot Loan is an interest only loan;
- (j) Each Cypriot Loan is fully drawn down and the Issuer is not obliged (under the terms of the relevant Loan documentation or otherwise) to advance any further amounts to the relevant Borrower;
- (k) All lending criteria and preconditions applied by the Issuer's credit policy and customary lending procedures have been satisfied with regards to the granting of each Cypriot Loan;
- (l) Each Cypriot Loan is either a fixed or floating rate loan or a combination of both;

- (m) Each Cypriot Loan's outstanding nominal value remains a debt, which has not been paid or discharged;
- (n) Each Cypriot Loan can be segregated and identified for ownership on any day; and
- (o) Each Cypriot Loan has been originated by the Issuer in compliance with the Lending Criteria applicable at the time of origination.

Complementary Assets

Subject to Article 16 of the Cypriot Covered Bond Directive certain complementary assets (**Complementary Assets**) may be included in the Cover Pool. Subject to the provisions of the Covered Bond Legislation, such Complementary Assets may be included in the Cover Pool as part of the Basic Collateralisation and the Supervisory Over-collateralisation.

The following Complementary Assets may be included in the Cover Pool:

- (a) traded claims against or guaranteed by central or regional governments;
- (b) deposits with ECB and central banks;
- (c) deposits with multilateral development banks and international organizations having 0% risk weighting for the purposes of Annex VI of Directive 2006/48/EC;
- (d) deposits with institutions (i.e. credit institutions and investment firms) as defined in Article 3(1)(c) of Directive 2006.49.EC; and
- (e) traded debt securities issued by institutions falling in paragraph (d) above,

and which, in addition, (a) satisfy the Complementary Assets Minimum Rating and (b) from time to time, prior to the beginning of each Interest Period, include cash in a sufficient amount to cover the aggregate of amounts set out in items (i)–(iii) inclusive of the Pre-Event of Default Priority of Payments that shall fall due and payable in the next succeeding three-month period based on the three-month EURIBOR rate set two TARGET2 Business Days prior to the start of each Interest Period.

TARGET2 Business Day means a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer System settles payments in euro.

As regards Covered Bonds collateralised by public claims, the following may be included in the Cover Pool as part of the Basic Collateralisation and the Supervisory Over-collateralisation for covered bonds collateralised by primary assets other than public claims as per Article 17 and Article 18 of the Cypriot Covered Bond Directive:

- (a) government bonds, treasury bills, or securities issued by Republic of Cyprus;
- (b) deposits with ECB or central banks of other Member States;
- (c) deposits with credit institutions of the Member States and of the countries referred to in paragraph 5 of Part 1 of Annex VI of Unit A of the Capital Requirements Directive (Australia, Canada, Japan, Switzerland and USA) whose credit assessment is assigned to the first credit quality step in accordance with point 29 of Part 1 of Annex VI of the Directive 2006/48/EC. Deposits with credit institutions in Member States with a maturity not exceeding 100 days shall not be comprised by the step 1 requirement but those institutions must, as a minimum, qualify for credit quality step 2. The

deposits with each credit institution shall not exceed 2% of the outstanding balance of covered bonds secured by public claims.

- (d) sovereign bonds, treasury bills or securities issued by a Member State other than the Republic of Cyprus;
- (e) sovereign bonds, treasury bills or securities whose issuer is the central government of a country referred to in point (f) of subparagraph (2) of paragraph 14, provided that all conditions referred to in the same point are fulfilled;
- (f) securities guaranteed by any of the bodies referred to in points (d) and (e) above;
- (g) deposits with the central banks of the countries referred to in point (f) of subparagraph (2) of paragraph 14 provided that the conditions referred to in the same point are fulfilled; and
- (h) deposits with multilateral banks and international organisations the exposures against thereof are assigned a 0% risk weight for the purposes of Annex VI of the Directive 2006/48/EC.

The Cypriot Covered Bond Directive sets the limit of the total value of all complementary assets included in the cover pool and counted in the basic collateralisation (including claims under hedging contracts) at 15% of the total value of the covered bonds that the Cover Pool collateralises.

Loan to value ratios and other restrictions

The Statutory Value of a Residential Loan or, where the same property secures more than one Loan included in the Cover Pool, the total Statutory Value of those Loan Assets, shall not exceed 75% of the value of the underlying immovable property on the basis of a valuation conducted by the Issuer in accordance with the Covered Bond Legislation. Loans whose Statutory Value or, as the case may be, in respect of which the total Statutory Value exceeds 75%, but is below 100%, of the value of the underlying immovable property may be included in the Cover Pool provided that (a) the total Statutory Value of all such Loan Assets included in the Cover Pool as a percentage of the Statutory Value of the Covered Bonds secured by the cover pool does not exceed 25% and (b) their inclusion would not result in the weighted LTV of the Cover Pool exceeding 80%. Where the Loan Asset is in relation to property under construction the value of the property for these purposes shall be deemed to be the value of the land on which the property is being constructed.

The Statutory Tests

The Statutory Tests are required to be met by the Issuer with respect to the Cover Pool on an ongoing basis and comprise the following: (i) the Nominal Value Test; (ii) the Present Value Test; (iii) the Supervisory Over-collateralisation; (iv) the Weighted Maturity Test; (v) the Liquidity Test; and any Contractual Over-collateralisation. Details of the Statutory Tests are set out below.

Calculation Date means the first Business Day of each calendar month.

- (a) **The Nominal Value Test:** Pursuant to Article 24(1) of the Cypriot Covered Bond Directive, the Issuer must ensure that on an ongoing basis, the Euro Equivalent of the Principal Amount Outstanding of all Series of Covered Bonds, is not greater than 100% of the nominal value of the Cover Pool. In order to assess compliance with this test, all of the assets comprising the Cover Pool shall be evaluated at their nominal value including the Hedging Agreements.

For the purposes of calculating the nominal value of the Cover Pool, the value of any non-Euro denominated assets comprised in that Cover Pool shall be converted into euro on the basis of the exchange rate published by the European Central Bank (**ECB**) as at such Calculation Date.

For the purposes of calculating the Principal Amount Outstanding of a Loan, this shall be deemed to be:

- (i) where the Loan is not subject to any set-off and its LTV is lower or equal to 75%, the value of the Loan;
- (ii) where the Loan is subject to set-off and its LTV is lower or equal to 75%, the value of the Loan net of the set-off amount;
- (iii) where the Loan is not subject to any set-off and its LTV is higher than 75% but equal to or less than 100%, the value that corresponds to a 75% LTV;
- (iv) where the Loan is subject to set-off and its LTV is higher than 75% but equal to or less than 100%, the value that corresponds to a 75% LTV or the value of the Loan net of the set-off amount where this is lower.

For the purposes of calculating the Principal Amount Outstanding of a Complementary Asset this is the Statutory Value of such asset to a set-off in which case it is the Statutory Value of such asset net of the set-off amount.

- (b) **The Present Value Test:** Pursuant to Article 24(5) of the Cypriot Covered Bond Directive, the Issuer must ensure that on an ongoing basis the total present value of the inflows arising from the Loans and Complementary Assets, including the value of the Hedging Arrangements, must cover the present value of payments to the Cover Pool Creditors by at least 105%.

Inflows shall be calculated net of any set-off. The calculation of the present values shall be initially performed for each currency on the basis of swap yield curves for that specific currency and then converted in the currency used for the servicing of the Covered Bond by applying the Euro reference rates published by the European Central Bank. In situations where the cash flows are in currencies for which no Euro reference rates are published by the European Central Bank, the conversion shall be made on the basis of buying and selling mean rates as published by reliable sources of information.

The Present Value Test must also be satisfied under the assumption of parallel shifts of the yield curve by 200 basis points. Changes in interest rates from shifts in the yield curves on the basis of a 99% confidence interval and a holding period of six months, using as reference the daily changes in interest rates of the previous 365 days. Where interest rates are negative, they should be assumed to be zero.

In addition, the Present Value Test must also be satisfied in the event of static changes in the exchange rate of the currency servicing the Covered Bond against:

- (i) the Euro and currencies of the Member States: 10%;
 - (ii) the currencies of USA, Canada, Japan, Switzerland and Australia: 15%;
 - (iii) other currencies: 25%; and
 - (iv) changes in exchange rates on the basis of a 99% confidence interval and a holding period of six months, using as reference the daily changes in exchange rates of the previous 365 days.
- (c) **Supervisory Over-collateralisation:** In addition to the compliance with the criteria referred to paragraphs (a) and (b) above (**Basic Collateralisation**), the Issuer shall enhance the Cover Pool with Complementary Assets the value of which, after the possible application of set-off, covers the

Principal Amount Outstanding of the Covered Bonds by at least 5% (**Supervisory Over-collateralisation**).

- (d) **Weighted Maturity Test:** The weighted maturity of the assets in the Cover Pool counted in the measurement of the Basic Collateralisation and the Supervisory Over-collateralisation (in each case, as calculated in accordance with the provisions of the Covered Bond Legislation) must be longer than the weighted maturity of the Covered Bonds.
- (e) **Liquidity Test:** The Issuer must reconcile the cash inflows from assets comprised in the Cover Pool and the cash outflows for servicing the obligations under the Covered Bonds, excluding capital repayments, on a daily basis for the 180 days following the relevant Calculation Date and cover the highest net cash outflow that arises with Complementary Assets, included in the Cover Pool.

In addition, the Issuer must maintain liquidity for the repayment of the capital amount of the covered bonds as follows:

- (i) during the period between 180 days to 30 days before the repayment date of any Covered Bonds not less than 50% of the capital amount due for repayment; and
- (ii) during the period between 30 days before the repayment date and the repayment date of any Covered Bonds not less than 100% of the capital amount due for repayment.

(f) **Contractual Over-collateralisation:**

Pursuant to Article 23(1)(c) of the Cypriot Covered Bond Directive and the terms of the Trust Deed, the Issuer has covenanted that it will ensure on and from the date on which the Issuer delivers an OC Percentage Notice to the Trustee, the Covered Bond Monitor and each Rating Agency then rating the relevant Covered Bonds, that the product of the relevant OC Percentage (as set out in the then most current OC Percentage Notice) multiplied by the Euro Equivalent of the Principal Amount Outstanding of all series of Covered Bonds secured by the Cover Pool, will be less than 100% of the nominal value of the Cover Pool.

The Issuer may on any Business Day send an OC Percentage Notice to the Trustee, the Covered Bond Monitor and each Rating Agency then rating the relevant Covered Bonds notifying them of a change to the level of OC Percentage that shall apply to the Covered Bonds on and from the date of such notification provided that:

- (i) until such time as the Issuer delivers an OC Percentage Notice and/or on and from the date on which no Covered Bonds are outstanding, no Contractual Over-collateralisation shall be applicable to the Cover Pool;
- (ii) any Contractual Over-collateralisation (and the OC Percentage related thereto) shall at all times exceed the requirements of the other Statutory Tests and shall not be negative;
- (iii) for all Covered Bonds, the Issuer may increase the level of Contractual Over-collateralisation at any time, in order to obtain an upgrade of the rating of the relevant Covered Bonds by Moody's;
- (iv) with respect to rated Covered Bonds, the Issuer may increase the level of Contractual Over-collateralisation by increasing the OC Percentage at any time, in order to maintain the then current rating of the relevant Covered Bonds by Moody's;
- (v) with respect to Covered Bonds rated by Moody's and/or Fitch, the Issuer may decrease the level of Contractual Over-collateralisation, by decreasing the OC Percentage at any time, if

this would cause the over-collateralisation to be at the level necessary to ensure that each series of outstanding Covered Bonds then rated by Moody's and/or Fitch achieves and maintains the original rating assigned to such Covered Bonds by Moody's and/or Fitch on their relevant Issue Date using Moody's and/or Fitch expected loss methodology as determined at such Issue Date as applicable; and

- (vi) with respect to Covered Bonds rated by any Rating Agency other than Moody's and/or Fitch, the Issuer may decrease the level of Contractual Over-collateralisation, by decreasing the OC Percentage at any time, provided that it has received (A) consent to such decrease in the OC Percentage from the Competent Authority and (B) a Rating Agency confirmation from each Moody's and (C) Fitch has been notified of such decrease in OC Percentage.

Euro Equivalent means (i) in relation to a Series of Covered Bonds (including any calculations of the Required Redemption Amount of such Series of Covered Bonds) which is denominated in (a) a currency other than euro, the euro equivalent of such amount ascertained using either the relevant Covered Bond Swap Rate (if applicable) relating to such Series of Covered Bonds or, if available, the Established Rate or, if no Covered Bond Swap Rate and no Established Rate is available, the relevant spot rate and (b) euro, the applicable amount in euro and (ii) in relation to any Loans which are denominated in (a) a currency other than euro, the euro equivalent of such amount ascertained using either the relevant spot rate or, if available, the Established Rate and (b) euro, the applicable amount in euro.

OC Percentage means the over-collateralisation percentage applicable notified by the Issuer to the relevant Rating Agencies and the Trustee in the then most current OC Percentage Notice in accordance with the terms of the Trust Deed.

OC Percentage Notice means the notice delivered by the Issuer to the Trustee, the Covered Bond Monitor and each Rating Agency then rating the relevant Covered Bonds, setting out the then current OC Percentage applicable to all series of Covered Bonds then outstanding.

For the purposes of calculating the nominal value of the Cover Pool, the value of any non-Euro denominated assets comprised in the Cover Pool shall be converted into euro on the basis of the exchange rate published by the European Central Bank (**ECB**) as at such Calculation Date.

For the purposes of calculating the Principal Amount Outstanding of a Loan, this shall be deemed to be:

- (i) where the Loan is not subject to any set-off and its LTV is lower or equal to 75%, the value of the Loan;
- (ii) where the Loan is subject to set-off and its LTV is lower or equal to 75%, the value of the Loan net of the set-off amount;
- (iii) where the Loan is not subject to any set-off and its LTV is higher than 75% but equal to or less than 100%, the value that corresponds to a 75% LTV;
- (iv) where the Loan is subject to set-off and its LTV is higher than 75% but equal to or less than 100%, the value that corresponds to a 75% LTV or the value of the Loan net of the set-off amount where this is lower.

Information regarding of any Contractual Over-collateralisation and the OC Percentage applicable shall be detailed in the Monthly Investor Report.

Pursuant to Article 28 of the Cypriot Covered Bond Directive, in the event that the Issuer is removed from the Register of Approved Institutions to issue Covered Bonds, the Issuer will, on and from such date, be under an obligation to ensure that the fair value (as calculated in accordance with Article 28(2) of the Cypriot Covered Bond Directive) of the Cover Assets counted in the Cover Pool Adequacy Criteria net of appropriate haircuts (as determined by the Competent Authority) exceeds the capital amount of the Covered Bonds then outstanding.

In accordance with Article 19(3) of the Cypriot Covered Bond Directive, in calculating such tests, all Loans that are in arrears for three months or more during the immediately preceding calculation period, shall be given a zero value.

Set-off Reserve

Section 40(4) of the Cypriot Covered Bond Law provides that any set-off of a cover asset with a claim of a person, against whom the cover asset constitutes an exposure of the institution with covered bond obligations subject to dissolution proceedings, shall be effected only over the resulting balance of the relevant claim after any set-off with other assets of the institution. When calculating the amount of set-off, to the extent the Issuer is subject to dissolution proceedings and a creditor of the Issuer has any right of set off against the Issuer with respect to a Loan Asset, any such rights will be treated as being exercised first against any assets which do not form part of the Cover Pool and thereafter against any Loan Assets which form part of the Cover Pool.

In accordance with section 20 of the Cypriot Covered Bond Law, an institution with covered bond obligations is required to maintain a reserve in connection with cover assets that are subject to set-off, as determined by the Competent Authority. Article 22 of the Cypriot Covered Bond Directive further states that for the purposes of section 20 of the Cypriot Covered Bond Law the Central Bank of Cyprus requires institutions to maintain, for so long as the relevant covered bonds remain outstanding, a set-off reserve in the form of additional cover assets included in the cover pool as compensation for amounts that are subject to set-off. Accordingly, the Issuer maintains and, for so long as any Covered Bonds remain outstanding under the Programme, will continue to maintain a Set-off Reserve as required pursuant to such provisions.

Benefit of priority right in the Cover Pool

The provisions of the Cypriot Covered Bond Law (section 16(b)) provide that the Loan Assets will secure all the claims of the Covered Pool Creditors who also enjoy the benefit of the Cypriot Statutory Charge over the Loan Assets. The Issuer is prohibited for so long as there are outstanding obligations under the Covered Bonds from creating any charge on any of the Loan Assets other than for the benefit of the Cover Pool Creditors.

In the event that the Issuer is subject to dissolution proceedings (as this term is defined in the Cypriot Covered Bond Law), the claims and rights of the Covered Bondholders, Cover Pool Creditors, any hedging contract counterparty, the Covered Bond Monitor or the CBBA will not be affected. All obligations under the Covered Bonds remain in force until all Cover Pool Creditors are satisfied in full.

In accordance with section 40(5) of the Cypriot Covered Bond Law, the Loan Assets do not form part of the assets available to satisfy claims of other creditors, members or contributories of the Issuer until the claims of the Cover Pool Creditors have been satisfied in full. None of the Loan assets shall be liable to attachment, sequestration or other form of seizure until the claims of the Cover Pool Creditors have been satisfied in full.

In the event that the Loan Assets are sold, then the Cover Pool Creditors will be satisfied out of the proceeds of sale in priority to all other creditors (see section 41 Cypriot Covered Bond Law).

The role of the Covered Bond Monitor and the Covered Bond Business Administrator

The Covered Bond Monitor

The Covered Bond Monitor will be responsible for overseeing the compliance of the Issuer with the provisions of the Cypriot Covered Bond Legislation.

Pursuant to the terms of the Covered Bond Monitor Agreement, the Covered Bond Monitor will agree to undertake certain monitoring activities as required by the terms of the Covered Bond Legislation including (i) verification of the accuracy and completeness of information included in the Register; (ii) examination of the valuation process in relation to cover assets; (iii) compliance by the Issuer on an ongoing basis with respect to the Cover Pool Adequacy Criteria; and (iv) examination of the entries into and removals from the Register. The Covered Bond Monitor shall submit the CBM Report to the Competent Authority (with a copy to the Issuer and the CBBA (if appointed) on a six-monthly basis (or such other time period as may be required by the Competent Authority).

The CBM Report shall be in such form as agreed between the Issuer, the Covered Bond Monitor and the Competent Authority from time to time and shall set out whether or not the Issuer is in compliance with the Covered Bond Legislation and, to the extent the Issuer is not in compliance, the CBM Report shall further set out (A) how the Issuer has contravened or otherwise failed to comply with the relevant provisions of the Covered Bond Legislation and (B) provide any other information the Competent Authority may have requested in relation to such matter

Pursuant to the Cypriot Covered Bond Directive the Central Bank of Cyprus may, by way of written notification, require additional functions to be carried out by the Covered Bond Monitor. Any such additional functions will be promptly notified by the Issuer to the Covered Bondholders.

The Covered Bond Business Administrator

The appointing authority for the CBBA is the Central Bank of Cyprus as the Competent Authority. The Central Bank of Cyprus:

- (a) must appoint a CBBA on the initiation of dissolution proceedings against the Issuer; and
- (b) may appoint a CBBA where:
 - (i) the Issuer has defaulted to pay any amount in relation to covered bonds within ten days after the amount fell due unless such failure is attributable to administrative difficulties arising from circumstances outside the control of the Issuer;
 - (ii) an application is made for the appointment of an Inspector under the provisions of the Companies Law, cap. 113;
 - (iii) the Central Bank of Cyprus considers the appointment of the CBBA necessary in order to safeguard the interests of the Covered Bondholders, hedge counterparties and other creditors of the Issuer.

The appointment of the CBBA will be effected through a formal decision of the Central Bank of Cyprus.

Upon the appointment of the CBBA, the CBBA shall:

- (i) where no dissolution proceedings have been initiated, take over the management of the Issuer's covered bond business;

- (ii) where dissolution proceedings have been initiated, take over the control of the Cover Pool, notify the Cover Pool Creditors and perform the provisions of Part VII of the Cypriot Covered Bond Law.

The CBBA shall, following his appointment, notify the Central Bank of Cyprus (and to the extent possible each Cover Pool Creditor) of the measures he has taken or proposes to take in order to discharge the Cover Pool Creditors.

The CBBA is subject to the supervision of the Central Bank of Cyprus.

The CBBA may with the approval of the Central Bank of Cyprus and of the Covered Bondholders, require:

- (a) the immediate settlement of the Covered Bonds; or
- (b) the transfer of the covered bond business to another Approved Institution, where he reasonably considers that following the potential initiation of dissolution proceedings the cover pool will not be adequate to fully cover the claims of the Cover Pool Creditors.

The CBBA is granted pursuant to the Cypriot Covered Bond Law, the powers to:

- (a) borrow;
- (b) enter into hedging contracts;
- (c) acquire or create Complementary Assets or, with the approval of the Central Bank of Cyprus, any other asset;
- (d) transfer or dispose of a Cover Asset;
- (e) enter into an agreement with an institution who will assume the Cover Pool and the obligations to the Cover Pool Creditors with the consent of the Covered Bondholders as provided in the terms of issue of the Covered Bonds;
- (f) institute or defend any legal actions;
- (g) issue receipt of partial or full repayment of credit facilities constituting Cover Assets;
- (h) exercise the powers and rights under the security, guarantee, indemnity and insurance held in relation to the Cover Assets or a hedging contract included in the Cover Pool;
- (i) inspect the books and records of the Issuer.

The appointment of the CBBA is terminated where:

- (a) being a natural person, he:
 - (i) dies;
 - (ii) resigns from office by way of notice in writing to the Central Bank of Cyprus;
 - (iii) is adjudged bankrupt or makes a compromise with his creditors;
 - (iv) is removed by the Central Bank of Cyprus due to breach or misconduct of his duties;
 - (v) is disqualified from being a director under the Companies Law, cap. 113;

- (vi) is convicted of an offence involving fraud or dishonesty or breach of duty;
 - (vii) is convicted of an offence punishable by imprisonment.
- (b) being a legal person, it:
- (i) is insolvent;
 - (ii) resigns from office by written notice to the Central Bank of Cyprus;
 - (iii) is removed from office by the Central Bank of Cyprus due to breach or misconduct of his duties;
 - (iv) does not remove from office a director or manager who has been convicted for an offence involving fraud, dishonesty, breach of duty or punishable by imprisonment.

The appointment of the CBBA shall also terminate where:

- (a) all Covered Bond issues in respect of which the CBBA was appointed have been removed from the Cover Pool Register; or
- (b) the reasons for the appointment of the CBBA no longer exist.

Supervision by the Central Bank of Cyprus

The Central Bank of Cyprus is the appointed competent authority and performs the roles of:

- (i) supervising and regulating approved credit institutions, viz. those credit institutions that are entered on the Register of Approved Institutions that it maintains pursuant to Part II of the Cypriot Covered Bond Law;
- (ii) supervising the Covered Bond Monitor pursuant to Part VIII of the Cypriot Covered Bond Law; and
- (iii) supervising the CBBA pursuant to Part IX of the Cypriot Covered Bond Law.

As the Competent Authority the Central Bank of Cyprus will maintain in addition to the Register of Approved Institutions, a register of covered bonds. All entries into and deletions from the covered bonds register are done with the approval of the Central Bank of Cyprus.

The Central Bank of Cyprus, as competent authority, has the power to define (which it has done by the Cypriot Covered Bond Directive) the conditions upon which assets will be included in the Cover Pool. The Cypriot Covered Bond Directive has provided for:

- (a) the limitations as to the governing law – which is Cypriot law or the law of any other Member State;
- (b) the territories where the immovable property is situated – which is Cyprus or another Member State;
- (c) the type of immovable property securing commercial or residential loans;
- (d) the composition of the Cover Pool; and
- (e) the extent to which an asset in the Cover Pool is subject to set-off.

The Central Bank of Cyprus has also in the Cypriot Covered Bond Directive set out the adequacy criteria for Cover Assets.

The Central Bank of Cyprus in the exercise of its functions may at any time have access to the Cover Pool Register (as kept by the Issuer) and take copies of the cover pool register or any entry in it at the expense of the Issuer.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion should be read in conjunction with the audited and unaudited consolidated financial statements and the notes thereto incorporated by reference in this Base Prospectus. The Group'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) and its unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2014 (that includes comparative information for the six months ended 30 June 2013 in respect of income statement and other comprehensive income items and at 31 December 2013 in respect of balance sheet items) are incorporated by reference in this Base Prospectus.

Overview

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

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

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

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

Presentation and Comparability of Financial Information

Presentation of Financial Information

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

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2014 contain comparative information for the six months ended 30 June 2013 in respect of income statement and

other comprehensive income items and 31 December 2013 in respect of balance sheet items. This comparative information has been re-presented to reflect the reclassification of the Group's operations in Ukraine sold during 2014 from continuing to discontinued operations. It has also been restated to reflect final adjustments on the acquisition date fair values related to the Laiki Bank acquisition and the reclassification as a joint venture of the Group's interests in Byron Capital Partners Ltd. and Marfin Diversified Strategy Fund Plc. See notes 4.2 and 35.1 to the unaudited consolidated financial statements for the six months ended 30 June 2014. Accordingly, this comparative income statement information differs from the information previously released by the Group in its mid-year financial report for the six months ended 30 June 2013 and from the information previously released by the Group in its 2013 annual report.

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2014 do not contain comparative statements of the consolidated income statement and the consolidated other comprehensive income for the comparable interim period of the immediately preceding financial year (i.e., from 1 April 2013 to 30 June 2013). The review report of Ernst & Young Cyprus Limited with respect to the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2014 was qualified and contained an emphasis of matter as to the Issuer's conclusion with respect to going concern, as set forth in Note 6.1 of the consolidated financial statements for the period ended 30 June 2014.

The audited consolidated financial statements for the year ended 31 December 2013 contain comparative information for the year ended 31 December 2012. This comparative information has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations. It has also been restated to reflect the adoption of IAS 19 (Revised 2011) regarding the recognition of actuarial gains and losses arising from defined benefit plans. See notes 3.2.3 and 3.35 to the consolidated financial statements for the year ended 31 December 2013. Accordingly, this comparative information differs from the information previously released by the Group in its 2012 annual report.

The independent auditor's report in respect of the Group's consolidated financial statements as at and for the year ended 31 December 2013 is qualified with respect to (a) the inability of the Issuer to apply the requirements of IFRS in consideration of the bail-in of uninsured deposits and debt securities due to the specific conditions and uncertainties that existed at the time of the transaction and (b) any adjustments that could have been determined to be necessary had the auditors been able to satisfy themselves as to the fair value of the ordinary shares issued for the Group's recapitalisation through the bail-in of uninsured deposits and debt securities and for the consideration transferred for the Laiki Bank acquisition. The Group's equity and financial position were not affected by the transactions giving rise to these qualifications and the Issuer does not expect this qualification to be repeated in 2014. See notes 3.2.2 and 54.2 to the consolidated financial statements for the year ended 31 December 2013. The opinion of Ernst & Young Cyprus Limited for the years ended 31 December 2012 and 2013 also contained an emphasis of matter as to the Issuer's conclusion with respect to going concern, as set forth in Note 3.1 of the consolidated financial statements for the year ended 31 December 2012 and Note 4.1 of the consolidated financial statements for the year ended 31 December 2013.

Non-Performing Loans

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

In February 2013, the CBC issued the Loan Provisioning Directive, which provides guidance to banks for loan impairment policy and procedures for provisions. The purpose of the Loan Provisioning Directive is to ensure that credit institutions have in place adequate provisioning procedures for the identification of credit losses and prudent application of IFRS in the preparation of their financial statements. The Loan Provisioning Directive requires certain disclosures in relation to the loan portfolio quality, provisioning

policy and level of provision. The disclosures are in addition to and do not replace the disclosures contained in the Group's consolidated financial statements. The Loan Provisioning Directive is effective from 21 February 2014 and requires the new disclosure requirements to be published on an annual and semi annual basis, starting from 31 December 2013. Information from the Group's disclosures under the Loan Provisioning Directive for the year ended 31 December 2013 and for the six months ended 30 June 2014 are included in "*Selected Statistical and Other Information — Credit Risk — Non-performing loans*".

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

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

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

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

Factors Affecting Comparability of Financial Information

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

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

The Recapitalisation

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

Recapitalisation, and up to the date of this Base Prospectus, share capital increased by approximately €2,948.1 million.

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

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

Laiki Bank Acquisition

In March 2013, the Group acquired certain assets (including a €1.2 billion receivable owing to Laiki Bank from the Issuer in connection with the sale of the Group's Greek operations) and liabilities of Laiki Bank pursuant to a series of decrees issued by the Resolution Authority. In connection with the acquisition, the Resolution Authority appointed an international firm to carry out a valuation of the assets and liabilities transferred to the Group. The fair value of the assets transferred was €15.1 billion (including a €1.2 billion receivable owing to Laiki Bank from the Issuer in connection with the sale of the Group's Greek operations), including €8.7 billion of loans and advances to customers and €2.7 billion of investments. The fair value of the liabilities transferred included €4.2 billion of customer deposits and €9.1 billion of ELA funding. The compensation transferred by the Issuer to Laiki Bank was set pursuant to a decree issued on 30 July 2013 at 18.056371% of the total share capital of the Issuer (prior to the Capital Raising). Because of the suspension of trading of the Issuer's Existing Shares (as defined in "*Restructuring of the Issuer and Laiki Bank – Recapitalisation of the Issuer – Holders of ordinary shares of the Issuer as of 29 March 2013*") and the significant uncertainties present at the time, the Issuer was not able to establish a reliable measure of the fair value of the ordinary shares issued in connection with the acquisition of the assets and liabilities of Laiki Bank and in its 2013 financial statements set the fair value of the ordinary shares issued to equal the fair value of identifiable assets and liabilities acquired for which a reliable fair value could be established.

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

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

| Fair values recognised on acquisition | (€'000) |
|----------------------------------------------------------|----------------|
| Assets | |
| Cash and balances with central banks | 406,685 |
| Placements with banks | 1,294,458 |
| Amounts receivable from the Issuer..... | 1,153,000 |
| Investments..... | 2,430,044 |
| Loans and advances to customers..... | 8,659,000 |
| Property, plant and equipment and intangible assets..... | 129,779 |
| Deferred tax asset | 417,002 |

| | |
|-----------------------------------------------------------------------------------------------------------------------|--------------------------|
| Fair values recognised on acquisition | (€'000) |
| Investments in associates and joint ventures | 236,977 |
| Other assets..... | 374,083 |
| Total assets | <u>15,101,028</u> |
| Liabilities | |
| Amounts due to banks | 1,233,564 |
| Funding from central banks..... | 9,102,528 |
| Customer deposits | 4,177,445 |
| Other liabilities | 127,149 |
| Deferred tax liability..... | 5,131 |
| Total liabilities | <u>14,645,817</u> |
| Non-controlling interests | 5,324 |
| Total identifiable net assets at fair value | <u>449,887</u> |
| Fair value of consideration transferred (comprising 858,709 thousand shares of nominal value €1.00 each) | <u>449,887</u> |

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

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

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

For information regarding the loans and advances to customers acquired from Laiki Bank, see "*Selected Statistical and Other Information — Credit Risk — Credit Quality of Loans and Advances to Customers*".

Disposals

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

- In March 2013, the banking and leasing operations of the Group in Greece were sold to Piraeus Bank for a total cash consideration paid by the Group to Piraeus Bank of €1,153.0 million. The loans and fixed assets sold amounted to €7,866.3 million and the deposits sold amounted to €7,653.7 million. The loss on the disposal was €1,365.6 million. As a result of this transaction, the Group wrote off in the 2012 financial year a deferred tax asset of €0.3 billion in Greece, as this was no longer considered recoverable.
- In April 2013, the Group disposed of certain assets of its Romanian branch (including customer loans and related collateral, cash and other liquid assets) amounting to €82.0 million and liabilities including customer deposits amounting to €77.0 million to Marfin Bank Romania. The loss on disposal was €4.5 million.
- In October 2013, the Group completed the sale of its Greek subsidiary Kyprou Asset Management AEDAK to Alpha Trust Mutual Fund Management S.A., resulting in a loss to the Group which is not material.

- In April 2014, the Group sold its business in Ukraine comprising its 99.77% holding in PJSC Bank of Cyprus, the funding provided by the Group to PJSC Bank of Cyprus and its loans with Ukrainian exposures, to the Alfa Group, the Russian banking group. The total consideration was €198.9 million, comprising €98.9 million received and €100.0 million deferred until 31 March 2015. The loss resulting from the sale was €114.2 million.
- In April 2014, the Group sold its 9.99% equity stake in Banca Transilvania, in Romania, for approximately €82 million. The transaction resulted in an accounting gain of €47.5 million.
- In May 2014, the Group sold loans extended to Robne Kuce Beograd, a Serbian real estate management company, which represented one of the Group's largest concentration of non-performing loans, to Piraeus Bank, for approximately €165 million. The transaction resulted in an accounting gain of €27.3 million.
- On 11 September 2014, the Group disposed of its interest in 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 Issuer's Romanian branch, (ii) the Group's 35.3% shareholding in GHES and (iii) a subordinated loan agreement from GHES. The sale consideration was €95.0 million, which improved the Issuer's liquidity position. The loss on disposal is approximately €1 million, which will be recognised in the third quarter of 2014. The sale had a positive impact of approximately €7 million on the Issuer's capital position.
- On 31 October 2014, the Issuer sold a UK loan portfolio owned by the Group and largely composed of residential and commercial real estate-backed facilities (the Loan Portfolio) to purchasers selected through a competitive process. The nominal value of the Loan Portfolio, as at the cut-off date for the transaction, was £289 million. The transaction will enhance the Group's liquidity and will have a small positive impact on the Group's CET1 capital due to the release of risk weighted assets. The Loan Portfolio is not related to the Group's wholly-owned subsidiary, Bank of Cyprus UK Ltd (BOC UK), but is part of the wider UK loan portfolio transferred to the Group pursuant to the Laiki Transfer Decrees.

Factors Affecting Results of Operations

The Cypriot Economy and the Macroeconomic Adjustment Programme

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

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

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

Given the improved performance of the economy in 2013 and to date in 2014, the European Commission and the IMF have both revised their 2014 growth forecasts upwards. The European Commission has revised its

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

Liquidity

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

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

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

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

Recent Developments

Repayment of Cyprus sovereign bond

On 1 July 2014, the Public Debt Management Office of the Republic of Cyprus repaid €950.0 million of an outstanding €1,987.0 million sovereign bond held by the Issuer. The bond was transferred to the Issuer 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 Issuer used the proceeds of repayment to reduce its ECB funding by €550 million and ELA by €400 million. As the bond was transferred to the Issuer at fair value and redeemed at nominal value, the Group recognised an accounting profit of €99.8 million for the second quarter of 2014, which had a positive impact of €99.8 million or 0.4 percentage points on the Group's transitional common equity tier 1 (CET1) ratio.

Capital Raising

On 4 July 2014, the Board of Directors of the Issuer resolved to explore investor interest for a potential capital increase to expedite the implementation of the Group's Restructuring Plan in tandem with the further strengthening of the Group. The Capital Raising was structured in three phases in order to enable a successful completion within a short period of time, but with a number of methods for existing shareholders to participate. In the first two phases of the Capital Raising, the Issuer received subscriptions for a total of 4,166,666,667 ordinary shares at a price of €0.24 per share, for an aggregate gross consideration of €1 billion. The Capital Raising was approved at the Issuer's EGM on 28 August 2014. The District Court of Nicosia issued a court order approving the Nominal Value Reduction on 29 August 2014, the Court Order was filed with the Department of the Registrar of Companies and Official Receiver on 1 September 2014 and the first two phases were completed on 18 September 2014. The third phase is a retail offer of up to €100 million of new ordinary shares following the completion of the Placing and the Open Offer and prior to any listing of the ordinary shares on the CSE and ATHEX (subject to the necessary regulatory approvals). See "*Business Description of the Group—Recent Developments—Capital Raising*"

ECB Comprehensive Assessment

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

Critical Accounting Estimates and Judgments

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

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

Going Concern

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

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

Notwithstanding this assessment and the conclusion reached, the Board of Directors considered that material uncertainties remain that may cast significant doubt upon the Issuer's ability to continue as a going concern. For additional information, see note 6.1 to the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2014 and note 4.1 to the consolidated financial statements for the year ended 31 December 2013. See "*Risk Factors — Risks Relating to the Group's Business — The independent auditor's report in respect of the Issuer's consolidated financial statements as at and for the year ended 31 December 2013 and the independent auditor's review report in respect of the Issuer's unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2014 are qualified and contain an emphasis of matter.*"

Recognition of interest income

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

Provisions for impairment of loans and advances to customers

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

factor for the estimation of provisions is the timing and the net recoverable amount from the foreclosure of collateral, which mainly comprises land and buildings.

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

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

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

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

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

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

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

Fair value of investments

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

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

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

Impairment of available-for-sale investments

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

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

Tax

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

Deferred tax assets are recognised by the Group in respect of tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Judgment is required to

determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies. These variables have been established on the basis of significant management judgment and are subject to uncertainty. It is possible that the actual future events could be different from the assumptions made, resulting in a material adjustment to the carrying amount of deferred tax assets.

Reclassification of financial assets

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

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

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

Results of Operations

Consolidated Income Statement Data

| | Year ended 31 December | | Six months ended 30 June | |
|------------------------------|-------------------------------|---------------------------|---------------------------------|---------------------------|
| | 2012⁽¹⁾ | 2013⁽¹⁾ | 2013⁽¹⁾ | 2014⁽¹⁾ |
| | (€'000) | | | |
| Continuing operations | | | | |
| Turnover | 1,859,797 | 1,966,621 | 1,174,199 | 969,243 |
| Interest income | 1,415,611 | 1,660,461 | 834,675 | 786,044 |
| Interest expense | (713,835) | (661,030) | (416,011) | (240,076) |
| Net interest income..... | 701,776 | 999,431 | 418,664 | 545,968 |

| | Year ended 31 December | | Six months ended 30 June | |
|---------------------------------------------------------------------------------------------------------------------|------------------------|---------------------|-----------------------------|---------------------|
| | 2012 ⁽¹⁾ | 2013 ⁽¹⁾ | 2013 ⁽¹⁾ | 2014 ⁽¹⁾ |
| | (€'000) | | | |
| Fee and commission income | 191,566 | 193,458 | 93,869 | 93,304 |
| Fee and commission expense | (18,881) | (24,639) | (10,231) | (5,526) |
| Net foreign exchange gains/(losses) | 24,948 | (5,148) | (16,699) | (2,379) |
| Net (losses)/gains on financial instrument transactions and disposal of subsidiaries | (27,899) | 10,589 | (9,307) | 160,523 |
| Insurance income net of claims and commissions..... | 62,972 | 64,956 | 38,864 | 25,048 |
| Other (expense)/income..... | (15,099) | (64,282) | (28,118) | 7,602 |
| Total income | 919,383 | 1,174,365 | 487,042 | 824,540 |
| Staff costs | (293,556) | (442,797) | (192,322) | (135,398) |
| Other operating expenses | (260,553) | (277,196) | (120,226) | (130,769) |
| Profit before impairment of loans and advances to customers and goodwill and intangible assets | 365,274 | 454,372 | 174,494 | 558,373 |
| Provisions for impairment of loans and advances to customers..... | (1,339,269) | (1,067,345) | (532,496) | (329,120) |
| Impairment of goodwill and intangible assets | (359,746) | – | – | – |
| (Loss)/profit before share of profit from associates and joint ventures | (1,333,741) | (612,973) | (358,002) | 229,253 |
| Share of profit from associates and joint ventures..... | 222 | 1,885 | 353 | 4,111 |
| (Loss)/profit before tax | (1,333,519) | (611,088) | (357,649) | 233,364 |
| Tax..... | 43,463 | 5,184 | 2,489 | (9,591) |
| (Loss)/profit after tax | (1,290,056) | (605,904) | (355,160) | 223,773 |
| Loss after tax from discontinued operations..... | (932,290) | (1,455,604) | (1,456,804) | (150,215) |
| (Loss)/profit for the year/period | (2,222,346) | (2,061,508) | (1,811,964) | 73,558 |
| Attributable to: | | | | |
| Owners of the Issuer – continuing operations..... | (1,280,825) | (593,898) | (349,818) | 231,600 |
| Owners of the Issuer – discontinued operations..... | (932,290) | (1,455,604) | (1,456,804) | (150,176) |
| Total (loss)/profit attributable to the owners of the Issuer | (2,213,115) | (2,049,502) | (1,806,622) | 81,424 |
| Non-controlling interests – continuing operations | (9,231) | (12,006) | (5,342) | (7,827) |
| Non-controlling interests – discontinued operations..... | – | – | – | (39) |
| (Loss)/profit for the year/period | (2,222,346) | (2,061,508) | (1,811,964) | 73,558 |

(1) The financial information presented for the six month periods ended 30 June 2013 and 2014 is unaudited. The financial information for the year ended 31 December 2012 has been re-presented to reflect the reclassification of the Group's operations in Greece sold during 2013 from continuing to discontinued operations and restated to reflect the adoption of IAS 19 (Revised 2011). The consolidated income statements for the six months ended 30 June 2013 and the year ended 31 December 2013 include the results of the assets and liabilities acquired from Laiki Bank from the date of acquisition as well as the results of the Greek operations sold to Piraeus Bank until the date of sale, both of which occurred in March

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

Total income

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

Total income increased by €255.0 million or 27.7% to €1,174.4 million in the year ended 31 December 2013, driven by an increase in net interest income, compared to €919.4 million in the year ended 31 December 2012. Total income for the six months ended 30 June 2014 was €824.5 million, an increase of €337.5 million or 69.3% over the six months ended 30 June 2013 driven by an increase in net interest income and the net gains on financial instrument transactions, which include the gains from the disposal of available for sale equity investments in Banca Transilvania (€47.0 million), gain on the disposal of Serbian loans (€27.3 million) and gains on the early repayment of Cyprus Government Bond (€99.8 million). Net interest income is the largest component of total income, representing 76.3% of total income in the year ended 31 December 2012, 85.1% in the year ended 31 December 2013, 86.0% in the six months ended 30 June 2013 and 66.2% in the six months ended 30 June 2014.

Net interest income

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

Net interest income increased by €297.7 million or 42.4% to €999.4 million in the year ended 31 December 2013 compared to €701.8 million in the year ended 31 December 2012, reflecting a 17.3% increase in interest income and a 7.4% decline in interest expense.

Net interest income in 2013 includes nine months of net interest income of the assets and liabilities acquired from Laiki Bank in March 2013. The increase in interest income in 2013 was mainly driven by a €167.4 million increase in interest income from loans and advances from customers, principally resulting from the Laiki Bank acquisition and a €151.5 million increase in interest income from investments classified as loans and receivables driven by the acquisition of Cyprus government bonds acquired from Laiki Bank. Interest income on the recoverable amount of impaired loans and advances from customers was €188.5 million in 2013 compared to €53.0 million in 2012, reflecting the increase in impaired loans.

The decline in interest expense in 2013 was mainly driven by a €156.1 million decrease in interest expense from customer deposits and a €27.9 million decrease related to derivative financial instruments, which was offset in part by a €150.2 million increase in interest expense on funding from central banks and amounts due to banks.

Net interest income for the six months ended 30 June 2014 was €546.0 million, compared to €418.7 million for the six months ended 30 June 2013, an increase of €127.3 million or 30.4%, as the decline in interest expense outpaced the decline in interest income. Interest income was €786.0 million for the six months ended 30 June 2014 compared to €834.7 million for the six months ended 30 June 2013, mainly reflecting the decrease in loans and advances to customers, notwithstanding that net interest income for the six months

ended 30 June 2013 includes only three months of net interest income of the assets and liabilities acquired from Laiki Bank. Interest income on the recoverable amount of impaired loans and advances from customers was €124.1 million for the six months ended 30 June 2014 compared to €107.1 million for the six months ended 30 June 2013. Interest expense was €240.1 million for the six months ended 30 June 2014 compared to €416.0 million for the six months ended 30 June 2013, reflecting lower volumes of customer deposits as well as lower funding cost.

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

Net fee and commission income

Net fee and commission income decreased by €3.9 million or 2.2% to €168.8 million in 2013 as the increase in fee and commission expense (principally related to banking commissions) more than offset the increase in fee and commission income (where increases in credit-related fees and commissions and other commissions offset a decline in other banking commissions).

Net fee and commission income for the six months ended 30 June 2014 was €87.8 million, compared to €83.6 million for the six months ended 30 June 2013, an increase of €4.1 million or 4.9%, mainly due to higher net fee and commission income in Cyprus, which includes income from the Laiki Bank portfolio for six months compared to three months in the first half of 2013.

Net foreign exchange gains/(losses)

Net foreign exchange gains/losses represent the conversion of monetary assets in foreign currency at the reporting date, realised gains and losses from transactions in foreign currency which have been settled during the year and the revaluation of foreign exchange derivatives. The Group had net foreign exchange gains of €24.9 million in the year ended 31 December 2012, compared to losses of €5.1 million in the year ended 31 December 2013, €16.7 million in the six months ended 30 June 2013, mainly due to open positions related to the bail-in of customer deposits, and €2.4 million in the six months ended 30 June 2014.

Net (losses)/gains on financial instrument transactions and disposal of subsidiaries

Net gains on financial instrument transactions and disposal of subsidiaries in the six months ended 30 June 2014 was €160.5 million and consisted principally of a €99.8 million gain on repayment of debt securities, a €49.0 million gain on disposal of available-for-sale equity securities, of which €47.5 million relates to Banca Transilvania, and a €27.3 million realised gain on disposal of Serbian loans and impairment of placements with banks and loans and receivables other than debt securities, totalling €32.4 million.

Net losses on financial instrument transactions and disposal of subsidiaries in the six months ended 30 June 2013 was €9.3 million and consisted principally of a €4.5 million loss on disposal of certain assets and liabilities of the Romanian branch to Marfin Bank Romania.

Net gains on financial instrument transactions and disposal of subsidiaries in the year ended 31 December 2013 were €10.6 million and consisted principally of a €26.6 million gain on derecognition of loans, a €14.7 million gain on derivative financial instruments in the trading portfolio, a €6.7 million net gain on disposal of debt securities in the loans and receivables portfolio, a €15.9 million impairment of debt securities excluding government guaranteed bonds, an €11.5 million loss on the disposal of debt securities in the available-for-sale investments portfolio, a €6.9 million realised loss on disposal of loans and deposits and a €6.6 million impairment of available-for-sale equity securities.

Net losses on financial instrument transactions and disposal of subsidiaries in the year ended 31 December 2012 were €27.9 million and consisted principally of a €22.3 million loss on disposal of debt securities in the held-to-maturity investments portfolio, an €11.6 million gain on derivative financial instruments in the

trading portfolio and a €8.0 million net loss on the disposal of debt securities in the available-for-sale investments portfolio.

Insurance income net of claims and commissions

Insurance income net of claims and commissions increased by €2.0 million or 3.2% to €65.0 million in the year ended 31 December 2013, as a €26.9 million decrease in income was more than offset by a €28.9 million decrease in claims and commissions. Insurance income net of claims and commissions was €25.0 million in the six months ended 30 June 2014 compared to €38.9 million in the six months ended 30 June 2013.

Other income/expense

Other expense increased by €49.2 million to €64.3 million in the year ended 31 December 2013, mainly driven by a €53.8 million increase in losses from revaluation of investment properties which relate principally to a decline in the fair value of properties. Other income for the six months ended 30 June 2014 was €7.6 million, compared to other expense of €28.1 million for the six months ended 30 June 2013, principally driven by a €1.4 million gain from revaluation of investment properties in the first half of 2014 compared to a €34.3 million loss in the first half of 2013.

Expenses

Staff costs

Staff costs increased by €149.2 million or 50.8% to €442.8 million in the year ended 31 December 2013, driven principally by a €120.5 million increase in voluntary retirement scheme costs resulting from staff reductions and the addition of staff from Laiki Bank. Staff costs declined by €56.9 million or 29.6%, from €192.3 million in the first half of 2013, including €22.3 million of voluntary retirement scheme costs, to €135.4 million in the first half of 2014, which did not include any voluntary retirement scheme costs. The Group had 10,772 employees as of 31 December 2012, 9,822 employees as of 30 June 2013, 7,752 employees as of 31 December 2013 and 6,747 employees as of 30 June 2014.

Other operating expenses

Other operating expenses include operating lease rentals, repairs and depreciation of property and equipment, communication expenses, provision for settlement of litigations or claims, advisory or other restructuring costs and impairment of assets held for sale. Other operating expenses increased by €16.6 million or 6.4% to €277.2 million in the year ended 31 December 2013, driven principally by a €27.5 million increase in advisory and other restructuring costs and a €9.6 million impairment of assets held for sale recognised in respect of the Group's Ukrainian operations, which more than offset a €20.4 million decrease in other operating expenses.

Other operating expenses were €130.8 million in the first half of 2014 and included €11.9 million of provisions and settlements of litigations or claims and €20.8 million of restructuring costs. Other operating expenses for the first half of 2013 were €120.2 million and include €12.9 million of restructuring costs and €5.6 million of provisions and settlements of litigation or claims.

Impairment

Provisions for impairment of loans and advances

Provisions for impairment of loans and advances decreased by €271.9 million or 20.3% in the year ended 31 December 2013, to €1,067.3 million. Provisions for impairment of loans and advances were €329.1 million

in the first half of 2014 compared to €532.5 million in the first half of 2013 due to increased provisions in the first half of 2013 following events in the Eurozone, while 2014 showed the first signs of stabilisation.

Impairment of goodwill and intangible assets

In 2012, the Group recognised impairment of goodwill in connection with the acquisitions of PJSB Bank of Cyprus and CB Uniastrum Bank LLC in a total amount of €338.2 million. In addition, an impairment charge in an aggregate amount of €21.5 million was recognised in respect of customer relationships and brands. As a result, goodwill and the carrying amounts for customer relationships and brands for these two subsidiaries were fully written off in 2012. The Group did not record any impairment of goodwill or intangible assets in 2013 or the first half of 2014.

Impairment of Greek government bonds

In 2012 the Group participated in the exchange offer for Greek government bonds which included, among other things, the write off of 53.5% of the value of the existing bonds and the issue of new bonds with a nominal value of 31.5% of the exchanged bonds. This, together with the change in fair value of related hedging instruments, resulted in an impairment charge of €143.6 million in 2012 which is included in discontinued operations. In December 2012, the Group participated in the voluntary repurchase of new bonds by the Hellenic Republic, realising a gain of €96.5 million, which is included in discontinued operations. The Group currently does not hold any Greek government bonds.

Share of profit of associates and joint ventures

Share of profit from associates and joint ventures increased by €1.7 million to €1.9 million in the year ended 31 December 2013. The increase reflects the acquisition by the Group of 49.9% of CNP Cyprus Insurance Holdings Ltd (CNP), the parent company of a group of insurance companies in Cyprus and Greece, from Laiki Bank. In the first half of 2014, share of profit from associates and joint ventures was €4.1 million compared to €0.4 million in the first half of 2013, due to the CNP acquisition.

Loss/profit before tax

As a result of the foregoing factors, loss before tax decreased by €722.4 million or 54.2% to €611.1 million in the year ended 31 December 2013. In the first half of 2014, profit before tax was €233.4 million compared to a loss before tax of €357.6 million in the first half of 2013.

Tax

Tax credit decreased by €38.3 million to €5.2 million in the year ended 31 December 2013. This mostly reflects tax credit in Cyprus and overseas operations in 2012 that was not repeated in 2013. The tax charge for the first half of 2014 was €9.6 million, mainly reflecting the release of deferred tax asset in Russia, compared to a tax credit of €2.5 million in the first half of 2013.

Loss after tax from discontinued operations

Loss after tax from discontinued operations increased by €523.3 million or 56.1% in the year ended 31 December 2013. The increase reflected the disposals carried out by the Group during the year, particularly its banking and leasing operations in Greece. Loss after tax from discontinued operations was €150.2 million in the first half of 2014, reflecting the reclassification and loss on disposal of the Group's operations in Ukraine to discontinued operations, and €1,456.8 million in the first half of 2013, reflecting the disposal of the Group's operations in Greece and the reclassification of the Group's operations in Ukraine to discontinued operations.

Segmental analysis

The tables below present income statement and total revenue information by operating segment based on geographical location of each unit for the six months ended 30 June 2013 and 2014 and the year ended 31 December 2013.

In April 2014, the Group's activities in Ukraine were sold to Alfa Group, the Russian banking group, and as a result, the Ukrainian operations are presented as discontinued in the six months ended 30 June 2014 (including comparative information for 30 June 2013). On 26 March 2013, the Group's banking and leasing activities in Greece were sold to Piraeus Bank and are presented as discontinued operations in the year ended 31 December 2013 (including comparative information for 31 December 2012). The Ukrainian operations are presented as continuing operations for the year ended 31 December 2013.

The Group's activities in Greece (other than those sold to Piraeus Bank), the United Kingdom and Romania are separate operating segments for which information is provided but, due to their size, have been aggregated for disclosure purposes into the "Other countries" segment, which also includes Ukraine for the year ended 31 December 2013. The Group's activities in Cyprus include the provision of banking, financial and insurance services, as well as property and hotel business. The Group's activities in Greece following the disposal of operations to Piraeus Bank include the provision of financial and insurance services, as well as the management of investment property. In the other countries, the Group provides only banking services.

Group management monitors the operating results of each business segment separately for the purposes of performance assessment and resource allocation. Segment performance is evaluated based on profit after tax and non-controlling interests. Inter-segment transactions and balances are eliminated on consolidation and are made on an arm's length basis. Operating segment disclosures are provided as presented to the Chief Executive Officer. Each segment's capital and the related interest income and expense are adjusted in order to be on the same basis as a percentage of the segment's risk-weighted assets, as calculated for capital adequacy purposes in accordance with the relevant regulations of the CBC. The Group's total profit as presented in the consolidated income statement is not affected. The loans and advances to customers, the customer deposits and the related income and expense are generally included in the segment where the business is originated, instead of the segment where the transaction is recorded.

| Income statement | Cyprus | Russia | Other countries (€'000) | Total continuing operations | Discontinued operations |
|------------------------------------------------------------------------------|----------------|---------------|-------------------------------|-----------------------------------|----------------------------|
| Six months ended 30 June 2014⁽¹⁾ | | | | | |
| Net interest income | 487,135 | 34,343 | 24,490 | 545,968 | 4,064 |
| Net fee and commission income | 75,319 | 9,611 | 2,848 | 87,778 | 270 |
| Net foreign exchange (losses)/gains | (3,940) | 1,657 | (96) | (2,379) | 617 |
| Net gains on financial instrument transactions | 160,431 | (44) | 136 | 160,523 | – |
| Insurance income net of claims and commissions | 23,412 | – | 1,636 | 25,048 | – |
| Other income | 4,074 | 526 | 3,002 | 7,602 | 1,052 |
| | <u>746,431</u> | <u>46,093</u> | <u>32,016</u> | <u>824,540</u> | <u>6,003</u> |
| Staff costs | (110,089) | (18,128) | (7,181) | (135,398) | (1,233) |
| Other operating expenses | (75,802) | (18,763) | (15,435) | (110,000) | (2,883) |
| Restructuring costs | (20,769) | – | – | (20,769) | – |
| | <u>539,771</u> | <u>9,202</u> | <u>9,400</u> | <u>558,373</u> | <u>1,887</u> |
| Profit before impairment of loans and advances to customers | 539,771 | 9,202 | 9,400 | 558,373 | 1,887 |
| Provisions for impairment of loans and advances to customers | (272,366) | (26,802) | (29,952) | (329,120) | (38,528) |

| | | | | | |
|-------------------------------------------------------------------------------|------------------|-----------------|-----------------|------------------|--------------------|
| Loss on disposal of Ukrainian business... | – | – | – | – | (114,228) |
| Share of profit from associates and joint ventures..... | 4,111 | – | – | 4,111 | – |
| Profit/(loss) before tax | 271,516 | (17,600) | (20,552) | 233,364 | (150,869) |
| Tax..... | (2,327) | (5,083) | (2,181) | (9,591) | 654 |
| Profit/(loss) after tax | 269,189 | (22,683) | (22,733) | 223,773 | (150,215) |
| Non-controlling interests (profit)/loss | (183) | 8,010 | – | 7,827 | 39 |
| Profit/(loss) after tax attributable to the owners of the Issuer | 269,006 | (14,673) | (22,733) | 231,600 | (150,176) |
| Six months ended 30 June 2013⁽¹⁾ | | | | | |
| Net interest income | 339,502 | 51,619 | 27,543 | 418,664 | 57,804 |
| Net fee and commission income | 65,335 | 14,374 | 3,929 | 83,638 | 11,994 |
| Net foreign exchange (losses)/gains | (19,869) | 3,225 | (55) | (16,699) | (14,843) |
| Net (losses)/gains on financial instrument transactions | (5,750) | – | (3,557) | (9,307) | 5,553 |
| Insurance income net of claims and commissions | 34,296 | – | 4,568 | 38,864 | – |
| Other (expenses)/income | (4,835) | 521 | (23,804) | (28,118) | (1,506) |
| | 408,679 | 69,739 | 8,624 | 487,042 | 59,002 |
| Staff costs | (133,454) | (27,512) | (9,013) | (169,979) | (25,681) |
| Other operating expenses..... | (70,656) | (25,002) | (11,631) | (107,289) | (59,401) |
| Restructuring costs | (35,280) | – | – | (35,280) | – |
| Profit before impairment of loans and advances to customers | 169,289 | 17,225 | (12,020) | 17,494 | (26,080) |
| Provisions for impairment of loans and advances to customers | (456,856) | (35,412) | (40,228) | (532,496) | (64,981) |
| Loss on disposal of Greek banking and leasing operations | – | – | – | – | (1,365,624) |
| Share of profit/(loss) from associates and joint ventures..... | 896 | – | (543) | 353 | – |
| Loss before tax | (286,671) | (18,187) | (52,791) | (357,649) | (1,456,685) |
| Tax..... | 4,762 | 4,104 | (6,377) | 2,489 | (119) |
| Loss after tax | (281,909) | (14,083) | (59,168) | (355,160) | (1,456,804) |
| Non-controlling interests -loss..... | 1,448 | 3,894 | – | 5,342 | – |
| Loss after tax attributable to the owners of the Issuer | (280,461) | (10,189) | (59,168) | (349,818) | (1,456,804) |

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

| Income statement | Cyprus | Russia | Other countries | Total | Discontinued |
|--------------------------------------------|---------|--------|-----------------|-----------------------|--------------|
| | | | | continuing operations | operations |
| | | | | | |
| Year ended 31 December 2013 ⁽¹⁾ | | | | | |
| Net interest income | 842,318 | 96,968 | 60,145 | 999,431 | 46,279 |
| Net fee and commission income | 131,918 | 27,508 | 9,393 | 168,819 | 11,217 |
| Net foreign exchange gains/(losses) | 6,611 | 4,153 | (15,912) | (5,148) | (14,667) |
| Net gains/(losses) on financial | 14,726 | – | (4,137) | 10,589 | 5,411 |

| | | | | | |
|----------------------------------------------------------------------|------------------|-----------------|------------------|------------------|--------------------|
| instrument transactions and disposal of subsidiaries | | | | | |
| Insurance income net of claims and commissions | 57,375 | – | 7,581 | 64,956 | – |
| Other expenses..... | (19,249) | (243) | (44,790) | (64,282) | (2,070) |
| | <u>1,033,699</u> | <u>128,386</u> | <u>12,280</u> | <u>1,174,365</u> | <u>46,170</u> |
| Staff costs | (247,309) | (51,286) | (23,613) | (322,208) | (22,241) |
| Other operating expenses..... | (146,925) | (49,894) | (33,636) | (230,455) | (55,001) |
| Restructuring costs | (156,808) | (172) | (771) | (157,751) | – |
| Impairment of assets held for sale | – | – | (9,579) | (9,579) | – |
| Profit/(loss) before impairment of loans and advances..... | 482,657 | 27,034 | (55,319) | 454,372 | (31,072) |
| Provisions for impairment of loans and advances..... | (856,380) | (78,795) | (132,170) | (1,067,345) | (58,908) |
| Loss on disposal of Greek banking and leasing operations | – | – | – | – | (1,365,624) |
| Share of profit/(loss) from associates | 2,076 | – | (191) | 1,885 | – |
| Loss before tax | (371,647) | (51,761) | (187,680) | (611,088) | (1,455,604) |
| Tax..... | 3,360 | 7,019 | (5,195) | 5,184 | – |
| Loss after tax..... | (368,287) | (44,742) | (192,875) | (605,904) | (1,455,604) |
| Non-controlling interests (profit)/loss | 924 | 11,047 | 35 | 12,006 | – |
| Loss after tax attributable to the owners of the Issuer | (367,363) | (33,695) | (192,840) | (593,898) | (1,455,604) |

- (1) The consolidated income statements for the six months ended 30 June 2013 and year ended 31 December 2013 include the results of the assets and liabilities acquired from Laiki Bank from the date of acquisition as well as the results of the Greek operations sold to Piraeus Bank until the date of sale, both of which occurred in March 2013.

| | <u>Cyprus</u> | <u>Russia</u> | <u>Other countries</u> | <u>Total continuing operations</u> | <u>Discontinued operations</u> |
|----------------------------------------------------|----------------|---------------|------------------------|------------------------------------|--------------------------------|
| | | | (€'000) | | |
| Total Revenue | | | | | |
| Six months ended 30 June 2014⁽¹⁾ | | | | | |
| Banking and financial services | 534,445 | 55,625 | 207,570 | 797,640 | 6,414 |
| Insurance services..... | 24,224 | – | 1,764 | 25,988 | – |
| Property and hotel business | 580 | – | (79) | 501 | – |
| Total revenue from third parties | 559,249 | 55,625 | 209,255 | 824,129 | 6,414 |
| Inter-segment revenue/(expense)..... | 13,215 | (9,532) | (3,272) | 411 | (411) |
| Total revenue..... | 572,464 | 46,093 | 205,983 | 824,540 | 6,003 |
| Six months ended 30 June 2013⁽¹⁾ | | | | | |
| Banking and financial services | 355,518 | 82,534 | 7,566 | 445,618 | 60,659 |
| Insurance services..... | 34,725 | – | 4,651 | 39,376 | – |
| Property and hotel business | 392 | – | (1) | 391 | – |
| Total revenue from third parties | 390,635 | 82,534 | 12,216 | 485,385 | 60,659 |
| Inter-segment revenue/(expense)..... | 18,044 | (12,795) | (3,592) | 1,657 | (1,657) |
| Total revenue..... | 408,679 | 69,739 | 8,624 | 487,042 | 59,002 |
| Year ended 31 December 2013 | | | | | |
| Banking and financial services | 950,984 | 150,582 | 7,855 | 1,109,421 | 49,067 |
| Insurance services..... | 57,990 | – | 7,568 | 65,558 | – |

| | | | | | |
|----------------------------------------|------------------|----------------|---------------|------------------|---------------|
| Property and hotel business | (3,509) | – | (2) | (3,511) | – |
| Total revenue from third parties | 1,005,465 | 150,582 | 15,421 | 1,171,468 | 49,067 |
| Inter-segment revenue/(expense)..... | 28,234 | (22,196) | (3,141) | 2,897 | (2,897) |
| Total revenue..... | 1,033,699 | 128,386 | 12,280 | 1,174,365 | 46,170 |

Year ended 31 December 2012

| | | | | | |
|----------------------------------------|----------------|----------------|---------------|----------------|----------------|
| Banking and financial services | 586,825 | 185,930 | 72,143 | 844,898 | 448,383 |
| Insurance services..... | 54,092 | – | 8,611 | 62,703 | – |
| Property and hotel business | 1,154 | – | (7) | 1,147 | – |
| Total revenue from third parties | 642,071 | 185,930 | 80,747 | 908,748 | 448,383 |
| Inter-segment revenue/(expense)..... | 44,684 | (25,653) | (8,396) | 10,635 | (10,635) |
| Total revenue..... | 686,755 | 160,277 | 72,351 | 919,383 | 437,748 |

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

Balance Sheet Items

Assets

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

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

Total Assets

Total assets decreased by €682.6 million or 2.2%, to €30,349.4 million at 31 December 2013, and by a further €1,791.3 million or 5.9% to €28,558.2 million at 30 June 2014. The decrease in each period reflects

the result of a deliberate effort by the Group to deleverage and de-risk its balance sheet. Loans and advances to customers are the largest component of total assets, representing 78.5% at 31 December 2012, 71.7% at 31 December 2013 and 70.3% at 30 June 2014.

Investments

Total investments (both unencumbered investments and investments pledged as collateral) increased by €1,562.6 million to €3,432.7 million in 2013, driven principally by the acquisition of Cyprus government bonds acquired from Laiki Bank, and increased a further €105.4 million to €3,538.0 million at 30 June 2014.

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

On 1 July 2014, the Public Debt Management Office of the Republic of Cyprus repaid €950.0 million of an outstanding €1,987.0 million sovereign bond held by the Issuer. The bond was transferred to the Issuer 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 Issuer used the proceeds of repayment to reduce its ECB funding by €550 million and ELA by €400 million. As the bond was transferred to the Issuer at fair value and redeemed at nominal value, the Group recognised an accounting profit of €99.8 million for the second quarter of 2014, which had a positive impact of €99.8 million or 0.4 percentage points on the Group's CET1 ratio.

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

| | 31 December | | 30 June |
|--------------------------------------------------------|---------------------------|---------------------------|---------------------------|
| | 2012⁽¹⁾ | 2013⁽¹⁾ | 2014⁽¹⁾ |
| | | (€'000) | |
| Investments | | | |
| Investments at fair value through profit or loss | 21,818 | 25,160 | 30,087 |
| Investments available-for-sale..... | 402,547 | 161,258 | 78,615 |
| Investments classified as loans and receivables..... | 710,968 | 2,573,437 | 2,757,357 |
| Total | 1,135,333 | 2,759,855 | 2,866,059 |

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

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

| | 31 December | | 30 June |
|------------------------------------------|---------------------------|---------------------------|---------------------------|
| | 2012⁽¹⁾ | 2013⁽¹⁾ | 2014⁽¹⁾ |
| | | (€'000) | |
| Investments pledged as collateral | | | |

under repos with banks

| | | | |
|---------------------------------------------------------|----------------|----------------|----------------|
| Investments available-for-sale..... | 694,287 | 672,809 | 671,984 |
| Investments classified as loans and receivables..... | 40,460 | – | – |
| Total..... | 734,747 | 672,809 | 671,984 |

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

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

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

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

The table below analyses investments available-for-sale:

| | 31 December | | 30 June |
|----------------------------------------------------------------------------|---------------------|---------------------|---------------------|
| | 2012 ⁽¹⁾ | 2013 ⁽¹⁾ | 2014 ⁽¹⁾ |
| | (€'000) | | |
| Investments available-for-sale | | | |
| Debt securities | 1,032,302 | 733,658 | 729,755 |
| Equity securities | 64,532 | 98,606 | 19,561 |
| Mutual funds..... | – | 1,803 | 1,283 |
| | 1,096,834 | 834,067 | 750,599 |
| <i>Geographical distribution by country of issuer</i> | | | |
| Cyprus | 2,119 | 7,571 | 3,642 |
| United Kingdom | 9,867 | 6,365 | 6,193 |
| France | 509,745 | 476,818 | 491,358 |
| Germany | 59,688 | 58,258 | 59,142 |
| Ukraine | 3 | 1 | 1 |
| Italy..... | 51,536 | 52,211 | 53,308 |
| Other European countries | 102,572 | 106,175 | 89,529 |
| Other countries | 2,197 | 2,052 | 1,997 |
| European Financial Stability Facility and European Investment Fund..... | 284,787 | 14,617 | 14,590 |
| Supranational organisations..... | 9,788 | 9,590 | 9,995 |
| | 1,032,302 | 733,658 | 729,755 |

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

The table below analyses investments classified as loans and receivables:

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

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

Reclassification of Investments

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

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

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

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

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

Loans and Advances to Customers

The Group's lending consists of extensions of credit by the Issuer and its subsidiaries, including hire purchase and leasing facilities. The discussion below relates to the Group's gross loans and advances to customers before fair value adjustments on initial recognition. However, loans and advances to customers in the consolidated financial statements are presented net of provisions for impairment.

The gross amount of loans and advances to customers acquired from Laiki Bank before fair value adjustment was €10,688.9 million. The fair value of these loans and advances on initial recognition was €8,659.0 million, resulting in a fair value adjustment of €2,029.9 million. The fair value adjustment reduces over time driven by loan repayments. In accordance with the provisions of IFRS 3, this adjustment has decreased the gross balance of loans and advances to customers. However, for IFRS 7 disclosure purposes as well as for credit risk monitoring, this adjustment is not presented within the gross balances of loans and advances.

The provisions for impairment and fair value adjustments recorded by the Group do not reduce the amounts legally recoverable from borrowers.

The following table reconciles gross loans and advances to customers before fair value adjustment on initial recognition and provisions for impairment to net loans as at the dates indicated.

| | 31 December | | 30 June |
|----------------------------------------------------|---------------------------|---------------------------|---------------------------|
| | 2012⁽¹⁾ | 2013⁽¹⁾ | 2014⁽¹⁾ |
| | (€'000) | | |
| Net loans and advances to customers | | | |
| Gross loans and advances to customers before | | | 23,284,579 |
| fair value adjustment on initial recognition | 28,050,587 | 26,743,319 | |

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

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

Loans and advances to customers decreased by €2,610.2 million or 10.7%, to €21,764.3 million at 31 December 2013, and by a further €1,701.3 million or 7.8% to €20,063.0 million at 30 June 2014. The decrease in 2013 and first half of 2014 was driven principally by the sale of the Group's operations in Greece, notwithstanding the acquisition of loans from Laiki Bank in 2013. The decrease in all periods also reflects the decision of the Group to reduce its loan portfolio in order to improve its capital position.

Customer Analysis

The following table sets out the breakdown of the Group's gross loans and advances to customers before fair value adjustments on initial recognition by type of customer at the dates indicated below. The information for the six months ended 30 June 2014 reflects the creation of the Restructuring and Recoveries Division in 2013.

| | 31 December | | 30 June |
|----------------------------------------------|---------------------------|---------------------------|---------------------------|
| | 2012⁽¹⁾ | 2013⁽¹⁾ | 2014⁽¹⁾ |
| | (€'000) | | |
| Gross loans and advances to customers | | | |
| Corporate | 12,770,764 | 12,241,613 | 4,067,037 |
| SMEs | 5,938,350 | 6,115,702 | 2,597,637 |
| Retail | | | |
| - Housing | 5,507,210 | 5,374,666 | 3,939,881 |
| - Credit cards | 379,358 | 272,588 | 229,681 |
| - Consumer and other | 3,454,905 | 2,738,750 | 1,771,940 |
| Restructuring and Recovery | | | |
| - Corporate | – | – | 5,841,386 |
| - SMEs | – | – | 1,501,329 |
| - Recoveries | – | – | 4,059,525 |
| International Banking Services | – | – | 809,012 |
| Wealth Management | – | – | 63,462 |
| Total | 28,050,587 | 26,743,319 | 24,880,890 |

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

Corporate customers are the largest category of borrower, representing 45.5% of gross loans and advances to customers (including those classified as held for sale) at 31 December 2012, 45.8% at 31 December 2013 and 40.2% at 30 June 2014 (including corporate customers in the Restructuring and Recoveries Division).

Housing loans and advances (including those classified as held for sale) remained largely stable at 19.6% at 31 December 2012, 20.1% at 31 December 2013 and 15.6% at 30 June 2014. SME loans (including those classified as held for sale) fluctuated marginally, from 21.2% at 31 December 2012 to 22.9% at 31 December 2013 before falling to 16.7 % at 30 June 2014 (including SME customers in the Restructuring and Recoveries Division).

Sector Analysis

The following table sets out the breakdown of the Group's gross loans and advances to customers before fair value adjustments on initial recognition by economic sector at the dates indicated below.

| | 31 December | | 30 June |
|----------------------------------------------|---------------------|---------------------|---------------------|
| | 2012 ⁽¹⁾ | 2013 ⁽¹⁾ | 2014 ⁽¹⁾ |
| | (€'000) | | |
| Gross loans and advances to customers | | | |
| Trade..... | 3,462,621 | 2,833,112 | 2,736,282 |
| Manufacturing..... | 1,952,021 | 999,057 | 964,597 |
| Hotels and catering..... | 2,276,944 | 1,887,832 | 1,692,719 |
| Construction..... | 3,609,851 | 4,248,650 | 4,127,122 |
| Real estate..... | 3,351,249 | 4,201,181 | 3,405,126 |
| Private individuals..... | 8,631,837 | 8,539,115 | 8,052,130 |
| Professional and other services..... | 2,776,244 | 2,306,763 | 2,372,044 |
| Other sectors..... | 1,989,820 | 1,727,609 | 1,530,870 |
| Total..... | 28,050,587 | 26,743,319 | 24,880,890 |

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

Private individuals are the largest economic sector, representing 30.8% of total loans and advances (including those classified as held for sale) as at 31 December 2012, 31.9% at 31 December 2013 and 31.8% at 30 June 2014. The construction sector represented 12.9%, 15.9% and 16.3% of gross loans and advances, respectively. Real estate was 11.9% at 31 December 2012, 15.7% at 31 December 2013 and 14.3% at 30 June 2014.

Geographical Analysis

The following table shows a breakdown of the Group's gross loans and advances to customers before fair value adjustments on initial recognition by geographical area as of the dates indicated. The analysis is generally based on the country in which the transaction originated rather than the country in which the transaction is recorded.

| | 31 December | | 30 June |
|----------------------------------------------|---------------------|---------------------|---------------------|
| | 2012 ⁽¹⁾ | 2013 ⁽¹⁾ | 2014 ⁽¹⁾ |
| | (€'000) | | |
| Gross loans and advances to customers | | | |
| Cyprus..... | 14,872,936 | 22,964,204 | 22,184,858 |
| Greece..... | 9,437,677 | 172,007 | 172,736 |
| Russia..... | 2,024,524 | 1,429,161 | 1,303,758 |
| United Kingdom..... | 834,006 | 1,283,749 | 848,623 |
| Romania..... | 550,154 | 492,983 | 370,915 |
| Ukraine..... | 331,290 | 401,215 | – |
| Total..... | 28,050,587 | 26,743,319 | 24,880,890 |

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

The following table sets out the breakdown of the Group's gross loans and advances to customers which are classified as held for sale before fair value adjustment on initial recognition at 30 June 2014:

| | 30 June 2014 |
|------------------------------------------|---------------------|
| | (€'000) |
| Corporate | 270,088 |
| Small and medium-sized enterprises | 136,069 |
| Retail | |
| – housing | 1,263 |
| – consumer and other..... | 11,238 |
| Total | 418,658 |
| By economic activity | |
| Trade..... | 1,147 |
| Manufacturing | 514 |
| Hotels and catering | 125,319 |
| Construction | 2,203 |
| Real estate..... | 221,609 |
| Professional and other sectors | 24,912 |
| Other sectors..... | 42,954 |
| Total | 418,658 |

Of the total of €418,658 thousand of loans and advances to customers classified as held for sale, €323,014 thousand relate to UK loans and €95,644 thousand relate to Romanian loans.

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

The Group's operations in Cyprus were significantly affected by the acquisition of Laiki Bank in 2013, which contributed €8.7 billion of gross loans after fair value adjustment on initial recognition to the Group's portfolio.

Following the disposal of its operations in Greece in 2013, the Group's gross loans and advances to customers in Greece fell from €9.4 billion (33.6% of total loans and advances to customers) at 31 December 2012 to €172.0 million (0.6%) at 31 December 2013. Following the disposal, the Group's gross loans and advances to customers in Greece remained relatively stable, at €172.7 million (0.7%) as at 30 June 2014.

The Group's gross loans and advances to customers in Russia experienced a decline during most of the periods under review, partly due to exchange rate fluctuations. Loans declined from €2,024.5 million at 31 December 2012 to €1,429.2 million at 31 December 2013 and €1,303.8 million at 30 June 2014. As a percentage of total gross loans and advances to customers, Russia declined from 7.2% as at 31 December 2012 to 5.3% as at 31 December 2013 and 5.2% at 30 June 2014.

The Group's gross loans and advances to customers in the United Kingdom increased by €449.7 million or 53.9% in 2013, mainly due to the acquisition of the operations of Laiki Bank's branch operations in the

United Kingdom. As a percentage of total loans and advances, the UK grew from 3.0% at 31 December 2012 to 4.8% at 31 December 2013. However, UK loans and advances (including those classified as held for sale) reduced by €112.1 million or 8.7% in the first half of 2014, mainly reflecting loan repayments. In April 2014, the Group announced that it is considering the disposal of a UK loan portfolio largely composed of residential and commercial real estate backed facilities, acquired from Laiki Bank. These loans are classified as loans and advances held for sale as at 30 June 2014.

The Group's gross loans and advances to customers in Romania also experienced a decline during each of the periods under review. The €57.2 million decrease in 2013 was driven by the sale of certain assets and liabilities of the Romanian branch to Marfin Bank Romania. The €26.4 million decrease in the first half of 2014 largely reflects loan repayments.

In April 2014, the Group sold its operations in Ukraine. This sale is reflected in the Group's unaudited interim condensed consolidated financial statements for the period ending 30 June 2014.

Other Assets

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

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

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

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

As of 30 June 2014, the Group had recorded deferred tax assets of €472.2 million, mainly as a result of the transfer of Laiki Bank's deferred tax assets to the Issuer. The deferred tax asset recognised on the acquisition of these deferred tax assets from Laiki Bank amounted to €417 million and can be set off against the future profits of the Group for a period of 15 years at a tax rate of 12.5%. In 2012, the Group wrote-off deferred tax assets in Greece of €0.3 billion upon the disposal of its Greek operations as this was no longer deemed recoverable.

Liabilities

| | 31 December | 30 June |
|--|-------------|---------|
|--|-------------|---------|

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

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

Liabilities principally comprise the Group's sources of funding, in particular customer deposits and funding from central banks. Liabilities have decreased during each of the periods under review, by €3,085.0 million or 10.0% to €27,611.8 million at 31 December 2013, and by a further €1,867.5 million or 6.8% to €25,744.2 million at 30 June 2014.

Liquidity and Capital Resources

The Group's main source of funding has traditionally been customer deposits. The Group also issued debt securities and took deposits on the interbank market. Following the Recapitalisation, in which a significant proportion of the Group's deposits and most of the Issuer's medium-term senior debt were bailed-in pursuant to the Bail-in Decrees, the Group's funding profile has changed significantly. Currently, the Group has limited access to interbank and wholesale funding markets, which together with a reduction in deposits in Cyprus, has resulted in an increased reliance on central bank funding (comprising ECB funding for monetary operations and ELA). In addition, the acquisition of the ex-Laiki Bank operations (including deposits and ELA) by the Group and the sale of the Group's Greek operations (including deposits), further changed the composition of the Group's funding.

Liquidity Ratios

The table below sets forth the Group's liquidity ratio (liquid assets to total deposits and other liabilities falling due in the next 12 months) as at the dates and for the periods indicated. Liquid assets are defined as cash, interbank deposits maturing within thirty days and debt and equity securities at haircuts prescribed by the regulatory authorities. Total deposits comprise all customer deposits irrespective of maturity and other liabilities include all non-customer deposit liabilities due to be paid in the next 12 months:

| | As at and for the year ended 31 December | | As at and for the six months ended 30 June |
|---------------------------------------|------------------------------------------------|-------|--------------------------------------------------|
| | 2012 | 2013 | 2014 |
| | (%) | | |
| Liquidity ratio | | | |
| At period end | 8.79 | 12.28 | 12.52 |
| Average ratio during the period | 14.99 | 11.16 | 12.85 |
| Highest ratio during the period | 23.93 | 14.42 | 14.24 |
| Lowest ratio during the period | 7.08 | 8.69 | 12.11 |

The Issuer is currently not in compliance with its regulatory liquidity requirements with respect to its operations in Cyprus. The minimum euro liquidity ratio (which is the ratio of the Issuer's euro-denominated liquid assets to total euro-denominated deposits and other liabilities falling due in the next 12 months) established by the CBC for operations in Cyprus is 20%. The minimum liquidity ratio for foreign currencies (which is the ratio of the Issuer's foreign currency-denominated liquid assets to total foreign currency-denominated deposits) established by the CBC for operations in Cyprus is 70%. At 30 June 2014, the euro liquidity ratio and liquidity ratio for foreign currencies were 6.4% and 7.2%, respectively. In addition, the Issuer is not in compliance with the minimum euro currency mismatch ratios established by the CBC for operations in Cyprus. The mismatch ratios for assets minus liabilities in the seven-day and 30-day periods over total customer deposits is minus 10% for the seven-day period and minus 25% for the 30-day period. At 30 June 2014, the mismatch ratios were minus 32.0% for the seven-day period and minus 43.7% for the 30-day period. The liquidity ratios presented in the table above are the Group liquidity ratios calculated by management as part of its internal systems and are not comparable to the Issuer's regulatory liquidity requirements as set by the CBC. See "*Risk Factors — Regulatory and Legal Risks — The Group's business and operations are subject to substantial regulation and supervision and can be negatively affected by its non-compliance with certain existing regulatory requirements and any adverse regulatory and governmental developments*".

The liquidity ratios remained at low levels during each of the periods under review due to the continued economic crisis in Cyprus, the bail-in and the outflow of deposits.

The table below sets forth the Group's loan to deposit ratio (loans and advances to customers to total deposits) as at the dates and for the periods indicated:

| | As at and for the year ended | | As at and for the six months ended 30 |
|--------------------------------------|------------------------------|--------|---------------------------------------|
| | 31 December | | June |
| | 2012 | 2013 | 2014 |
| | | (%) | |
| Net loan to deposit ratio | | | |
| At period end..... | 85.70 | 145.38 | 147.95 |
| Average ratio during the period..... | 91.65 | 128.84 | 148.10 |
| Highest ratio during the period..... | 93.85 | 145.95 | 150.96 |
| Lowest ratio during the period..... | 85.70 | 85.70 | 145.38 |

Encumbered and unencumbered assets

Certain of the Group's funding is secured by assets. The carrying value of the Group's encumbered assets is set forth below:

| | 31 December | | 30 June |
|----------------------------------------|------------------|-------------------|-------------------|
| | 2012 | 2013 | 2014 |
| | | (€'000) | |
| Encumbered assets | | | |
| Cash and other liquid assets | 707,749 | 367,080 | 246,483 |
| Other investments..... | 853,617 | 3,289,810 | 3,475,516 |
| Loans and advances to customers..... | 1,830,000 | 15,136,002 | 14,135,929 |
| Loans and advances held for sale | — | — | 239,850 |
| Property | — | 90,181 | 88,933 |
| | 3,391,366 | 18,883,073 | 18,186,711 |

An asset is classified as encumbered if it has been pledged as collateral against an existing liability and as a result it is no longer available to the Group for further collateral or liquidity requirements. The total encumbered assets of the Group amounted to €18,883.0 million at 31 December 2013 and €18,186.7 million at 30 June 2014. These primarily consist of loans and advances to customers, investments in debt securities (primarily Government bonds) and property. These are mainly pledged for the CBC funding facilities under Eurosystem monetary policy operations and ELA and for covered bonds. Investments in debt securities are also used as collateral for repurchase transactions as well as for covered bonds. Encumbered assets include cash and other liquid assets placed with banks as collateral under ISDA Master Agreements (€388.8 million at 31 December 2012, €221.3 million at 31 December 2013 and €150.4 million at 30 June 2014) which are not immediately available for the Group but are released once the transaction is terminated. Cash is mainly used to cover collateral required for (i) derivatives and repurchase transactions under credit support annexes executed in connection with an ISDA Master Agreement and repurchase agreements, and (ii) trade finance transactions and guarantees issued.

In addition, bonds issued by the Issuer and guaranteed by the Government amounting to €1 billion are pledged as collateral for obtaining funding from the CBC, and a €1 billion covered bond issued by the Issuer is used as collateral for obtaining financing from the CBC. The assets used as collateral for the covered bond are included in the table of encumbered assets above.

On 1 July 2014, the Public Debt Management Office of the Republic of Cyprus repaid €950.0 million of an outstanding €1,987.0 million sovereign bond held by the Issuer that was pledged as collateral with the ECB.

An asset is categorised as unencumbered if it has not been pledged against an existing liability. Unencumbered assets are further analysed into those that are available and can be pledged and those that are not readily available to be pledged.

At 31 December 2013 and 30 June 2014, the Group held €4,889.8 million and €4,272.8 million, respectively, of unencumbered assets that can be pledged and can be used to support potential liquidity funding needs. These assets include loans and advances which are less than 90 days past due. Customer loans of overseas subsidiaries and branches cannot be pledged with the CBC as collateral for ELA. Moreover, for some of the overseas subsidiaries and branches, these assets are only available to be pledged for other purposes for the needs of the particular subsidiary or branch and not to provide liquidity to any other part of the Group. Balances with central banks are reported as unencumbered which can be pledged, to the extent that there is excess available over the minimum reserve requirement. The minimum reserve requirement is reported as an unencumbered asset not readily available as collateral.

At 31 December 2013 and 30 June 2014, the Group held €4,928.9 million and €4,251.2 million, respectively, of unencumbered assets that are not readily available to be pledged for funding requirements in their current form. These primarily consist of loans and advances that are prohibited by contract or law to be encumbered or are more than 90 days past due or for which there is pending litigation or other legal action against the customer, a proportion of which would be suitable for use in secured funding structures but are conservatively classified as not readily available for collateral. Properties whose legal title has not been transferred to the name of the Issuer or the relevant subsidiary are not considered to be readily available as collateral.

Insurance assets held by Group insurance subsidiaries are not included in the table below as they are primarily due to the policyholders.

The table below presents the carrying value of the Group's encumbered and unencumbered assets and the extent to which these assets are pledged for funding purposes at 30 June 2014 and 31 December 2013:

| | Encumbered | Unencumbered | | Total |
|-------------------------------------------|------------------------------|--------------------------------|---------------------------------|--------------|
| | Pledged as collateral | Available to be pledged | Not readily available to | |
| Encumbered and unencumbered assets | | | | |

| | | | <u>be pledged</u> | |
|----------------------------------------------------|-------------------|------------------|-------------------|-------------------|
| | | | <u>(€'000)</u> | |
| 30 June 2014 | | | | |
| Cash and bank placements..... | 246,483 | 1,303,140 | 424,263 | 1,973,886 |
| Investments..... | 3,475,516 | 38,052 | 24,475 | 3,538,043 |
| Loans and advances..... | 14,135,929 | 2,315,290 | 3,611,815 | 20,063,034 |
| Loans and advances held for sale | 239,850 | – | 118,073 | 357,923 |
| Property | 88,993 | 616,364 | 72,535 | 777,832 |
| Total assets | 18,186,711 | 4,272,846 | 4,251,161 | 26,710,718 |
| Bonds guaranteed by the Cyprus government | 1,000,000 | – | – | 1,000,000 |
| Total | 19,186,711 | 4,272,846 | 4,251,161 | 27,710,718 |
| 31 December 2013 | | | | |
| Cash and bank placements..... | 367,080 | 1,604,736 | 558,329 | 2,530,145 |
| Investments..... | 3,289,810 | 218,571 | 24,012 | 3,532,393 |
| Loans and advances..... | 15,136,002 | 2,352,500 | 4,275,836 | 21,764,338 |
| Property | 90,181 | 713,972 | 70,698 | 874,851 |
| Total assets | 18,883,073 | 4,889,779 | 4,928,875 | 28,701,727 |
| Bonds guaranteed by the Cyprus government | 1,000,000 | – | – | 1,000,000 |
| Total | 19,883,073 | 4,889,779 | 4,928,875 | 29,701,727 |

Funding

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

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

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

The average rate of interest payable on the Group's funding (calculated as interest paid on funding divided by average funding during the period) was 2.25% for the year ended 31 December 2012, 2.37% for the year ended 31 December 2013 and 1.86% (on an annualised basis) for the first half of 2014.

Customer Deposits

Despite the bail-in of the Group's depositors pursuant to the Recapitalisation and increased reliance on central bank funding, the majority of the Group's funding still comes from customer deposits. At 31 December 2012, 31 December 2013 and 30 June 2014, customer deposits accounted for 96.6%, 56.0% and 55.7%, respectively, of the Group's funding. In the Cyprus market, the Issuer offers demand, savings and

time deposits (both notice and fixed period accounts). Similar products are offered to retail depositors in the United Kingdom, the Channel Islands and Russia.

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

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

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

Customer deposits decreased by €13.5 billion or 47.4% from €28.4 billion at 31 December 2012 to €15.0 billion at 31 December 2013, reflecting the bail-in of depositors pursuant to the Recapitalisation, customer deposit outflows and the disposal of the Group's Greek operations, which more than offset the acquisition of deposits from Laiki Bank in Cyprus and the United Kingdom. Customer deposits declined by a further €1,168.4 million or 7.8% to €13,802.8 million in the six months ended 30 June 2014, primarily as a result of seasonality, the release of the 6-month time deposits and the first tranche of the 9-month time deposits that were blocked pursuant to the decrees relating to the Recapitalisation and the relaxation of capital controls by the CBC.

Cyprus represents the principal source of deposits, accounting for 65.1% of customer deposits as at 31 December 2012, 84.9% at 31 December 2013 and 84.7% at 30 June 2014. The Group's customer deposits in Cyprus decreased by €5,806.7 million or 31.4%, from €18,512.0 million at 31 December 2012 to €12,705.3 million at 31 December 2013, primarily as a result of the bail-in, and by a further €1,017.9 million or 8.0% to €11,687.4 million at 30 June 2014.

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

The Group's customer deposits in Romania decreased by €184.1 million, from €214.1 million at 31 December 2012 to €30.1 million at 31 December 2013 and a further €11.8 million to €18.2 million at 30 June 2014. The decrease in customer deposits in 2013 was driven by the transfer of certain assets and liabilities (including €77.0 million of customer deposits) of the Romanian branch to Marfin Bank Romania and the closing of the Group's branches in Romania. In line with the Restructuring Plan's objective of winding down or disposing of non-core assets and operations, the Group does not expect to offer deposit products in Romania in the future.

In the United Kingdom, customer deposits have increased during each of the periods under review, from €1,215.2 million (4.3% of total deposits) at 31 December 2012, to €1,244.2 million (8.3%) at 31 December 2013 and €1,251.6 million (9.1%) at 30 June 2014. The net increase in 2013 reflects the acquisition of deposits of €325.2 million from Laiki Bank's UK branch, which more than offset large withdrawals during March and April 2013.

Customer deposits in Russia declined by €335.2 million or 26.7% from €1,253.7 million at 31 December 2012 to €918.5 million at 31 December 2013 and by a further €73.0 million or 7.9% to €845.5 million at 30 June 2014. The declines were driven partly by the depreciation of the lawful currency of the Russian Federation (the **RUB** or **Russian Rouble**) against the euro.

In April 2014, the Group sold its operations in Ukraine.

Funding from central banks

As a result of the financial crisis in Cyprus, the Group has become increasingly dependent on central bank funding. Funding from central banks consists of funding from the CBC under Eurosystem monetary policy operations, including standing facilities and ELA.

The table below shows a breakdown of the Group's funding from central banks as at the dates indicated:

| | 31 December | | 30 June |
|--------------------------------------|---------------------------|---------------------------|---------------------------|
| | 2012⁽¹⁾ | 2013⁽¹⁾ | 2014⁽¹⁾ |
| | (€'000) | | |
| Funding from Central Banks | | | |
| Emergency Liquidity Assistance | – | 9,556,035 | 8,784,439 |
| Monetary policy operations | – | 1,400,242 | 1,400,135 |
| Total | – | 10,956,277 | 10,184,574 |

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

At 31 December 2012, the Group had no ELA or ECB funding and the Issuer had been suspended by the ECB from participation in monetary policy operations since November 2012. At 31 December 2013 and 30 June 2014, 41.0% and 41.1%, respectively, of the Group's funding was comprised of funding from central banks, of which, €9.6 billion and €8.8 billion, respectively, was ELA funding.

As a result of further deterioration in economic conditions at the beginning of 2013 and increased customer deposit outflows, the Group was required to obtain ELA funding from the CBC in February 2013 (prior to the Eurogroup Statement on Cyprus), which on 15 March 2013 amounted to approximately €1 billion. In addition, the Group acquired €9.1 billion of ELA funding as part of the acquisition of assets and liabilities of Laiki Bank in March 2013. This ELA funding of Laiki Bank of €9.1 billion was effectively lowered by €1.2 billion, as Laiki Bank had advanced to the Issuer on 26 March 2013 an amount of €1.2 billion to finance the sale of the Group's Greek operations. See note 54 to the Group's consolidated financial statements for the year ended 31 December 2013.

Since August 2013, the Issuer has been reinstated by the ECB as an eligible counterparty for monetary policy operations. This enables the Issuer to resort to monetary policy operations which may be used for ELA repayment. As at 31 December 2013 and 30 June 2014, ECB funding stood at €1.4 billion.

The funding under monetary policy operations bears interest at the ruling main refinancing operations rate of the Eurosystem. The Issuer's ELA funding bears interest at the rate equal to the ruling marginal lending facility rate of the Eurosystem, plus a margin.

On 1 July 2014, the Public Debt Management Office of the Republic of Cyprus repaid €950.0 million of an outstanding €1,987.0 million sovereign bond held by the Issuer. The bond was transferred to the Issuer 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 Issuer used the proceeds of repayment to reduce its ECB funding by €550 million and ELA by €400 million. The reduction in ELA funding was effective 30 June 2014. The Issuer currently has €7,580 million of ELA funding and €920 million of ECB funding.

Debt securities in issue

The Group has several programmes under which it issues debt securities:

- *EMTN Programme.* The Issuer maintains a Euro Medium Term Note (**EMTN**) Programme with an aggregate nominal amount up to €4.0 billion. During the Recapitalisation in 2013, eligible outstanding debt securities of the Group were bailed-in and converted into ordinary shares and deposits. The debt securities outstanding at the balance sheet date represent the residual holding of the products following the bail-in.

- *ECP Programme.* The Issuer maintains a Euro Commercial Paper (ECP) Programme with an aggregate nominal amount up to €1.0 billion. Under the programme, commercial paper can be issued in various currencies with a maturity period up to 364 days. There is currently no commercial paper outstanding under this programme.
- *Covered Bond Programme.* During 2011, a €5.0 billion Covered Bond Programme was set up under the Cyprus covered bonds legislation and the Covered Bonds Directive of the Central Bank of Cyprus. Under the programme, the Issuer issued in July and December 2011 covered bonds of €700.0 million and €1.0 billion, respectively. On 29 June 2012 and 25 March 2013, covered bonds of €150.0 million and €550.0 million respectively issued in July 2011, were cancelled. The covered bond issued and currently outstanding matures on 12 June 2017 with a potential extension of one year, bears interest at the three month EURIBOR plus 3.25% annually and is traded on the Luxembourg Stock Exchange. Loans and advances pledged as collateral for covered bonds are disclosed in note 48 to the consolidated financial statements for the year ended 31 December 2013. The liability from the issue of covered bonds is not presented in debt securities in issue in the consolidated balance sheet as all the bonds issued are held by the Issuer.

The table below sets out the debt securities in issue of the Group at the dates indicated:

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

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

In the course of the Recapitalisation in 2013, eligible debt securities issued by the Issuer were bailed-in and were converted into ordinary shares and deposits. Following the Recapitalisation, the Issuer's outstanding debt securities consist of €0.7 million of medium term senior notes and a €0.5 million interest-free loan from the European Development Bank.

In addition to debt securities issued by the Issuer, Uniastrum has issued Russian Rouble-denominated certificates of deposits and promissory notes, which were issued at par, are unlisted and have maturities up to one year.

The Group expects that following the completion of the Placing, it will resume issuing debt securities in the capital markets as part of its funding strategy going forward.

Government guaranteed bonds

In accordance with the terms of the decrees issued by the Resolution Authority for the acquisition of Laiki Bank, the Issuer assumed the rights and obligations of Laiki Bank as issuer of two bonds guaranteed by the Government of €500.0 million each. The bonds were issued by Laiki Bank on 14 November and 27 November 2012, respectively, and had a maturity of 364 days. The maturity of the bonds was extended in November 2013 for a further period of one year. The bonds bear interest at an annual fixed interest rate of 5% and are guaranteed by the Government. The liability from the issue of these bonds is not presented within debt securities in issue in the consolidated balance sheet as the bonds are held by the Issuer. The bonds are pledged as collateral for obtaining funding from central banks and are listed on the CSE.

Subordinated Loan Stock

The Group has historically issued subordinated loan stock as part of its capital structure. The table below sets out the subordinated loan stock of the group at the dates indicated:

| | 31 December | | 30 June |
|--------------------------------------|---------------------|---------------------|---------------------|
| | 2012 ⁽¹⁾ | 2013 ⁽¹⁾ | 2014 ⁽¹⁾ |
| | (€'000) | | |
| Subordinated loan stock | | | |
| US\$ subordinated bonds issued by CB | | | |
| Uniastrum Bank LLC..... | 6,922 | 4,676 | 4,718 |
| 2008 Convertible Bonds..... | 27,103 | – | – |
| CECS..... | 76,775 | – | – |
| 2007 Capital Securities..... | 22,494 | – | – |
| Total | 133,294 | 4,676 | 4,718 |

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

Following the Recapitalisation, the Issuer's outstanding Capital Securities were converted into ordinary shares. In addition to these securities, Uniastrum issued U.S. Dollar denominated subordinated bonds, which were not affected by the Recapitalisation.

CECS

In May 2011 the Group issued CECS with a nominal value of €820.0 million and \$95.0 million, which qualified as Tier 1 capital for regulatory purposes. These were converted into ordinary shares as part of the Recapitalisation.

The conversion of CECS to ordinary shares in 2013 was effected as part of the Recapitalisation. The conversion of CECS into ordinary shares in 2012 was on a voluntary basis.

Equity

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

| | 31 December | | 30 June |
|---------------------|---------------------|---------------------|---------------------|
| | 2012 ⁽¹⁾ | 2013 ⁽¹⁾ | 2014 ⁽¹⁾ |
| | (€'000) | | |
| Equity | | | |
| Share capital | 1,795,141 | 4,683,985 | 4,755,711 |

| | | | |
|-------------------------------------------------------------|----------------|------------------|------------------|
| Shares subject to interim orders..... | – | 58,922 | 297 |
| Share premium..... | 428,271 | – | – |
| Convertible Enhanced Capital Securities (CECS) | 428,835 | – | – |
| Revaluation and other reserves..... | 106,336 | 72,251 | 79,178 |
| Accumulated losses | (2,500,530) | (2,151,835) | (2,086,954) |
| Equity attributable to the owners of the Issuer..... | 258,053 | 2,663,323 | 2,748,232 |
| Non-controlling interests | 77,222 | 74,353 | 65,693 |
| Total equity | 335,275 | 2,737,676 | 2,813,925 |

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

Share Capital

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

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

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

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

Capital Management

The capital adequacy regulations which govern the Group's operations are established by the CBC. In July 2011, the CBC amended its Directive for the Calculation of the Capital Requirements and Large Exposures, introducing a new ratio for Core Tier 1 capital. The minimum level of the new ratio was set at 8% for the period until 30 December 2012. After that date, the minimum level of the ratio increased gradually based on the percentage of Group assets over the GDP of the Republic of Cyprus. The CBC directive also set the

minimum level of Tier 1 capital as the minimum level of Core Tier 1 capital ratio plus 1.5%. In addition, it set the minimum total capital ratio as the Tier 1 ratio plus 2.0%. As a result, the minimum required ratios for Tier 1 and total capital as at 31 December 2012 were 10.2% and 12.2%, respectively. The minimum Core Tier 1, Tier 1 and total capital ratios throughout the period and until 30 December 2013 were set pursuant to the CBC directive at 8.7%, 10.2% and 12.2% respectively. On 31 December 2013, the CBC increased the minimum Core Tier 1 capital ratio to 9% and the minimum requirements for Tier 1 and total capital ratios have been abolished.

Before the Recapitalisation in March 2013, the Group's Core Tier 1, Tier 1 and total capital ratios did not comply with the minimum capital ratios set by the CBC. Following the Recapitalisation, the Group's Core Tier 1 and Tier 1 capital ratios as at 30 June and 30 September 2013 were 10.2% and complied with the minimum Core Tier 1 capital ratio (8.7%) required by the CBC until 30 December 2013. The total capital ratio was 10.7% as at 30 June 2013 and 10.4% as at 30 September 2013 and did not comply with the minimum total capital ratio (12.2%) required by the CBC until 30 December 2013. As at 31 December 2013, the Group complied with the minimum capital requirements of the CBC. Giving effect to the capital increase of €1 billion in September 2014, the Issuer's CET 1 Ratio (CRD IV/CRR1 – transitional basis) increased to 15.6% and its CET 1 Ratio (CRD IV/CRR – fully loaded) increased to 15.1%.

From 1 January 2014, the CRR and amended CRD IV became effective. The CRR and CRD IV comprise the European regulatory package designed to transpose the new capital, liquidity and leverage standards of Basel III into the European Union's legal framework. The CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to comply with. It is immediately binding on all EU Member States. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board compensation and transparency. Unlike the CRR, CRD IV needs to be transposed into national laws and accordingly national regulators can impose additional capital buffer requirements. CRR introduces significant changes in the prudential regulatory regime applicable to banks, including amended minimum capital ratios, changes to the definition of capital and the calculation of risk-weighted assets and the introduction of new measures relating to leverage, liquidity and funding. The CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which are not expected to be fully implemented until 2018.

The CBC has determined the extent of phasing-in of the transitional provisions relating to CET 1 deductions and on 29 May 2014 set the minimum CET 1 capital ratio at 8.0%. The CBC will also impose additional capital requirements for risks which are not covered by the above-mentioned capital requirements taking into account the provisions of CRD IV/CRR and the results of the AQR and the EU-wide stress test (Pillar II add-ons).

The Group's overseas banking subsidiaries comply with the regulatory capital requirements of the local regulators of countries in which they operate. The insurance subsidiaries of the Group comply with the requirements of the Cypriot Superintendent of Insurance, including the minimum solvency ratio.

The following table presents the Group's regulatory capital position under the CRR and CRD IV, including the application of the transitional arrangements as set by the CBC on 26 May 2014 as at the dates indicated. The position as at 31 December 2013 is shown on a pro forma basis by applying the new rules including the transitional arrangements that have been in place since 1 January 2014.

| | 31 December | 30 June |
|-------------------------------------------------------|--------------------|-------------------|
| | 2013 | 2014 |
| | (€'000) | |
| Provisional CRR and CRD IV Regulatory Capital | | |
| Transitional Common Equity Tier 1 (CET1) | 2,449,878 | 2,546,647 |
| Transitional Additional Tier 1 capital (AT 1) | – | – |
| Tier 2 capital (T 2)..... | 45,204 | 3,287 |
| Transitional total regulatory capital | 2,495,082 | 2,549,934 |
| | | |
| Risk-weighted assets – credit risk | 21,468,518 | 20,457,100 |
| Risk-weighted assets – market risk | 3,398 | 5,000 |
| Risk-weighted assets – operational risk..... | 2,057,687 | 2,023,100 |
| Total risk-weighted assets | 23,529,603 | 22,485,200 |
| | | |
| Capital Ratios | (%) | |
| Transitional Common Equity Tier 1 (CET 1) ratio | 10.4 | 11.3 |
| Transitional total capital ratio | 10.6 | 11.3 |
| | | |
| Minimum ratios per the CBC Directive | | |
| Common Equity Tier 1 ratio | N/A | 8.0 |

The following table shows a breakdown of the Group's regulatory capital position prior to the implementation of the CRR and CRD IV at the dates indicated:

| | 31 December | |
|----------------------------------------------|--------------------|-------------------|
| | 2012 | 2013 |
| | (€'000) | |
| Pre-CRR and CRD IV Regulatory Capital | | |
| Core original own funds (Core Tier 1) | (407,284) | 2,281,513 |
| Original own funds (Tier 1)..... | 119,695 | 2,281,513 |
| Additional own funds (Tier 2)..... | 248,892 | 75,581 |
| Carrying value of insurance companies..... | (171,680) | – |
| Total regulatory capital | 196,907 | 2,357,094 |
| Risk-weighted assets – credit risk | 19,318,362 | 20,380,360 |
| Risk-weighted assets – market risk | 3,014 | 3,398 |
| Risk-weighted assets – operational risk..... | 2,258,476 | 2,057,687 |
| Total risk-weighted assets | 21,579,852 | 22,441,445 |

| | 31 December | |
|---------------------------------------------|--------------------|-------------|
| | 2012 | 2013 |
| | (%) | |
| Core Tier 1 capital ratio | (1.9) | 10.2 |
| Tier 1 ratio | 0.6 | 10.2 |
| Tier 2 ratio | 1.2 | 0.3 |
| Total capital ratio | 0.9 | 10.5 |
| | | |
| Minimum ratios per the CBC Directive | | |
| Core Tier 1 capital ratio | 8.7 | 9.0 |
| Tier 1 ratio | 10.2 | N/A |
| Total capital ratio | 12.2 | N/A |

SELECTED STATISTICAL AND OTHER INFORMATION

Information included in this section, except where otherwise stated, relates to the Group. The statistical data presented below has been derived from data included in the Group's audited annual financial statements for the year ended 31 December 2013 (that includes comparative information for the year ended 31 December 2012) and its unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2014 (that includes comparative information for the six months ended 30 June 2013 in respect of income statement and other comprehensive income items and at 31 December 2013 in respect of balance sheet items) and from statutory reports and from statistical data reported in the forms prescribed by the CBC. Such data are compiled in the normal operation of the Group's financial reporting and management information systems.

Credit Risk

Maximum exposure to credit risk and collateral and other credit enhancements

The table below presents the maximum exposure to credit risk before taking into account the tangible and measurable collateral and other credit enhancements held:

| Maximum exposure to credit risk | 31 December | | 30 June |
|------------------------------------------------------------------------------------|--------------------|------------------------|-------------------|
| | 2012 | 2013 (€'000) | 2014 |
| Balances with central banks | 1,008,653 | 1,084,830 | 709,030 |
| Placements with banks | 1,768,836 | 1,290,102 | 1,114,448 |
| Trading investments – debt securities | 96 | 103 | 42 |
| Debt securities at fair value through profit or loss..... | 13,955 | 15,549 | 17,243 |
| Debt securities classified as available-for-sale and loans and receivables..... | 1,783,730 | 3,207,366 | 3,487,114 |
| Derivative financial instruments..... | 26,794 | 28,765 | 5,949 |
| Loans and advances to customers..... | 24,374,531 | 21,764,338 | 20,063,034 |
| Assets held for sale | – | – | 357,923 |
| Debtors | 26,400 | 22,956 | 25,814 |
| Reinsurers' share of insurance contract liabilities..... | 65,927 | 68,387 | 75,983 |
| Other assets..... | 94,529 | 268,959 | 318,317 |
| On–balance sheet total | 29,163,451 | 27,751,355 | 26,174,897 |
| <i>Contingent liabilities</i> | | | |
| Acceptances and endorsements | 12,970 | 20,467 | 11,875 |
| Guarantees..... | 1,546,572 | 1,207,501 | 1,064,361 |
| <i>Commitments</i> | | | |
| Documentary credits..... | 15,879 | 10,919 | 18,568 |
| Undrawn formal standby facilities, credit lines and other commitments to lend..... | 2,723,838 | 2,903,714 | 2,584,933 |
| Off-balance sheet total | 4,299,259 | 4,142,601 | 3,679,737 |
| Total credit risk exposure | 33,462,710 | 31,893,956 | 29,854,634 |

The table below presents the Group's maximum exposure to credit risk by geographic area at the dates indicated:

| Maximum exposure to credit risk | 31 December | | 30 June |
|---------------------------------------|-------------------|-------------------|-------------------|
| | 2012 | 2013 | 2014 |
| | (€'000) | | |
| On-balance sheet | | | |
| Cyprus | 16,620,681 | 23,345,633 | 22,705,539 |
| Greece | 8,324,201 | 253,996 | 249,137 |
| Russia | 2,008,588 | 1,259,494 | 1,074,884 |
| United Kingdom | 1,326,359 | 1,936,330 | 1,777,740 |
| Romania | 560,007 | 619,311 | 367,597 |
| Ukraine | 323,615 | 336,591 | – |
| Total | 29,163,451 | 27,751,355 | 26,174,897 |
| Off-balance sheet | | | |
| Cyprus | 2,484,945 | 3,629,580 | 3,278,731 |
| Greece | 1,567,365 | 335,073 | 245,717 |
| Russia | 199,749 | 154,901 | 132,943 |
| United Kingdom | 23,428 | 18,995 | 21,272 |
| Romania | 23,349 | 3,466 | 1,074 |
| Ukraine | 423 | 586 | – |
| Total | 4,299,259 | 4,142,601 | 3,679,737 |
| Total on and off-balance sheet | | | |
| Cyprus | 19,105,626 | 26,975,213 | 25,984,270 |
| Greece | 9,891,566 | 589,069 | 494,854 |
| Russia | 2,208,337 | 1,414,395 | 1,207,827 |
| United Kingdom | 1,349,787 | 1,955,325 | 1,799,012 |
| Romania | 583,356 | 622,777 | 368,671 |
| Ukraine | 324,038 | 337,177 | – |
| Total | 33,462,710 | 31,893,956 | 29,854,634 |

Credit Risk Concentration

The table below presents the maximum exposure to credit risk, tangible and measurable collateral and credit enhancements held and the net exposure to credit risk. Personal guarantees are not included in the information below as it is impracticable to estimate their fair value.

| | Fair value of collateral and credit enhancements held by the Group | | | | | | | | Net exposure to credit risk |
|----------------------------------------------------------------------------------|--------------------------------------------------------------------|---------|------------|-------------------------------|------------|---------|--------------------|----------------|-----------------------------|
| | Maximum exposure to credit risk | Cash | Securities | Letters of Credit/ Guarantees | Property | Other | Surplus collateral | Net collateral | |
| | (€'000) | | | | | | | | |
| 31 December 2013 | | | | | | | | | |
| Balances with central banks | 1,084,830 | – | – | – | – | – | – | – | 1,084,830 |
| Placements with banks | 1,290,102 | 915 | – | – | – | – | – | 915 | 1,289,187 |
| Trading investments – debt securities | 103 | – | – | – | – | – | – | – | 103 |
| Debt securities at fair value through profit or loss | 15,549 | – | – | – | – | – | – | – | 15,549 |
| Debt securities classified as available-for-sale and loans and receivables | 3,207,366 | – | – | – | – | – | – | – | 3,207,366 |
| Derivative financial instruments | 28,765 | 10,291 | – | – | – | – | – | 10,291 | 18,474 |
| Loans and advances to customers | 21,764,338 | 816,977 | 699,086 | 1,129,167 | 26,555,058 | 778,019 | (10,141,702) | 19,836,605 | 1,927,733 |

| | | | | | | | | | |
|----------------------------------------------------------------------------------|-------------------|------------------|----------------|------------------|-------------------|------------------|---------------------|-------------------|-------------------|
| Debtors | 22,956 | — | — | — | — | — | — | — | 22,956 |
| Reinsurers' share of insurance contract liabilities | 68,387 | — | — | — | — | — | — | — | 68,387 |
| Other assets | 268,959 | — | — | — | — | — | — | — | 268,959 |
| On-balance sheet total | 27,751,355 | 828,183 | 699,086 | 1,129,167 | 26,555,058 | 778,019 | (10,141,702) | 19,847,811 | 7,903,544 |
| <i>Contingent liabilities</i> | | | | | | | | | |
| Acceptances and endorsements | 20,467 | 1,094 | 80 | 3,760 | 11,225 | 1,011 | (5,805) | 11,365 | 9,102 |
| Guarantees | 1,207,501 | 22,324 | 1,929 | 9,321 | 384,327 | 16,982 | (167,442) | 267,441 | 940,060 |
| <i>Commitments</i> | | | | | | | | | |
| Documentary credits | 10,919 | 27 | — | — | — | — | — | 27 | 10,892 |
| Undrawn formal standby facilities, credit lines and other commitments to lend.. | 2,903,714 | — | — | 14,440 | — | — | — | 14,440 | 2,889,274 |
| Off-balance sheet total | 4,142,601 | 23,445 | 2,009 | 27,521 | 395,552 | 17,993 | (173,247) | 293,273 | 3,849,328 |
| Total credit risk exposure | 31,893,956 | 851,628 | 701,095 | 1,156,688 | 26,950,610 | 796,012 | (10,314,949) | 20,141,084 | 11,752,872 |
| 31 December 2012 | | | | | | | | | |
| Balances with central banks | 1,008,653 | — | — | — | — | — | — | — | 1,008,653 |
| Placements with banks | 1,768,836 | — | — | — | — | — | — | — | 1,768,836 |
| Trading investments – debt securities | 96 | — | — | — | — | — | — | — | 96 |
| Debt securities at fair value through profit or loss | 13,955 | — | — | — | — | — | — | — | 13,955 |
| Debt securities classified as available-for-sale and loans and receivables | 1,783,730 | — | — | — | — | — | — | — | 1,783,730 |
| Derivative financial instruments | 26,794 | 1,310 | — | — | — | — | — | 1,310 | 25,484 |
| Loans and advances to customers | 24,374,531 | 1,820,535 | 363,821 | 294,388 | 24,544,975 | 3,270,589 | (7,741,127) | 22,553,181 | 1,821,350 |
| Debtors | 26,400 | — | — | — | — | — | — | — | 26,400 |
| Reinsurers' share of insurance contract liabilities | 65,927 | — | — | — | — | — | — | — | 65,927 |
| Other assets | 94,529 | — | — | — | — | — | — | — | 94,529 |
| On-balance sheet total | 29,163,451 | 1,821,845 | 363,821 | 294,388 | 24,544,975 | 3,270,589 | (7,741,127) | 22,554,491 | 6,608,960 |
| <i>Contingent liabilities</i> | | | | | | | | | |
| Acceptances and endorsements | 12,970 | 27 | — | — | 5,029 | — | (3,037) | 2,019 | 10,951 |
| Guarantees | 1,546,572 | 688,503 | 3,199 | 17,546 | 128,019 | 12,318 | (68,517) | 781,068 | 765,504 |
| <i>Commitments</i> | | | | | | | | | |
| Documentary credits | 15,879 | — | — | — | — | — | — | — | 15,879 |
| Undrawn formal standby facilities, credit lines and other commitments to lend.. | 2,723,838 | 1,026 | — | — | 31,899 | — | (18,475) | 14,450 | 2,709,388 |
| Off-balance sheet total | 4,299,259 | 689,556 | 3,199 | 17,546 | 164,947 | 12,318 | (90,029) | 797,537 | 3,501,722 |
| Total credit risk exposure | 33,462,710 | 2,511,401 | 367,020 | 311,934 | 24,709,922 | 3,282,907 | (7,831,156) | 23,352,028 | 10,110,682 |

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

There are restrictions on loan concentrations which are imposed under the Banking Law of Cyprus of 1997 (the **Banking Law**) and by the directive issued under the Banking Law by the CBC. According to these restrictions, banks should not lend more than 25% of their capital to any individual borrower and their connected persons. In addition, total lending to individual borrowers and their connected persons whose borrowings exceed 10% of a bank's capital base should not in aggregate exceed eight times its capital base. The Issuer is in compliance with both of these regulations – see "*The Banking Sector in Cyprus*". In addition

to the above, the Group's overseas operations have to comply with large exposure guidelines set by the authorities of the countries in which they are based.

Geographical and industry concentrations of Group loans and advances to customers at 30 June 2014 are presented below:

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

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

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

| | | | | | Gross loans after fair value adjustment on initial recognition |
|------------------------------------------|----------------|---------------|----------------|----------------------------------------------|----------------------------------------------------------------|
| | United Kingdom | Romania | Total | Fair value adjustment on initial recognition | |
| 30 June 2014 | (€'000) | | | | |
| By economic activity | | | | | |
| Trade | 1,147 | – | 1,147 | (745) | 402 |
| Manufacturing..... | 514 | – | 514 | – | 514 |
| Hotels and catering | 29,675 | 95,644 | 125,319 | (836) | 124,483 |
| Construction..... | 2,203 | – | 2,203 | – | 2,203 |
| Real estate | 221,609 | – | 221,609 | (11,635) | 209,974 |
| Professional and other sectors..... | 24,912 | – | 24,912 | (5,009) | 19,903 |
| Other sectors | 42,954 | – | 42,954 | (32) | 42,922 |
| | 323,014 | 95,644 | 418,658 | (18,257) | 400,401 |
| By customer sector | | | | | |
| Corporate..... | 174,444 | 95,644 | 270,088 | (5,694) | 264,394 |
| Small and medium-sized enterprises | 136,069 | – | 136,069 | (11,948) | 124,121 |
| Retail | | | | | |
| - housing..... | 1,263 | – | 1,263 | – | 1,263 |
| - consumer and other..... | 11,238 | – | 11,238 | (615) | 10,623 |
| | 323,014 | 95,644 | 418,658 | (18,257) | 400,401 |

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

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

| | | | | | | | | Gross loans after fair value adjustment on initial recognition | Gross loans after fair value adjustment on initial recognition |
|--------------------------------------|-----------|---------|---------|----------------|---------|---------|-----------|----------------------------------------------------------------|----------------------------------------------------------------|
| | Cyprus | Greece | Russia | United Kingdom | Romania | Ukraine | Total | Fair value adjustment on initial recognition | Fair value adjustment on initial recognition |
| 31 December 2013 ⁽¹⁾ | (€'000) | | | | | | | | |
| By economic activity | | | | | | | | | |
| Trade | 2,471,968 | – | 261,518 | 48,816 | 16,239 | 34,571 | 2,833,112 | (187,369) | 2,645,743 |
| Manufacturing..... | 829,327 | – | 99,790 | 33,608 | 22,701 | 13,631 | 999,057 | (63,157) | 935,900 |
| Hotels and catering | 1,610,289 | – | – | 165,499 | 105,434 | 6,610 | 1,887,832 | (112,051) | 1,775,781 |
| Construction..... | 4,101,528 | – | 64,096 | 44,746 | 26,252 | 12,028 | 4,248,650 | (383,290) | 3,865,360 |
| Real estate | 2,846,007 | – | 172,732 | 802,346 | 217,191 | 162,905 | 4,201,181 | (350,743) | 3,850,438 |
| Private individuals | 8,030,587 | 542 | 399,116 | 43,476 | 3,809 | 61,585 | 8,539,115 | (392,344) | 8,146,771 |
| Professional and other services..... | 1,675,402 | – | 404,403 | 56,638 | 70,692 | 99,628 | 2,306,763 | (179,998) | 2,126,765 |
| Other sectors | 1,399,096 | 171,465 | 27,506 | 88,620 | 30,665 | 10,257 | 1,727,609 | (233,759) | 1,493,850 |

| | Cyprus | Greece | United Kingdom | | | Romania | Ukraine | Total | Fair value | Gross loans |
|------------------------------------------------|-------------------|----------------|------------------|------------------|----------------|----------------|-------------------|--------------------|-------------------|-------------|
| | | | Russia | Romania | Ukraine | | | | adjustment | after fair |
| | | | Russia | Romania | Ukraine | | | | on initial | value |
| 31 December 2013⁽¹⁾ | | | | | | | | recognition | adjustment | |
| | 22,964,204 | 172,007 | 1,429,161 | 1,283,749 | 492,983 | 401,215 | 26,743,319 | (1,902,711) | 24,840,608 | |
| | | | | | | | | | | |
| By customer sector | | | | | | | | | | |
| Corporate..... | 9,882,891 | 171,465 | 773,340 | 634,572 | 448,642 | 330,703 | 12,241,613 | (1,033,886) | 11,207,727 | |
| Small and medium-sized enterprises (SMEs)..... | 5,201,416 | – | 256,705 | 592,048 | 40,695 | 24,838 | 6,115,702 | (517,716) | 5,597,986 | |
| Retail | | | | | | | | | | |
| - housing..... | 5,281,389 | – | 41,792 | 34,809 | 1,767 | 14,909 | 5,374,666 | (121,036) | 5,253,630 | |
| - credit cards..... | 170,552 | – | 102,025 | – | – | 11 | 272,588 | (21,281) | 251,307 | |
| - consumer and other..... | 2,427,956 | 542 | 255,299 | 22,320 | 1,879 | 30,754 | 2,738,750 | (208,792) | 2,529,958 | |
| | 22,964,204 | 172,007 | 1,429,161 | 1,283,749 | 492,983 | 401,215 | 26,743,319 | (1,902,711) | 24,840,608 | |

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

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

| | Cyprus | Greece | United Kingdom | | | Romania | Ukraine | Total |
|------------------------------------------------|-------------------|------------------|------------------|----------------|----------------|----------------|-------------------|-------|
| | | | Russia | Romania | Ukraine | | | |
| | | | Russia | Romania | Ukraine | | | |
| 31 December 2012⁽¹⁾ | | | | | | | | |
| | | | | | | | | |
| By economic activity | | | | | | | | |
| Trade | 1,621,879 | 1,337,611 | 398,902 | 55,489 | 27,278 | 21,462 | 3,462,621 | |
| Manufacturing..... | 518,754 | 1,197,493 | 179,067 | 15,525 | 28,226 | 12,956 | 1,952,021 | |
| Hotels and catering | 914,486 | 1,130,222 | – | 115,327 | 108,375 | 8,534 | 2,276,944 | |
| Construction..... | 2,420,212 | 1,013,129 | 78,885 | 56,583 | 25,504 | 15,538 | 3,609,851 | |
| Real estate | 1,715,884 | 651,750 | 183,669 | 484,948 | 223,221 | 91,777 | 3,351,249 | |
| Private individuals | 5,323,545 | 2,611,578 | 521,945 | 53,594 | 42,515 | 78,660 | 8,631,837 | |
| Professional and other services..... | 1,425,792 | 503,640 | 614,806 | 51,883 | 81,185 | 98,938 | 2,776,244 | |
| Other sectors | 932,384 | 992,254 | 47,250 | 657 | 13,850 | 3,425 | 1,989,820 | |
| | 14,872,936 | 9,437,677 | 2,024,524 | 834,006 | 550,154 | 331,290 | 28,050,587 | |
| By customer sector | | | | | | | | |
| Corporate..... | 7,082,512 | 3,470,307 | 1,199,608 | 321,927 | 453,600 | 242,810 | 12,770,764 | |
| Small and medium-sized enterprises (SMEs)..... | 2,276,659 | 2,739,550 | 366,649 | 472,642 | 53,292 | 29,558 | 5,938,350 | |
| Retail | | | | | | | | |
| - housing..... | 3,740,856 | 1,634,263 | 58,976 | 33,584 | 18,739 | 20,792 | 5,507,210 | |
| - credit cards..... | 120,658 | 155,727 | 102,966 | – | – | 7 | 379,358 | |
| - consumer and other..... | 1,652,251 | 1,437,830 | 296,325 | 5,853 | 24,523 | 38,123 | 3,454,905 | |
| | 14,872,936 | 9,437,677 | 2,024,524 | 834,006 | 550,154 | 331,290 | 28,050,587 | |

⁽¹⁾ Balance sheet information at 31 December 2012 has been restated to reflect the adoption of IAS 19 (Revised 2011).

Credit Quality of Loans and Advances to Customers

The following table presents the credit quality of the Group's loans and advances to customers at the dates indicated:

| Loans and advances to customers | Gross loans before fair value adjustment on initial recognition | Fair value adjustment on initial recognition (€'000) | Gross loans after fair value adjustment on initial recognition |
|----------------------------------------|------------------------------------------------------------------------------------|-------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| 30 June 2014 | | | |
| Neither past due nor impaired | 10,791,155 | (193,109) | 10,598,046 |
| Past due but not impaired | 5,215,567 | (150,086) | 5,065,481 |
| Impaired..... | 8,874,168 | (1,253,116) | 7,621,052 |
| Total | 24,880,890 | (1,596,311) | 23,284,579 |
| 31 December 2013 | | | |
| Neither past due nor impaired | 11,855,363 | (226,207) | 11,629,156 |
| Past due but not impaired | 6,732,583 | (417,169) | 6,315,414 |
| Impaired..... | 8,155,373 | (1,259,335) | 6,896,038 |
| Total | 26,743,319 | (1,902,711) | 24,840,608 |

The following table presents the credit quality of the Group's loans and advances to customers classified as held for sale at 30 June 2014:

| Loans and advances to customers – held for sale | Gross loans before fair value adjustment on initial recognition | Fair value adjustment on initial recognition (€'000) | Gross loans after fair value adjustment on initial recognition |
|------------------------------------------------------------|------------------------------------------------------------------------------------|-------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| 30 June 2014 | | | |
| Neither past due nor impaired | 172,700 | (2) | 172,698 |
| Past due but not impaired | 69,173 | (56) | 69,117 |
| Impaired..... | 176,785 | (18,199) | 158,586 |
| Total | 418,658 | (18,257) | 400,401 |

Past due loans are those with delayed payments or in excess of authorised credit limits. Impaired loans are those which are not considered fully collectable and for which a provision for impairment has been recognised on an individual basis or for which incurred losses exist at their initial recognition.

In the table above, the fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the Laiki Bank acquisition in 2013. In accordance with the provisions of IFRS 3, this adjustment has decreased the gross balance of loans and advances to customers. However, for IFRS 7 disclosure purposes as well as for credit risk monitoring, this adjustment is not presented within the gross balances of loans and advances.

At 31 December 2012, gross loans neither past due nor impaired were €17,402.1 million, gross loans past due but not impaired were €5,752.4 million and impaired loans were €4,896.1 million, for a total of €28,050.6 million.

Loans and advances for customers that are neither past due nor impaired

The credit quality of loans and advances to customers that were neither past due nor impaired, is monitored by the Group using internal systems. The table below presents the credit risk quality of loans and advances to customers that were neither past due nor impaired:

| Loans and advances to customers – neither past due nor impaired | Grade 1 | Grade 2 | Grade 3 | Total |
|------------------------------------------------------------------------|-------------------|------------------|------------------|-------------------|
| | (€'000) | | | |
| 31 December 2013 | | | | |
| Cyprus | 5,778,486 | 1,699,580 | 2,371,052 | 9,849,118 |
| Greece | 542 | – | – | 542 |
| Russia | 717,522 | 201,890 | – | 919,412 |
| United Kingdom | 717,551 | 44,832 | 47,214 | 809,597 |
| Romania | 71,500 | 98,070 | 25,402 | 194,972 |
| Ukraine | 46,226 | 266 | 35,230 | 81,722 |
| Total | 7,331,827 | 2,044,638 | 2,478,898 | 11,855,363 |
| 31 December 2012 | | | | |
| Cyprus | 7,249,180 | 993,674 | 1,109,151 | 9,352,005 |
| Greece | 3,534,245 | 89,121 | 1,680,195 | 5,303,561 |
| Russia | 1,124,666 | 389,162 | – | 1,513,828 |
| United Kingdom | 602,863 | 60,638 | 25,716 | 689,217 |
| Romania | 418,337 | 3,523 | – | 421,860 |
| Ukraine | 88,494 | 5,136 | 28,018 | 121,648 |
| Total | 13,017,785 | 1,541,254 | 2,843,080 | 17,402,119 |

Loans and advances to customers that were neither past due nor in excess of their limit during the last 12 months, are classified as Grade 1.

Loans and advances to customers that were past due or in excess of their limit for up to 30 consecutive days during the first half of the year, or for up to 15 consecutive days during the second half of the year, are classified as Grade 2.

Loans and advances to customers that were past due or in excess of their limit for more than 30 consecutive days during the first half of year or for more than 15 consecutive days during the second half of the year, are classified as Grade 3.

Loans and advances for customers that are past due but not impaired

The table below sets out loans and advances to customers that were past due but not impaired, at the dates indicated:

| Loans and advances to customers – past due but not impaired | 31 December | | 30 June |
|--------------------------------------------------------------------|--------------------|-------------|----------------|
| | 2012 | 2013 | 2014 |
| | (€'000) | | |
| Past due: | | | |
| Up to 30 days..... | 1,102,785 | 822,037 | 885,937 |
| 31 to 90 days | 1,854,459 | 1,063,243 | 813,351 |
| 91 to 180 days | 873,830 | 1,316,042 | 655,658 |
| 181 to 365 days | 798,306 | 2,099,424 | 1,143,673 |
| Over 1 year | 1,122,991 | 1,431,837 | 1,716,948 |

Loans and advances to customers – past due but not impaired

| | 31 December | | 30 June |
|-----------------------------------------------------------------------------------------------------------|------------------|------------------|------------------|
| | 2012 | 2013 | 2014 |
| Total | 5,752,371 | 6,732,583 | 5,215,567 |
| Fair value of collateral securing loans and advances to customers that are past due but not impaired..... | 4,601,146 | 5,133,851 | 4,198,020 |

Impaired loans and advances to customers on an individual basis

The table below sets out impaired loans and advances to customers and the fair value of the collateral in respect of those loans, by country, at the dates indicated:

| Loans and advances to customers - impaired | Gross loans and advances | Fair value of collateral ⁽¹⁾ |
|--------------------------------------------|--------------------------|-----------------------------------------|
| | (€'000) | |
| 30 June 2014 | | |
| Cyprus | 8,212,549 | 6,049,619 |
| Greece..... | 76,710 | – |
| Russia | 311,683 | 176,218 |
| United Kingdom | 39,330 | 37,237 |
| Romania..... | 233,896 | 147,806 |
| Ukraine | – | – |
| Total | 8,874,168 | 6,410,880 |
| 31 December 2013 | | |
| Cyprus | 7,110,927 | 4,111,343 |
| Greece..... | 171,465 | – |
| Russia | 284,869 | 191,672 |
| United Kingdom | 163,979 | 128,734 |
| Romania..... | 256,612 | 126,046 |
| Ukraine | 167,521 | 132,015 |
| Total | 8,155,373 | 4,689,810 |
| 31 December 2012 | | |
| Cyprus | 2,877,827 | 1,822,899 |
| Greece..... | 1,519,603 | 753,377 |
| Russia | 279,518 | 178,137 |
| United Kingdom | 57,351 | 30,229 |
| Romania..... | 76,480 | 51,570 |
| Ukraine | 85,318 | 61,996 |
| Total | 4,896,097 | 2,898,208 |

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

Provision for impairment of loans and advances to customers

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

| Provision for impairment⁽¹⁾ | Cyprus | Greece | Russia | Other countries | Total |
|--------------------------------------------------------------|------------------|---------------|----------------|------------------------|------------------|
| | | | (€'000) | | |
| Six months ended | | | | | |
| 30 June 2014 | | | | | |
| 1 January..... | 2,574,670 | 189 | 286,366 | 215,045 | 3,076,270 |
| Disposal of Ukraine operations | – | – | – | (108,342) | (108,342) |
| Exchange adjustments | 10,256 | 6,329 | (2,543) | (10,405) | 3,637 |
| Applied in writing off impaired loans and advances | (12,760) | (12) | (45) | (46) | (12,863) |
| Interest accrued on impaired loans and advances..... | (61,314) | (123) | (179) | (1,603) | (63,219) |
| Collection of loans and advances previously written off..... | 87 | – | – | 805 | 892 |
| Charge for the period – continuing operations..... | 302,874 | 3,595 | 26,802 | (4,151) | 329,120 |
| Charge for the period – discontinued operations..... | – | – | – | 38,528 | 38,528 |
| 30 June..... | 2,813,813 | 9,978 | 310,401 | 129,831 | 3,264,023 |
| Individual impairment | 2,052,030 | 9,978 | 153,166 | 121,110 | 2,336,284 |
| Collective impairment | 761,783 | – | 157,235 | 8,721 | 927,739 |

The balance of provisions of impaired loans and advances at 30 June 2014 includes €42,478 thousand of loans and advances held for sale.

| | | | | | |
|--------------------------------------------------------------|------------------|-------------|----------------|----------------|--------------------|
| Year ended 31 December 2013 | | | | | |
| 1 January..... | 1,779,343 | 1,528,224 | 238,472 | 130,017 | 3,676,056 |
| Disposal of Greek operations..... | – | (1,572,512) | – | – | (1,572,512) |
| Exchange adjustments | 1,266 | – | (25,452) | (2,561) | (26,747) |
| Applied in writing off impaired loans and advances | (1,816) | (7,781) | (4,848) | (23,231) | (37,676) |
| Interest accrued on impaired loans and advances..... | (80,565) | (6,633) | (602) | (4,834) | (92,634) |
| Collection of loans and advances previously written off..... | 429 | – | – | 3,101 | 3,530 |
| Charge for the year – continuing operations..... | 876,013 | (17) | 78,796 | 112,553 | 1,067,345 |
| Charge for the year – discontinued operations..... | – | 58,908 | – | – | 58,908 |
| 31 December..... | 2,574,670 | 189 | 286,366 | 215,045 | 3,076,270 |
| Individual impairment | 1,916,985 | 189 | 142,700 | 185,395 | 2,245,269 |
| Collective impairment | 657,685 | – | 143,666 | 29,650 | 831,001 |

| | | | | | |
|--------------------------------------------------------------|----------|----------|---------|---------|------------------|
| Year ended 31 December 2012 | | | | | |
| 1 January..... | 649,025 | 632,012 | 148,430 | 76,045 | 1,505,512 |
| Exchange adjustments | (988) | – | 4,837 | 2,669 | 6,518 |
| Applied in writing off impaired loans and advances | (9,276) | (41,087) | (1,996) | (9,569) | (61,928) |
| Interest accrued on impaired loans and advances..... | (47,866) | (29,588) | (1,687) | (3,402) | (82,543) |
| Collection of loans and advances previously written off..... | 2,338 | – | – | 3 | 2,341 |

| Provision for impairment⁽¹⁾ | Cyprus | Greece | Russia | Other countries | Total |
|----------------------------------------------------|------------------|------------------|----------------|------------------------|------------------|
| | | | (€'000) | | |
| Charge for the year – continuing operations..... | 1,186,110 | – | 88,888 | 64,271 | 1,339,269 |
| Charge for the year – discontinued operations..... | – | 966,887 | – | – | 966,887 |
| 31 December | 1,779,343 | 1,528,224 | 238,472 | 130,017 | 3,676,056 |
| Individual impairment | 1,425,220 | 1,045,187 | 130,113 | 115,371 | 2,715,891 |
| Collective impairment | 354,123 | 483,037 | 108,359 | 14,646 | 960,165 |

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

The impairment loss is measured as the difference between the carrying amount of a loan and the present value of the estimated future cash flows, including the cash flows which may arise from guarantees and tangible collateral, irrespective of the outcome of foreclosure.

The provisions for impairment and fair value adjustments recorded by the Group do not reduce the amounts legally recoverable from borrowers.

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

Indexation has been used to reach updated market values of properties while assumptions were made on the basis of a macroeconomic scenario for future changes in property values. The timing of collections from collateral has been estimated to be two years for loans that have been managed by the Issuer's Restructuring and Recoveries Division (**RRD**) for more than three years, and four years for customers that have been managed by the RRD for less than three years. For all other loans a maximum expected recovery period of five years is assumed.

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

Indicatively, if the actual recoverable amount of impaired loans from collateral in the Cyprus portfolio is lower than the amount estimated as at 30 June 2014 by 5% and 10%, then provisions for impairment of loans and advances would increase by €214,678 thousand and €442,582 thousand respectively. Alternatively, if the collateral value in Cyprus increased by 5% and 10%, then the provisions for impairment of loans and advances would decrease by €201,186 thousand and €392,298 thousand respectively.

Rescheduled Loans and Advances to Customers

The table below shows the evolution of the Group's rescheduled loans and advances to customers for the years ended 31 December 2012 and 2013 and the six months ended 30 June 2014:

| Rescheduled loans and advances to customers | Cyprus | Greece | Russia | United | Romania | Ukraine | Total |
|-----------------------------------------------------------|------------------|---------------|----------------|----------------|----------------|----------|------------------|
| | | | | Kingdom | | | |
| | | | | (€'000) | | | |
| Six months ended | | | | | | | |
| 30 June 2014⁽¹⁾ | | | | | | | |
| 1 January | 5,135,646 | – | 187,031 | 107,624 | 124,312 | 62,051 | 5,616,664 |
| Disposal of Ukraine operations | – | – | – | – | – | (78,708) | (78,708) |
| New loans and advances rescheduled during the period..... | 853,273 | 70,422 | 27,801 | 67,443 | 122,385 | 4,481 | 1,145,805 |
| Assets no longer rescheduled (including repayments) | (595,747) | – | (32,241) | (27,295) | (22,495) | (3,975) | (681,753) |
| Interest accrued on rescheduled loans and advances | 139,660 | 413 | 1,911 | 3,335 | 1,407 | 2,460 | 149,186 |
| Exchange adjustments | 2,420 | – | (5,056) | 5,007 | 3,601 | 13,691 | 19,663 |
| 30 June | 5,535,252 | 70,835 | 179,446 | 156,114 | 229,210 | – | 6,170,857 |

Rescheduled loans and advances to customers at 30 June 2014 above includes UK loans and advances classified as held for sale of €3.9 million, which mainly relate to neither past due nor impaired loans.

| | | | | | | | |
|-------------------------------------------------------------|------------------|------------------|----------------|----------------|----------------|---------------|--------------------|
| Year ended | | | | | | | |
| 31 December 2013⁽¹⁾ | | | | | | | |
| 1 January | 3,394,783 | 1,657,988 | 113,217 | 58,264 | 63,039 | 64,336 | 5,351,627 |
| Disposal of Greek operations.. | – | (1,302,984) | – | – | – | – | (1,302,984) |
| New loans and advances rescheduled during the year | 2,657,226 | – | 106,959 | 61,825 | 76,323 | 26,519 | 2,928,852 |
| Assets no longer rescheduled (including repayments) | (1,126,560) | (355,004) | (24,411) | (16,775) | (17,381) | (29,092) | (1,569,223) |
| Applied in writing off rescheduled loans and advances | (11) | – | – | – | – | – | (11) |
| Interest accrued on rescheduled loans and advances | 214,094 | – | 9,401 | 4,668 | 3,452 | 3,201 | 234,816 |
| Exchange adjustments | (3,886) | – | (18,135) | (358) | (1,121) | (2,913) | (26,413) |
| 31 December | 5,135,646 | – | 187,031 | 107,624 | 124,312 | 62,051 | 5,616,664 |
| Year ended | | | | | | | |
| 31 December 2012⁽¹⁾ | | | | | | | |
| 1 January | 1,843,527 | 1,099,737 | 54,266 | 94,855 | 66,609 | 58,875 | 3,217,869 |
| New loans and advances rescheduled during the year | 1,895,156 | 1,497,983 | 107,045 | 1,335 | 26,174 | 21,341 | 3,549,034 |
| Assets no longer rescheduled (including repayments) | (540,332) | (945,395) | (53,312) | (37,989) | (32,611) | (15,523) | (1,625,162) |
| Applied in writing off rescheduled loans and advances | – | – | – | (5,022) | – | – | (5,022) |
| Interest accrued on rescheduled loans and advances | 197,500 | 3,912 | 3,025 | 2,428 | 3,360 | 1,476 | 211,701 |
| Exchange adjustments | (1,068) | 1,751 | 2,193 | 2,657 | (493) | (1,833) | 3,207 |
| 31 December | 3,394,783 | 1,657,988 | 113,217 | 58,264 | 63,039 | 64,336 | 5,351,627 |

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

In addition to the above, the loans acquired from Laiki Bank include rescheduled loans of a gross amount of €1,938,114 thousand at 31 December 2013 and €753,604 thousand at 30 June 2014, which were rescheduled prior to the acquisition date (29 March 2013).

Rescheduled loans and advances to customers shown above include UK rescheduled loans and advances classified as held for sale of a gross amount of €3.9 million as at 30 June 2014.

Rescheduled loans and advances to customers – credit quality

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

| Rescheduled loans and advances to customers | Cyprus | Greece | Russia | United | Romania | Ukraine | Total |
|---------------------------------------------|------------------|---------------|----------------|----------------|----------------|---------|------------------|
| | | | | Kingdom | | | |
| | | | | (€'000) | | | |
| 30 June 2014 | | | | | | | |
| Neither past due nor impaired.. | 2,828,822 | – | 106,448 | 122,444 | 172,083 | – | 3,229,797 |
| Past due but not impaired | 1,593,626 | – | 19,134 | 29,566 | 904 | – | 1,643,230 |
| Impaired | 1,112,804 | 70,835 | 53,864 | 4,104 | 56,223 | – | 1,297,830 |
| | 5,535,252 | 70,835 | 179,446 | 156,114 | 229,210 | – | 6,170,857 |

Rescheduled loans and advances to customers at 30 June 2014 above includes UK loans and advances classified as held for sale of €3.9 million, which mainly relate to neither past due nor impaired loans.

31 December 2013

| | | | | | | | |
|---------------------------------|------------------|---|----------------|----------------|----------------|---------------|------------------|
| Neither past due nor impaired.. | 2,659,066 | – | 154,721 | 89,549 | 16,586 | 6,128 | 2,926,050 |
| Past due but not impaired | 1,428,549 | – | 18,529 | 10,425 | 22,598 | 22,221 | 1,502,322 |
| Impaired | 1,048,031 | – | 13,781 | 7,650 | 85,128 | 33,702 | 1,188,292 |
| | 5,135,646 | – | 187,031 | 107,624 | 124,312 | 62,051 | 5,616,664 |

31 December 2012

| | | | | | | | |
|---------------------------------|------------------|------------------|----------------|---------------|---------------|---------------|------------------|
| Neither past due nor impaired.. | 2,200,463 | 871,475 | 97,446 | 40,642 | 25,694 | 19,390 | 3,255,110 |
| Past due but not impaired | 773,395 | 672,857 | 3,939 | 5,086 | 34,796 | 16,268 | 1,506,341 |
| Impaired | 420,925 | 113,656 | 11,832 | 12,536 | 2,549 | 28,678 | 590,176 |
| | 3,394,783 | 1,657,988 | 113,217 | 58,264 | 63,039 | 64,336 | 5,351,627 |

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

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

The fair value of the collateral at 30 June 2014 includes collateral for rescheduled UK loans and advances classified as held for sale of €3.9 million, which mainly relate to neither past due nor impaired loans.

31 December 2013

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

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

Rescheduled loans and advances to customers – credit risk concentration

Rescheduled loans and advances to customers are presented below by economic activity and customer sector at the dates indicated:

| Rescheduled loans and advances to customers | Cyprus | Greece | Russia | United | Romania | Ukraine | Total |
|-------------------------------------------------|------------------|---------------|----------------|----------------|----------------|----------|------------------|
| | | | | Kingdom | | | |
| | | | | (€'000) | | | |
| 30 June 2014 | | | | | | | |
| By economic activity | | | | | | | |
| Trade | 504,118 | – | 32,730 | 838 | 7,348 | – | 545,034 |
| Manufacturing | 211,976 | – | 8,349 | 10,799 | 959 | – | 232,083 |
| Hotels and catering | 478,774 | – | – | 22,391 | 101,901 | – | 603,066 |
| Construction | 1,034,991 | – | 8,642 | 18,530 | 9,562 | – | 1,071,725 |
| Real estate | 731,736 | – | – | 84,610 | 86,518 | – | 902,864 |
| Private individuals | 1,883,555 | – | – | 3,371 | 61 | – | 1,886,987 |
| Professional and other services | 367,032 | – | 129,725 | 14,268 | 21,781 | – | 532,806 |
| Other sectors | 323,070 | 70,835 | – | 1,307 | 1,080 | – | 396,292 |
| | 5,535,252 | 70,835 | 179,446 | 156,114 | 229,210 | – | 6,170,857 |
| By customer sector | | | | | | | |
| Corporate | 734,441 | 70,835 | 155,703 | 87,310 | 212,580 | – | 1,260,869 |
| Small and medium-sized enterprises (SMEs) | 553,538 | – | 20,654 | 68,294 | 16,569 | – | 659,055 |
| Retail | | | | | | | |
| - housing | 1,314,709 | – | 74 | 62 | – | – | 1,314,845 |
| - credit cards | 195 | – | 590 | – | – | – | 785 |
| - consumer and other | 369,690 | – | 2,425 | 448 | 61 | – | 372,624 |
| Restructuring and recovery | | | | | | | |
| - corporate | 2,062,387 | – | – | – | – | – | 2,062,387 |
| - SMEs | 365,487 | – | – | – | – | – | 365,487 |
| - recoveries | 101,953 | – | – | – | – | – | 101,953 |
| International banking services | 25,953 | – | – | – | – | – | 25,953 |
| Wealth management | 6,899 | – | – | – | – | – | 6,899 |
| | 5,535,252 | 70,835 | 179,446 | 156,114 | 229,210 | – | 6,170,857 |

| Rescheduled loans and advances to customers | Cyprus | Greece | Russia | United | Romania | Ukraine | Total |
|---------------------------------------------|--------|--------|--------|---------|---------|---------|-------|
| | | | | Kingdom | | | |
| | | | | (€'000) | | | |

30 June 2014

The UK rescheduled loans and advances classified as held for sale of €3.9 million included above mainly relate to corporate loans and advances in the hotels and catering industry.

31 December 2013

By economic activity

| | | | | | | | |
|---------------------------------------|------------------|----------|----------------|----------------|----------------|---------------|------------------|
| Trade..... | 454,872 | – | 46,834 | 593 | 8,062 | 4,721 | 515,082 |
| Manufacturing..... | 186,322 | – | 4,417 | 1,204 | 1,348 | 994 | 194,285 |
| Hotels and catering | 371,577 | – | – | 11,410 | 6,314 | 6,232 | 395,533 |
| Construction..... | 993,812 | – | 9,773 | 16,124 | 17,512 | 10,738 | 1,047,959 |
| Real estate..... | 700,093 | – | – | 70,691 | 68,019 | 25,398 | 864,201 |
| Private individuals | 1,815,870 | – | – | 1,693 | 119 | 8,665 | 1,826,347 |
| Professional and other services | 379,664 | – | 126,007 | 5,909 | 21,644 | 4,740 | 537,964 |
| Other sectors | 233,436 | – | – | – | 1,294 | 563 | 235,293 |
| | 5,135,646 | – | 187,031 | 107,624 | 124,312 | 62,051 | 5,616,664 |

By customer sector

| | | | | | | | |
|------------------------------------------------|------------------|----------|----------------|----------------|----------------|---------------|------------------|
| Corporate | 2,428,050 | – | 165,286 | 58,069 | 101,904 | 53,553 | 2,806,862 |
| Small and medium-sized enterprises (SMEs)..... | 937,341 | – | 18,592 | 49,310 | 22,289 | 5,501 | 1,033,033 |
| Retail..... | | | | | | | |
| - housing | 1,396,739 | – | 2,340 | 64 | 110 | 263 | 1,399,516 |
| - credit cards..... | 382 | – | 153 | – | – | – | 535 |
| - consumer and other..... | 373,134 | – | 660 | 181 | 9 | 2,734 | 376,718 |
| | 5,135,646 | – | 187,031 | 107,624 | 124,312 | 62,051 | 5,616,664 |

31 December 2012

By economic activity

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

By customer sector

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

Rescheduled loans and advances to customers – provisions for impairment

The table below analyses the provisions for impairment for the Group's rescheduled loans and advances to customers at 31 December 2012 and 2013 and 30 June 2014:

| Rescheduled loans and advances to customers - provisions for impairment | Cyprus | Greece | Russia | United | Romania | Ukraine | Total |
|----------------------------------------------------------------------------------------------------------------------------------|----------------|---------------|---------------|--------------|---------------|---------------|----------------|
| | | | | Kingdom | | | |
| (€'000) | | | | | | | |
| 30 June 2014 | | | | | | | |
| Individual impairment | 434,218 | 9,045 | 13,711 | 4,910 | 8,636 | – | 470,520 |
| Collective impairment | 191,689 | – | 8,240 | 32 | 1,709 | – | 201,670 |
| | 625,907 | 9,045 | 21,951 | 4,942 | 10,345 | – | 672,190 |
| There are no provisions for impairment for rescheduled loans and advances which are classified as held for sale at 30 June 2014. | | | | | | | |
| 31 December 2013 | | | | | | | |
| Individual impairment | 410,690 | – | 2,628 | 2,893 | 17,938 | 14,577 | 448,726 |
| Collective impairment | 176,223 | – | 11,465 | – | 3,044 | – | 190,732 |
| | 586,913 | – | 14,093 | 2,893 | 20,982 | 14,577 | 639,458 |
| 31 December 2012 | | | | | | | |
| Individual impairment | 280,682 | 57,344 | 3,324 | 3,170 | 541 | 11,097 | 356,158 |
| Collective impairment | 98,965 | – | 3,457 | 50 | 277 | – | 102,749 |
| | 379,647 | 57,344 | 6,781 | 3,220 | 818 | 11,097 | 458,907 |

Non-performing loans

In February 2014, the CBC issued to credit institutions the Loan Provisioning Directive, which provides guidance to banks for loan impairment policy and procedures for provisions. The purpose of the Loan Provisioning Directive is to ensure that credit institutions have in place adequate provisioning policies and procedures for the identification of credit losses and prudent application of IFRSs in the preparation of their financial statements.

The Loan Provisioning Directive requires certain disclosures in relation to the loan portfolio quality, provisioning policy and levels of provision. The Loan Provisioning Directive is effective as from 21 February 2014, although the disclosure requirements are required to be published for the year ended 31 December 2013 together with the 2013 financial statements. The disclosures required by the Loan Provisioning Directive, in addition to those presented in notes 3 and 46 of the Group's 2013 financial statements are presented in the following tables:

| Non-performing loans | Total loans and advances | Performing loans and advances | | Total | Non-performing credit facilities |
|-----------------------------------------------------------|--------------------------|-------------------------------------|---------------------------------|---------------|----------------------------------|
| | | Not restructured loans and advances | Restructured loans and advances | | |
| (€'000) | | | | | |
| 30 June 2014 | | | | | |
| Corporate legal entities | | | | | |
| Construction | 3,713,386 | 388,945 | 185,259 | 574,204 | 3,139,182 |
| Real estate activities | 2,838,307 | 714,955 | 284,932 | 999,887 | 1,838,420 |
| Wholesale and retail trade | 1,961,703 | 713,270 | 154,396 | 867,666 | 1,094,037 |
| Accommodation and food service activities | 1,583,047 | 368,912 | 156,417 | 525,329 | 1,057,718 |
| Electricity, gas, steam and air conditioning supply | 34,692 | <u>31,352</u> | <u>1,106</u> | <u>32,458</u> | <u>2,234</u> |

| | Performing loans and advances | | | | Non-performing credit facilities |
|-------------------------------------------------------------------------------------------------------|--------------------------------------|--------------------------------------------|----------------------------------------|-------------------|-----------------------------------------|
| | Total loans and advances | Not restructured loans and advances | Restructured loans and advances | Total | |
| Non-performing loans | | | | | |
| All other sectors..... | 3,699,161 | 1,101,260 | 319,905 | 1,421,165 | 2,277,996 |
| | 13,830,296 | 3,318,694 | 1,102,015 | 4,420,709 | 9,409,587 |
| Retail legal entities | | | | | |
| Wholesale and retail trade | 641,431 | 305,090 | 41,069 | 346,159 | 295,272 |
| Real estate activities | 577,463 | 281,853 | 45,142 | 326,995 | 250,468 |
| Construction | 379,957 | 84,446 | 36,660 | 121,106 | 258,851 |
| Manufacturing | 218,065 | 88,178 | 17,197 | 105,375 | 112,690 |
| Service activities..... | 185,066 | 99,714 | 7,379 | 107,093 | 77,973 |
| All other sectors..... | 540,137 | 233,537 | 37,284 | 270,821 | 269,316 |
| | 2,542,119 | 1,092,818 | 184,731 | 1,277,549 | 1,264,570 |
| Private individuals | | | | | |
| Credit facilities for the purchase of | | | | | |
| immovable property | 5,741,671 | 2,724,806 | 848,208 | 3,573,014 | 2,168,657 |
| (a) Owner occupied | 3,284,239 | 1,620,581 | 505,654 | 2,126,235 | 1,158,004 |
| (b) For other purposes | 2,457,432 | 1,104,225 | 342,554 | 1,446,779 | 1,010,653 |
| Consumer loans | 1,937,202 | 627,905 | 152,084 | 779,989 | 1,157,031 |
| Credit cards | 258,850 | 179,612 | 596 | 180,208 | 78,642 |
| Current accounts..... | 326,385 | 174,556 | 392 | 174,948 | 151,437 |
| Credit facilities to sole traders..... | 663,207 | 269,406 | 42,284 | 311,690 | 351,517 |
| | 8,927,133 | 3,976,285 | 1,043,564 | 5,019,849 | 3,907,284 |
| Total credit facilities..... | 25,299,548 | 8,387,797 | 2,330,310 | 10,718,107 | 14,581,441 |
| Provisions for impairment and fair value adjustment on initial recognition⁽¹⁾ | 4,878,591 | 314,143 | 54,726 | 368,869 | 4,509,722 |
| 31 December 2013 | | | | | |
| Corporate legal entities | | | | | |
| Construction | 3,907,905 | 549,940 | 367,869 | 917,809 | 2,990,096 |
| Real estate activities | 3,593,805 | 929,725 | 493,858 | 1,423,583 | 2,170,222 |
| Wholesale and retail trade: repair of motor vehicles and motorcycles..... | 2,137,664 | 845,171 | 192,590 | 1,037,761 | 1,099,903 |
| Accommodation and food service activities | 1,690,995 | 512,491 | 159,310 | 671,801 | 1,019,194 |
| Electricity, gas, steam and air conditioning supply | 42,834 | 33,786 | 6,068 | 39,854 | 2,980 |
| All other sectors..... | 3,893,007 | 1,332,511 | 338,267 | 1,670,778 | 2,222,229 |
| | 15,266,210 | 4,203,624 | 1,557,962 | 5,761,586 | 9,504,624 |
| Retail legal entities | | | | | |
| Wholesale and retail trade: repair of motor vehicles and motorcycles..... | 578,497 | 301,280 | 40,016 | 341,296 | 237,201 |
| Real estate activities | 440,719 | 266,185 | 34,319 | 300,504 | 140,215 |
| Construction | 289,686 | 81,568 | 32,430 | 113,998 | 175,688 |
| Manufacturing | 219,216 | 100,393 | 14,655 | 115,048 | 104,168 |
| Service activities..... | 128,116 | 82,825 | 5,030 | 87,855 | 40,261 |
| All other sectors..... | 557,700 | 268,490 | 34,102 | 302,592 | 255,108 |
| | 2,213,934 | 1,100,741 | 160,552 | 1,261,293 | 952,641 |
| Private individuals | | | | | |
| Credit facilities for the purchase of | 5,838,484 | 2,891,360 | 1,039,616 | 3,930,976 | 1,907,508 |

| | Performing loans and advances | | | | Non-performing credit facilities |
|-------------------------------------------------------------------------------------------------------|-------------------------------|-------------------------------------|---------------------------------|-------------------|----------------------------------|
| | Total loans and advances | Not restructured loans and advances | Restructured loans and advances | Total | |
| Non-performing loans | | | | | |
| immovable property | | | | | |
| (a) Owner occupied | 3,327,578 | 1,695,059 | 623,521 | 2,318,580 | 1,008,998 |
| (b) For other purposes | 2,510,906 | 1,196,301 | 416,095 | 1,612,396 | 898,510 |
| Consumer loans | 2,193,821 | 793,097 | 205,706 | 998,803 | 1,195,018 |
| Credit cards | 276,201 | 198,150 | 376 | 198,526 | 77,675 |
| Current accounts | 361,555 | 207,226 | 1,039 | 208,265 | 153,290 |
| Credit facilities to sole traders | 593,114 | 291,489 | 50,312 | 341,801 | 251,313 |
| | 9,263,175 | 4,381,322 | 1,297,049 | 5,678,371 | 3,584,804 |
| Total credit facilities | 26,743,319 | 9,685,687 | 3,015,563 | 12,701,250 | 14,042,069 |
| Provisions for impairment and fair value adjustment on initial recognition⁽¹⁾ | 4,978,981 | 432,747 | 100,372 | 533,119 | 4,445,862 |

⁽¹⁾ The provisions for impairment and fair value adjustment on initial recognition for performing loans relate to collective provision and fair value adjustment on initial recognition of loans following the Laiki Bank acquisition. Amounts shown at 30 June 2014 also include loans and advances classified as held for sale.

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

At 31 December 2013, the NPL ratio consists of two components: restructured loans that are less than 90 days past due (6% of gross loans) and loans that are more than 90 days past due or restructured loans that are more than 90 days past due (47% of gross loans).

Non-performing loans

| | 31 December 2013 | |
|---------------------------------------------------------------------------------------------|------------------|------------------|
| | (€ millions) | % of gross loans |
| Loans restructured and less than 90 days past due..... | 1,682 | 6% |
| Loans more than 90 days past due or loans restructured and more than 90 days past due | 12,360 | 47% |
| Total | 14,042 | 53% |

The table below presents non-performing credit facilities at 31 December 2013 by year of origination:

| Non-performing credit facilities by year of origination | Total loans and advances | Non-performing loans and advances | Specific provisions | Fair value adjustment on initial recognition |
|---------------------------------------------------------|--------------------------|-----------------------------------|---------------------|----------------------------------------------|
| | | | | |
| 31 December 2013 | | | | |
| Credit facilities to legal entities | | | | |
| Within 1 year..... | 1,155,440 | 612,179 | 83,274 | 41,986 |
| 1-2 years | 1,670,316 | 795,958 | 129,462 | 119,992 |
| 2-3 years | 2,191,366 | 1,106,828 | 143,670 | 246,339 |
| 3-5 years | 3,531,489 | 2,190,416 | 306,939 | 328,977 |
| 5-7 years | 5,188,628 | 3,640,717 | 758,177 | 464,625 |
| 7-10 years | 1,807,861 | 1,087,380 | 225,012 | 153,178 |
| More than 10 years | 1,882,951 | 1,029,667 | 173,570 | 147,987 |
| Total | 17,428,051 | 10,463,145 | 1,820,104 | 1,503,084 |

**Credit facilities to private individuals –
property loans**

| | | | | |
|--------------------------|------------------|------------------|----------------|----------------|
| Within 1 year | 120,473 | 37,302 | 239 | 2,359 |
| 1-2 years | 208,314 | 45,277 | 3,066 | 5,824 |
| 2–3 years | 561,960 | 130,750 | 2,759 | 11,518 |
| 3–5 years | 1,944,993 | 509,830 | 16,455 | 45,464 |
| 5–7 years | 2,039,785 | 857,316 | 97,212 | 75,181 |
| 7–10 years | 865,867 | 286,652 | 33,255 | 22,778 |
| More than 10 years | 88,635 | 37,859 | 3,601 | 4,404 |
| Total | 5,830,027 | 1,904,986 | 156,587 | 167,528 |

**Credit facilities to private individuals –
other loans**

| | | | | |
|--------------------------|------------------|------------------|----------------|----------------|
| Within 1 year | 306,101 | 99,140 | 6,061 | 7,194 |
| 1-2 years | 370,237 | 153,688 | 5,725 | 17,482 |
| 2–3 years | 492,927 | 215,760 | 23,310 | 37,920 |
| 3–5 years | 834,741 | 432,237 | 73,082 | 60,819 |
| 5–7 years | 631,712 | 360,772 | 62,393 | 50,544 |
| 7–10 years | 379,157 | 175,884 | 41,076 | 20,921 |
| More than 10 years | 470,366 | 236,457 | 56,931 | 37,219 |
| Total | 3,485,241 | 1,673,938 | 268,578 | 232,099 |

Total credit facilities

| | | | | |
|--------------------------|-------------------|-------------------|------------------|------------------|
| Within 1 year | 1,582,014 | 748,621 | 89,574 | 51,539 |
| 1-2 years | 2,248,867 | 994,923 | 138,253 | 143,298 |
| 2–3 years | 3,246,253 | 1,453,338 | 169,739 | 295,777 |
| 3–5 years | 6,311,223 | 3,132,483 | 396,476 | 435,260 |
| 5–7 years | 7,860,125 | 4,858,805 | 917,782 | 590,350 |
| 7–10 years | 3,052,885 | 1,549,916 | 299,343 | 196,877 |
| More than 10 years | 2,441,952 | 1,303,983 | 234,102 | 189,610 |
| Total | 26,743,319 | 14,042,069 | 2,245,269 | 1,902,711 |

Sovereign Exposure

The Group has sovereign and non-sovereign exposure in countries which have entered or have applied to the ESM, or whose Moody's credit rating is below Aa1 and the total Group exposure exceeds €100 million. These countries are Cyprus, Greece, Italy, Russia, Romania and Ukraine. The Group's sovereign exposure includes government bonds and other assets owned by governmental, semi-governmental, local authorities and other organisations in which the state holds more than 50%.

The table below sets out the Group's exposure to the government of Cyprus at the dates indicated:

| | On demand and up to one month | Between one month and three months | Between three months and one year | Between one and five years | Over five years | Total |
|-----------------------------------------|----------------------------------------------|-------------------------------------------------------|------------------------------------------------------|-------------------------------------------|----------------------------|------------------|
| | (€'000) | | | | | |
| 30 June 2014 | | | | | | |
| Available-for-sale | – | – | 171 | – | 33 | 204 |
| Loans and receivables | 1,896,468 | 199,085 | 76,180 | 285,236 | 299,885 | 2,756,854 |
| Fair value through profit or loss | – | – | 147 | 17,088 | – | 17,235 |

| | On demand and up to one month | Between one month and three months | Between three months and one year | Between one and five years | Over five years | Total |
|----------------------------------------|----------------------------------------------|-------------------------------------------------------|------------------------------------------------------|-------------------------------------------|----------------------------|------------------|
| | (€'000) | | | | | |
| | 1,896,468 | 199,085 | 76,498 | 302,324 | 299,918 | 2,774,293 |
| 31 December 2013 | | | | | | |
| Available-for-sale..... | – | – | – | 1,423 | – | 1,423 |
| Loans and receivables..... | – | 199,003 | 1,749,757 | 327,267 | 296,913 | 2,572,940 |
| Fair value through profit or loss..... | – | – | – | 15,413 | – | 15,413 |
| | – | 199,003 | 1,749,757 | 344,103 | 296,913 | 2,589,776 |
| 31 December 2012 | | | | | | |
| Available-for-sale..... | 1,009 | – | – | 125 | – | 1,134 |
| Loans and receivables..... | – | 99,377 | 12,607 | 510,974 | 127,023 | 749,981 |
| Fair value through profit or loss..... | – | – | – | 13,042 | – | 13,042 |
| | 1,009 | 99,377 | 12,607 | 524,141 | 127,023 | 764,157 |

In addition, at 31 December 2012 the Group held €47.6 million of Irish government securities with a remaining maturity of over five years, classified as available-for-sale. Except for the foregoing, the Group did not hold any sovereign debt securities from countries which have applied to the ESM (including Greece).

The Group's exposure to sovereign debt securities and other assets is analysed below:

| | Cyprus | Greece | Italy | Russia | Romania | Ukraine |
|---------------------------------------------------------------------|-------------------|----------------|---------------|------------------|----------------|----------------|
| | (€'000) | | | | | |
| 30 June 2014⁽¹⁾ | | | | | | |
| Deposits with central banks..... | 168,831 | – | – | 35,593 | 3,426 | – |
| Placements with banks..... | 68,076 | 19,056 | 33,629 | 70,290 | 206,219 | – |
| Investments in sovereign debt securities..... | | | | | | |
| - available for sale..... | 204 | – | 53,308 | 1,997 | – | – |
| - loans and receivables..... | 2,756,854 | – | – | – | – | – |
| - fair value through profit or loss..... | 17,235 | – | – | – | – | – |
| Investments in debt securities of banks and other corporations..... | | | | | | |
| - available for sale..... | 3,438 | – | – | – | – | – |
| - loans and receivables..... | 503 | – | – | – | – | – |
| - fair value through profit or loss..... | 42 | – | – | – | – | – |
| Loans and advances to customers (before provisions)..... | 20,677,144 | 97,853 | – | 1,303,758 | 361,472 | – |
| Assets held for sale..... | – | – | – | – | 95,644 | – |
| Total on balance sheet..... | 23,692,327 | 116,909 | 86,937 | 1,411,638 | 666,761 | – |
| Contingent liabilities..... | 823,634 | 245,717 | – | 2,556 | 21 | – |
| Commitments..... | 2,455,097 | – | – | 130,387 | 1,053 | – |
| Total off balance sheet..... | 3,278,731 | 245,717 | – | 132,943 | 1,074 | – |
| Total exposure to credit risk..... | 26,971,058 | 362,626 | 86,937 | 1,544,581 | 667,835 | – |
| 31 December 2013⁽¹⁾ | | | | | | |
| Deposits with central banks..... | 456,069 | – | – | 51,593 | 5,695 | 9,969 |
| Placements with banks..... | 51,374 | 19,799 | 428 | 103,976 | 222,417 | 9,458 |
| Investments in sovereign debt | | | | | | |

| | Cyprus | Greece | Italy | Russia | Romania | Ukraine |
|----------------------------------------------------------------------|-------------------|----------------|---------------|------------------|----------------|----------------|
| | (€'000) | | | | | |
| securities | | | | | | |
| - available for sale | 1,423 | – | 52,211 | 2,051 | – | – |
| - loans and receivables..... | 2,572,940 | – | – | – | – | – |
| - fair value through profit or loss | 15,413 | – | – | – | – | – |
| Investments in debt securities of banks and other corporations | | | | | | |
| - available for sale | 6,148 | 290 | – | – | – | 1 |
| - loans and receivables..... | 497 | – | – | – | – | – |
| - fair value through profit or loss | 103 | – | – | – | – | – |
| Loans and advances to customers (before provisions) | 21,173,769 | 97,124 | – | 1,429,161 | 483,541 | 395,051 |
| Total on balance sheet | 24,277,736 | 117,213 | 52,639 | 1,586,781 | 711,653 | 414,479 |
| Contingent liabilities | 880,984 | 335,073 | – | 7,206 | 100 | 50 |
| Commitments | 2,748,596 | – | – | 147,695 | 3,366 | 536 |
| Total off balance sheet | 3,629,580 | 335,073 | – | 154,901 | 3,466 | 586 |
| Total exposure to credit risk | 27,907,316 | 452,286 | 52,639 | 1,741,682 | 715,119 | 415,065 |

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

Loans and advances to customers in Cyprus are presented net of the fair value adjustment on loans and advances acquired from Laiki Bank.

The revaluation reserve of available-for-sale investments includes losses amounting to €5.8 million as at 30 June 2014 and €5.9 million as at 31 December 2013 relating to sovereign debt securities, and gains amounting to €0.5 million as at 30 June 2014 and losses of €0.1 million as at 31 December 2013 relating to debt securities of banks and other corporations.

Balances with Central Banks and Placements with Banks

The table below presents the Group's balances with central banks and placements with banks analysed by Moody's rating:

| Balances with central banks and placements with banks | 31 December | | 30 June |
|-------------------------------------------------------|---------------------|---------------------|---------------------|
| | 2012 ⁽¹⁾ | 2013 ⁽¹⁾ | 2014 ⁽¹⁾ |
| | (€'000) | | |
| Aaa–Aa3 | 1,102,312 | 790,806 | 682,523 |
| A1–A3 | 786,184 | 509,754 | 422,382 |
| Baa1–Baa3 | 190,429 | 68,735 | 115,245 |
| Ba1–Ba3 | 10,495 | 9,505 | 6,966 |
| B1–B3 | 373,186 | 10,269 | 2,501 |
| Caa–C | 84,882 | 483,035 | 212,928 |
| Unrated | 179,054 | 468,896 | 340,276 |
| Other receivables from banks | 50,947 | 33,933 | 40,657 |
| Total | 2,777,489 | 2,374,933 | 1,823,478 |

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

At 31 December 2013, the categories B and Caa-C above include an amount of €394,255 thousand which mainly related to obligatory deposits for liquidity purposes with the CBC. Placements with banks include €278,164 thousand which were acquired from Laiki Bank and which were considered to be impaired upon acquisition.

Investments in Debt Securities

The table below presents the Group's investments in debt securities analysed by Moody's rating:

| Investments in debt securities | 31 December | | 30 June |
|--------------------------------------------------------|---------------------------|---------------------------|---------------------------|
| | 2012⁽¹⁾ | 2013⁽¹⁾ | 2014⁽¹⁾ |
| | (€'000) | | |
| Aaa – Aa3 | 893,381 | 617,262 | 631,999 |
| A1 – A3 | 26,639 | 5,443 | 6,193 |
| Baa1 – Baa3 | 58,385 | 54,508 | 87,921 |
| Ba1 – Ba3 | 51,064 | 49,008 | – |
| B1 – B3 | 764,395 | – | 8 |
| Caa – C | 1,133 | 2,595,036 | 2,776,722 |
| Unrated | 2,784 | 1,490 | 1,554 |
| Total | 1,797,781 | 3,322,747 | 3,504,397 |
| <i>Issued by</i> | | | |
| Cyprus government | 764,157 | 2,589,776 | 2,774,292 |
| Other governments | 704,290 | 668,558 | 680,339 |
| Banks and other corporations | 328,887 | 63,901 | 49,254 |
| Local authorities | 447 | 512 | 512 |
| | 1,797,781 | 3,322,747 | 3,504,397 |
| <i>Classified as</i> | | | |
| Trading investments | 96 | 103 | 42 |
| Investments at fair value through profit or loss | 13,955 | 15,549 | 17,243 |
| Available-for-sale investments | 1,032,302 | 733,658 | 729,755 |
| Investments classified as loans and receivables | 751,428 | 2,573,437 | 2,757,357 |
| | 1,797,781 | 3,322,747 | 3,504,397 |

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

Market Risk

Market risk is the risk of loss from adverse changes in market prices – namely from changes in interest rates, exchange rates and security prices. The Group Market Risk Management Unit is responsible for monitoring compliance with the various market risk policies and procedures.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. It arises as a result of timing differences on the repricing of assets and liabilities.

Interest rate risk is measured using interest rate sensitivity gap analysis where the difference between assets and liabilities repricing in each time band is calculated separately for each currency. This difference is then multiplied with the assumed change in interest rates for the period from the repricing date until 12 months

from the date of the analysis, in order to calculate the annual impact on net interest income of any changes in interest rates for every currency.

Interest rate risk is managed through maximum loss limits from interest rate mismatches which are set for each banking unit of the Group. There are different limits for the euro and for foreign currencies. The maximum loss limits apply for each of the next three years. These limits are set as a percentage of Group capital and as a percentage of net interest income and are allocated to the various banking units of the Group based on their contribution to net interest income. Small limits for open interest rate positions for periods of more than three years are also in place.

Sensitivity analysis

The table below sets out the impact on the Group's net interest income, over a one-year period, from reasonably foreseeable changes in the interest rates of the main currencies:

| Interest rate sensitivity analysis | Euro | U.S. Dollars | British Pounds | Other currencies | Total |
|---------------------------------------------------------------------------------------------------------------|-------------|-------------------------|---------------------------|-----------------------------|----------------|
| | | | (€'000) | | |
| Year ended 31 December 2013 | | | | | |
| +0.5% for all currencies | 8,531 | 2,862 | 594 | 71 | 11,133 |
| -0.25% for Euro, U.S. Dollars and Japanese Yen, 0% for Swiss Franc and -0.5% for all other currencies..... | (4,265) | (1,431) | (594) | (516) | (6,275) |
| Year ended 31 December 2012 | | | | | |
| +1.0% for all currencies | (11,197) | 23,276 | 4,876 | (833) | 27,699 |
| -0.25% for Euro, U.S. Dollars and Japanese Yen, -0.1% for Swiss Franc and -0.5% for all other currencies..... | 7,640 | (2,905) | (1,281) | 280 | 7,576 |

The total change in net interest income differs from the sum of the changes for each individual currency as it has been calculated using the actual correlation coefficients between the interest rates of the various currencies.

In addition to the fluctuations in net interest income presented in the table above, the Group results are also affected by changes in interest rates which result in fluctuations in the fair value of investments at fair value through profit or loss (including investments held for trading) and in the fair value of derivative financial instruments.

The equity of the Group is also affected by changes in market interest rates. The impact on the Group's equity arises from changes in the fair value of fixed-rate debt securities classified as available-for-sale (unless impaired) as well as from changes in the fair value of derivative financial instruments including investments which are hedging instruments in effective cash flow hedge relationships.

The sensitivity analysis is based on the assumption of a parallel shift of the yield curve. The table below sets out the impact on the Group's loss before tax and equity (excluding the effect on equity from the impact on loss) as a result of reasonably possible changes in the interest rates of the major currencies.

| Interest rate sensitivity analysis | Impact on loss before tax | Impact on equity |
|--------------------------------------------------------------------|--------------------------------------|-----------------------------|
| | | (€'000) |
| Year ended 31 December 2013 | | |
| +0.5% for all currencies | 3,549 | (1,392) |
| -0.25% for Euro, U.S. Dollars and Japanese Yen, 0% for Swiss Franc | (1,776) | 705 |

| | | |
|------------------------------------------------------------------------------------------------------------------|---------|---------|
| and -0.5% for all other currencies..... | | |
| Year ended 31 December 2012 | | |
| +1.0% for all currencies | 15,024 | (3,455) |
| -0.25% for Euro, U.S. Dollars and Japanese Yen, -0.1% for Swiss Franc and -0.5% for all other currencies..... | (3,802) | 878 |

Currency risk

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

In order to manage currency risk, the Group Assets and Liabilities Committee has approved open position limits for the total foreign exchange position limits. The foreign exchange position limits are lower than those prescribed by the CBC. These limits are monitored daily by market risk officers in all the banking units of the Group, who report the overnight foreign currency position of each unit to Group Market Risk Management daily.

The Group does not maintain a currency trading book.

The table below sets out the Group's currency risk resulting from its open foreign exchange positions. The analysis assumes reasonably possible changes in the exchange rates of major currencies against the euro based mainly on historical price fluctuations. The impact on loss after tax and on equity includes the change in net interest income that arises from the change of currency rate and also the impact on results from the open currency position.

| Currency risk sensitivity analysis | Change in exchange rate (%) | Impact on loss after tax and equity (€'000) |
|-------------------------------------------|--------------------------------------------|----------------------------------------------------------------|
| Year ended 31 December 2013 | | |
| U.S. Dollar..... | +8 | 647 |
| Russian Rouble..... | +8 | 299 |
| Romanian Lei | +8 | (2,584) |
| Ukrainian Hryvina..... | +8 | 2,593 |
| Swiss Franc..... | +8 | 3,342 |
| British Pounds | +8 | 2,233 |
| Japanese Yen | +15 | 768 |
| Other currencies..... | +8 | 1,390 |
| U.S. Dollar..... | -8 | (551) |
| Russian Rouble..... | -20 | (573) |
| Romanian Lei | -8 | 2,202 |
| Ukrainian Hryvina..... | -30 | (6,882) |
| Swiss Franc..... | -8 | (2,847) |
| British Pounds | -8 | (1,902) |
| Japanese Yen | -15 | (568) |
| Other currencies..... | -8 | (1,184) |
| Year ended 31 December 2012 | | |
| U.S. Dollar..... | +8 | 1,787 |
| Russian Rouble..... | +8 | (3,603) |
| Romanian Lei | +8 | (2,126) |
| Ukrainian Hryvina..... | +5 | 2,671 |

| Currency risk sensitivity analysis | Change in exchange rate | Impact on loss after tax and equity |
|-------------------------------------------|------------------------------------|----------------------------------------------------|
| | (%) | (€'000) |
| Swiss Franc..... | +8 | 2,616 |
| British Pounds | +8 | 713 |
| Australian Dollar and Japanese Yen..... | +10 | 375 |
| Other currencies..... | +8 | 2,493 |
| U.S. Dollar..... | -8 | (1,522) |
| Russian Rouble..... | -8 | 3,068 |
| Romanian Lei | -8 | 1,811 |
| Ukrainian Hryvina | -20 | (8,459) |
| Swiss Franc..... | -8 | (2,228) |
| British Pounds | -8 | (607) |
| Australian Dollar and Japanese Yen..... | -10 | (307) |
| Other currencies..... | -8 | (2,121) |

Price risk

Equity securities price risk

The risk of loss from changes in the price of equity securities arises when there is an unfavourable change in the prices of equity securities held by the Group as investments.

In order to control the risk of loss from changes in the price of equities, there are maximum limits for the amounts that can be invested in equity securities in the trading book and other restrictions, including maximum amount invested in a specific issuer or specific industry.

Changes in the prices of equity securities that are classified as investments at fair value through profit or loss, affect the results of the Group, whereas changes in the value of equity securities classified as available-for-sale affect the equity of the Group (if not impaired).

The table below shows the impact on the loss before tax and on equity (excluding the effect on equity from the impact on loss) of the Group from a change in the price of the equity securities held, as a result of reasonably possible changes in the relevant stock exchange indices.

| Equity securities price risk | Change in index | Impact on loss before tax | Impact on equity |
|-------------------------------------|----------------------------|--------------------------------------|-----------------------------|
| | (%) | | (€'000) |
| Year ended 31 December 2013 | | | |
| Cyprus Stock Exchange..... | +30 | 716 | 3,789 |
| Athens Stock Exchange..... | +25 | - | 115 |
| Moscow Stock Exchange | +20 | - | 194 |
| Bucharest Stock Exchange | +20 | - | 16,226 |
| Cyprus Stock Exchange..... | -30 | (2,629) | (1,875) |
| Athens Stock Exchange..... | -25 | (77) | (38) |
| Moscow Stock Exchange | -20 | (72) | (122) |
| Bucharest Stock Exchange | -20 | (16,226) | - |
| Year ended 31 December 2012 | | | |
| Cyprus Stock Exchange..... | +50 | 2,671 | 3,931 |

| | <u>Change in index</u> | <u>Impact on loss before tax</u> | <u>Impact on equity</u> |
|-------------------------------------|----------------------------|--------------------------------------|-----------------------------|
| Equity securities price risk | | | |
| Athens Stock Exchange | +30 | – | 301 |
| Moscow Stock Exchange | +20 | – | 140 |
| Bucharest Stock Exchange | +20 | – | 10,885 |
| Other Stock Exchanges..... | +15 | 421 | – |
| | | | |
| Cyprus Stock Exchange..... | -50 | (6,171) | (430) |
| Athens Stock Exchange..... | -30 | – | (301) |
| Moscow Stock Exchange | -20 | – | (140) |
| Bucharest Stock Exchange | -20 | (10,885) | – |
| Other Stock Exchanges..... | -15 | (421) | – |

Debt securities price risk

Debt securities price risk is the risk of loss as a result of adverse changes in the prices of debt securities held by the Group. Debt security prices change as the credit risk of the issuers changes. The Group invests a significant part of its liquid assets in debt securities issued mostly by governments and banks. The average Moody's rating of the debt securities portfolio of the Group at the date of this Base Prospectus was B2 (30 June 2014: B3; 31 December 2013: B3; 31 December 2012: Baa1).

Changes in the prices of debt securities classified as investments at fair value through profit or loss, affect the profit or loss of the Group, whereas changes in the value of debt securities classified as available-for-sale affect the equity of the Group (if not impaired).

The table below indicates how the loss before tax and shareholders equity of the Group will be affected from reasonably possible changes in the price of the debt securities held, based on observations of changes in credit risk over the past years.

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

BUSINESS DESCRIPTION OF THE GROUP

Overview

The Issuer was founded in 1899 and is the holding company of the Bank of Cyprus Group. The registered office of the Issuer is located at the Group Headquarters at 51 Stassinos Street, Ayia Paraskevi, Strovolos, 2002 Nicosia, Cyprus, telephone number +357 22 122100. The Issuer 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 Issuer's legal name is Bank of Cyprus Public Company Limited and its commercial name is Bank of Cyprus.

The Issuer has a primary listing on the main market of the CSE and a secondary listing on ATHEX. It is also a public company for the purposes of the Cyprus Income Tax Law, 118(I)/2002 (as amended). Since 19 March 2013, the Existing Shares of the Issuer have been suspended from trading on the CSE and ATHEX.

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

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

Competitive Strengths

The Issuer believes that its key strengths include the following:

The leading bank in Cyprus

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

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

Although Cyprus was deeply affected by the global economic crisis, actions taken by the Government and the Troika—including the reforms being implemented under the EAP—have put the Cypriot economy on the road to recovery. A flexible economy has allowed for significant and rapid adjustments in consumer prices, wages and property. The recession has proven less severe than expected, with the unemployment rate well below that of Greece and Spain, and GDP expected to return to growth in 2015. As a result, Standard & Poor's Credit Market Services (**Standard & Poor's**) and Dominion Bond Rating Service (**DBRS**) recently

upgraded the Government's credit rating and Cyprus returned to the capital markets in June 2014 with the issue of a €750 million benchmark bond. See "*The Macroeconomic Environment in Cyprus*".

A strengthened management team with significant turn-around experience

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

Aggressive management of non-performing loans

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

A strong capital structure as a result of the Capital Raising

In August and September 2014, the Issuer raised total gross proceeds of €1 billion through the Capital Raising (as defined in "*— Recent Developments — Capital Raising*"). The proceeds from the Capital Raising have been applied to repay approximately €900 million of ELA funding (see "*— Capital Raising*"). As of 30 June 2014, the Issuer's CET 1 ratio was 11.3%. The capital increase of €1 billion from the Capital Raising, combined with deleveraging actions completed after the first quarter of 2014, has strengthened the Issuer's CET 1 ratio (CRD IV/CRR1 – transitional basis) to 15.6% and its CET 1 ratio (CRD IV/CRR – fully loaded basis) to 15.1%, which is significantly ahead of European peers.

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

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

Following the Capital Raising, in September 2014, Moody's placed the Issuer's long-term deposit rating of Ca on review for upgrade.

Strategy

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

Shrink to strength

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

Focus on asset quality

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

Diversify funding sources

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

The Group intends to steadily reduce its central bank funding, both in absolute terms and as a percentage of total funding, and has already repaid approximately €2,900 million of central bank funding since April 2013, including €950 million with the proceeds from the repayment of a Cyprus sovereign bond held by it. The Issuer currently has €7,580 million of ELA funding and €920 million of ECB funding. It has implemented a deposit gathering and retention campaign to grow its deposit base as confidence in the Cyprus banking system returns.

Following the completion of the Capital Raising, the Group intends to resume issuing debt securities in the capital markets as and when market conditions allow.

Increase fee income

The Issuer will seek to increase its fee income to increase revenues without a corresponding increase in capital requirements. To this end, the IBS division is shifting its focus from deposit gathering to international

transaction services. The Corporate Banking Division is focusing on fee generating activities such as factoring, debt collection, assessment services, ledger administration and trade finance. The Issuer is also looking to increase its distribution of bancassurance products through its branch network. The Wealth, Brokerage and Asset Management division generates most of its income in the form of fees and commissions and is expected to be an additional driver of fee income growth. As the economic recovery in Cyprus takes hold, CISCO should also see an increase in investment banking and advisory fees.

History and development of the Group

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

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

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

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

The Bank of Cyprus established its first branch in Greece in 1991 and, in 1994, the Issuer established the life insurance company, Eurolife Ltd (**EuroLife**).

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

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

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

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

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

In June 2012, the banking business carried out by the Issuer'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 Issuer 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 Issuer 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 Issuer on 25 March 2013. On 29 March 2013, all members of the Issuer's Board of Directors resigned from office and the Resolution Authority issued the first set of Laiki Transfer Decrees and Bail-in Decrees under the Resolution Law. The Issuer 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 Issuer 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 Issuer and Laiki Bank"*.

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

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

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

In January 2014, the Issuer released the six-month time deposits that comprised part of the New Deposits (as defined in *"Restructuring of the Issuer and Laiki Bank — Recapitalisation of the Issuer — Holders of deposits and other products of the Issuer as of 26 March 2013"*) issued by the Issuer pursuant to the Recapitalisation, and which had been subject to restrictive measures pursuant to the Capital Controls Decree (as defined in *"Regulation and Supervision of Banks in Cyprus — Capital Control Measures"*). Although, under the Capital Controls Decree, the Issuer had the option of rolling over these deposits into new time deposits with fixed-terms equal to that of the initial deposits, it chose not to exercise this option at all with respect to the six-month deposits released in January 2014. The released deposits are subject to the general restrictive measures currently applicable in the Cypriot banking system.

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

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

- one-third of the deposits was converted into six-month time deposits maturing and automatically released on 31 October 2014.

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

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

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

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

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

On 1 July 2014, the Public Debt Management Office of the Republic of Cyprus repaid €950.0 million of an outstanding €1,987.0 million sovereign bond held by the Issuer. The bond was transferred to the Issuer in March 2013 as part of the acquisition of certain assets and liabilities of Laiki Bank. The bond was pledged as collateral with the ECB and the Issuer used the proceeds of repayment to reduce its ECB funding by €550 million and ELA by €400 million. As the bond was transferred to the Issuer at fair value and redeemed at nominal value, the Group recognised an accounting profit of €99.8 million for the second quarter of 2014, which had a positive impact of €99.8 million or 0.4 percentage points on the Group's CET1 ratio.

Recent Developments

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

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

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

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

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

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

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

On 18 September 2014, the Issuer completed the Capital Raising, in which it raised total gross proceeds of €1 billion. For a more detailed description of the Capital Raising, see "– Capital Raising", below.

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

On 26 October 2014, the Issuer 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% CET1 ratio, including transitional arrangements of CRR/CRD IV, for both the AQR and the baseline stress test scenario. For purposes of the stress test the minimum ratios applied across all participating banks were set at 8% CET1 ratio for the baseline scenario and 6.5% CET1 ratio for the adverse scenario. As a result of the application of the AQR and the stress test, before giving effect to the Capital Raising, the AQR Adjusted CET1 ratio (based on transitional arrangements as of 1 January 2014) of the Issuer is estimated at 7.28%, the Adjusted CET1 ratio after the baseline scenario is estimated at 7.73% and the Adjusted CET1 ratio after the adverse scenario is estimated at 1.51%, resulting in a theoretical aggregated capital shortfall of the Comprehensive Assessment of an estimated €919 million. However, after giving effect to the €1 billion gross proceeds of the Capital Raising in September 2014, the AQR Adjusted CET1 ratio (based on transitional arrangements as of 1 January 2014) of the Issuer increases to 11.62%, the Adjusted CET1 ratio after the baseline scenario increases to 11.53% and the Adjusted CET1 ratio after the adverse scenario increases to 5.85%, resulting in a theoretical aggregated capital surplus of €81 million.

On 29 October 2014, the Issuer published a notice of annual general meeting (the **AGM Notice**) of AGM, which included a number of resolutions submitted to the Issuer by certain shareholders to be examined and, if considered appropriate, adopted by the shareholders of the Issuer, including:

- a special resolution amending the articles to specify that the number of directors shall not be less than seven nor more than 13;
- ordinary resolutions for the removal from office as director of the Issuer of Mr. Anton Smetanin, Mrs. Anjelica Anshakova, Mr. Dmitry Chichikashvili, Mr. Eriskhan Kurazov, Mr. Adonis Papaconstantinou and Mr. Marinos Gialelis; and
- ordinary resolutions for the appointment as director of the Issuer, subject to CBC approval, of Dr. Josef Ackermann, Mr. Wilbur Ross, Mr. Arne Berggren, Mr. Maxim Goldman, Dr. Christodoulos Patsalides and Mr. Michalis Spanos.

In addition, Dr. Christis Hassapis, Mr. Xanthos Vrachas and Mr. Andreas Yiasemides will retire at the AGM and have stated that they will not offer themselves for re-election whereas Mr. Vladimir Strzhalkovskiy, Mr. Marios Kalochoritis and Mr. Ioannis Zographakis will retire at the AGM and offer themselves for re-election and Mr. John Patrick Hourican will offer himself for re-election. It should be noted that Mr Konstantinos Katsaros resigned from his office as director of the Issuer with effect on 20 October 2014. For more information, see “*Management and Corporate Governance*”.

On 31 October 2014, the Issuer sold a UK loan portfolio owned by the Group and largely composed of residential and commercial real estate-backed facilities (the **UK Loan Portfolio**) to purchasers selected through a competitive process. The nominal value of the UK Loan Portfolio, as at the cut-off date for the transaction, was £289 million. The transaction will enhance the Group's liquidity and will have a small positive impact on the Group's CET1 capital due to the release of risk weighted assets. The UK Loan Portfolio is not related to the Group's wholly-owned subsidiary, Bank of Cyprus UK Ltd (**BOC UK**), but is part of the wider UK loan portfolio transferred to the Group pursuant to the Laiki Transfer Decrees.

Capital Raising

On 4 July 2014, the Board of Directors of the Issuer 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 Issuer 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 Issuer 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 Issuer 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 Issuer in connection with the Placing (the **Information Memorandum**).
2. The second phase involved the **Open Offer**: an invitation to eligible existing shareholders of the Issuer to subscribe for up to a total of 833,333,333 new ordinary shares (which, for the avoidance of doubt, comprised 20% of the total number of Placing Shares rounded down to the nearest whole ordinary share) at the price per share of €0.24 (for a total of €200.0 million). Each eligible shareholder could participate in the Open Offer so long as its subscription was for a total consideration of at least €100,000 (a minimum threshold which provides an exemption from the requirement to produce an approved prospectus for the purposes of the Prospectus Directive). The Open Offer started on 31 July 2014 and ended on 21 August 2014. A total of 433,042,768 new

ordinary shares (the **Open Offer Shares**) were clawed back from the Placing pursuant to the Open Offer (for a total of €103.9 million).

3. The third phase is the Retail Offer in which the Issuer will offer up to 416,666,667 new ordinary shares (which is in addition to those sold in the Placing and the Open Offer) for subscription by existing shareholders of the Issuer (which will not include investors who participated in the Placing unless they were already existing shareholders at that time) at a subscription price of €0.24 per share (for a total of €100.0 million), following completion of the Placing and the Open Offer and prior to any listing of the ordinary shares on the CSE and ATHEX (subject to the necessary regulatory approvals).

The subscription price for the ordinary shares is the same for all phases (€0.24 per share) and for both new investors and existing shareholders of the Issuer. The Placing and the Open Offer are together referred to as the **Capital Raising** in this Base Prospectus and have raised total gross proceeds of €1 billion for the Issuer.

On 28 August 2014, at an extraordinary general meeting of the shareholders of the Issuer (the **EGM**), the shareholders of the Issuer, by the requisite majority:

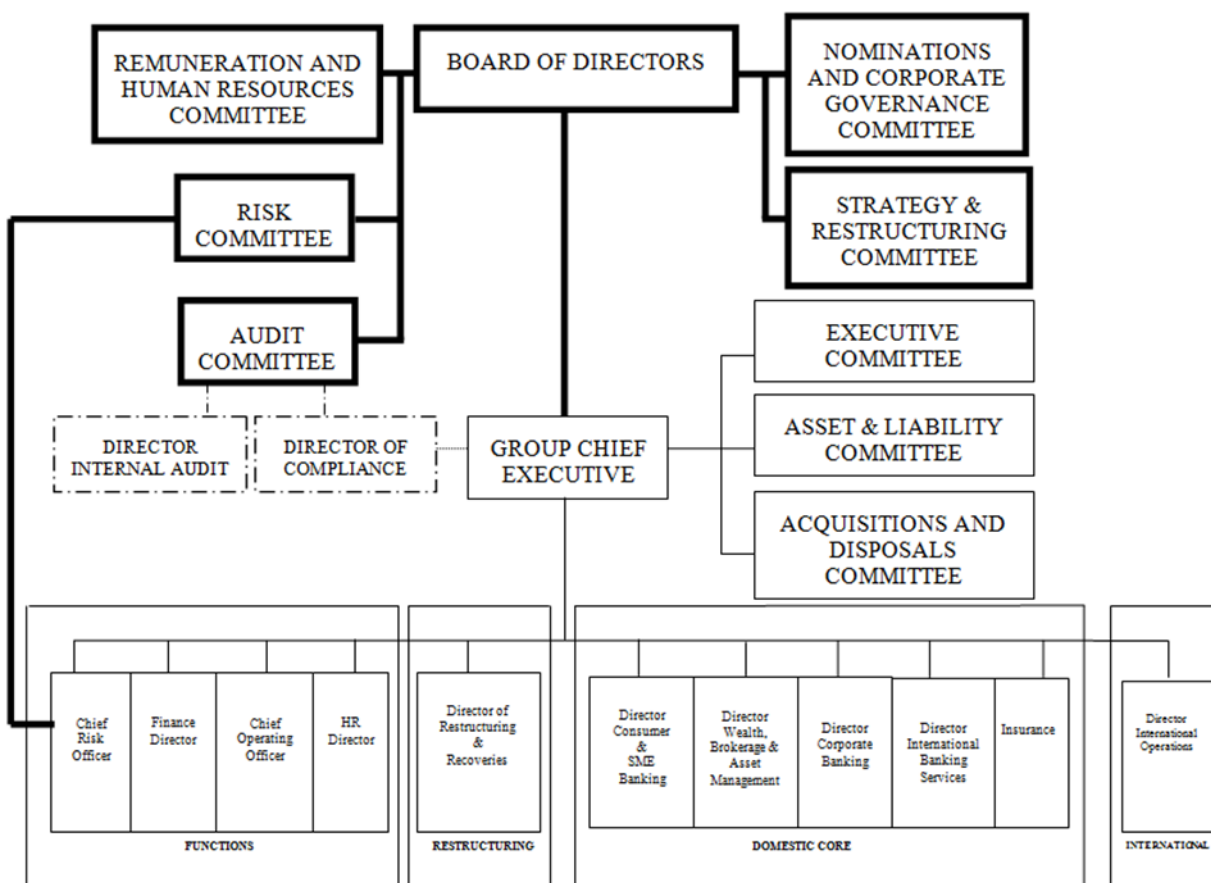
- (a) authorised the issue and allotment of ordinary shares at the price of €0.24 per share to the investors and existing shareholders who were allocated ordinary shares in the Placing and Open Offer (the **Allocated Parties**);
- (b) approved the related reduction of the nominal value of each of ordinary shares of the Issuer 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 Issuer in payment for the Placing Shares (the Issuer was already in receipt of subscription monies of €103,930,264 in total with respect to the Open Offer Shares).

Group Management Structure

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



See "Management and Corporate Governance" for further information on the role of the Board of Directors and the committees of the Board of Directors.

Share capital

The total issued share capital of the Issuer as of the date of this Base Prospectus is €892.2 million divided into 8,922,377,345 ordinary shares of a nominal value of €0.10 each. Laiki Bank, Renova Group, TD Asset Management Inc. and the European Bank of Reconstruction and Development (EBRD), each hold, directly or indirectly, 9.624%, 5.455%, 5.232% and 5.021%, respectively, of the issued share capital of the Issuer. Other than Laiki Bank, Renova Group, TD Asset Management Inc. and EBRD, the Issuer is not aware of any other shareholders holding, directly or indirectly, more than 5% of the issued share capital of the Issuer. The Issuer does not have any shares in issue which carry special control rights.

Legal Organisational Structure

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

| Company | Country | Activities | Percentage holding (%) |
|--------------------------------------|---------|---------------------------|------------------------|
| Bank of Cyprus Public Company Ltd | Cyprus | Commercial bank | N/A |
| The Cyprus Investment and Securities | Cyprus | Investment banking, asset | 100 |

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

| Company | Country | Activities | Percentage holding (%) |
|-------------------------------------|----------------|------------------------|-------------------------------|
| Leasing Company Uniastrum Leasing | Russia | Leasing | 80 |
| MC Investment Assets Management LLC | Russia | Special purpose entity | - |
| Kyprou Finance (NL) B.V. | Netherlands | Financing services | 100 |

In addition to the above companies, at 30 June 2014, the Issuer had 100% shareholding in the companies below. The main activity of these companies is the ownership and management of immovable property and other assets.

Cyprus: Timeland Properties Ltd, Cobhan Properties Ltd, Bramwell Properties Ltd, Elswick Properties Ltd, Birkdale Properties Ltd, Newington Properties Ltd, Innerwick Properties Ltd, Lameland Properties Ltd, Longtail Properties Ltd, Citlali Properties Ltd, Endar Properties Ltd, Ramendi Properties Ltd, Ligisimo Properties Ltd, Thames Properties Ltd, Moonland Properties Ltd, Polkima Properties Ltd, Nalmosa Properties Ltd, Smooland Properties Ltd, Emovera Properties Ltd, Estaga Properties Ltd, Skellom Properties Ltd, Blodar Properties Ltd, Spaceglowing Properties Ltd, Threelfield Properties Ltd, Guarded Path Properties Ltd, Lepidoland Properties Ltd, Stamoland Properties Ltd, Ecunaland Properties Ltd, Tebane Properties Ltd, Cranmer Properties Ltd, Calomland Properties Ltd, Vieman Ltd, Les Coraux Estates Ltd, Natakou Company Ltd, Karmazi (Apartments) Ltd, Kermia Palace Enterprises Ltd, Oceania Ltd, Dominion Industries Ltd, Ledra Estates Ltd, Eurolife Properties Ltd, Elias Houry Estates Ltd, Auction Yard Ltd, Laiki Bank (Nominees) Ltd, Laiki Lefkothea Center Ltd, Labancor Ltd, Imperial Life Assurance Ltd, Philiki Management Services Ltd, Laiki EDAK Ltd, Nelcon Transport Co. Ltd, Steparco Ltd, Jobberco 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, Etoric Properties Ltd, Belvesi Properties Ltd, Ingane Properties Ltd, Indene Properties Ltd, Canosa Properties Ltd, Silen Properties Ltd, Kernland Properties Ltd, Unduma Properties Ltd, Iperi Properties Ltd, Warmbaths Properties Ltd and Salecom Ltd.

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

In addition, at 30 June 2014, the Issuer had 100% shareholding in the intermediate holding companies below.

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

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

Investments in associates and joint ventures

The following table sets out the Group's associates and joint ventures as of 30 June 2014 which are accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary company nor a joint venture.

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

CNP Cyprus Insurance Holdings Ltd (CNP)

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

Interfund Investments Plc

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

Aris Capital Management LLC

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

Rosequeens Properties SRL

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

Grand Hotel Enterprises Society Ltd

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

On 11 September 2014, the Group disposed of its interest in GHES, including (i) the facility agreement between GHES and the Issuer's Romanian branch, (ii) the Group's 35.3% shareholding in GHES and (iii) the subordinated loan agreement from GHES. The sale consideration was €95.0 million.

Marfin Diversified Strategy Fund plc and Byron Capital Partners Ltd

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

Banking and financial services

Overview

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

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

| | 31 December 2013 | | 30 June 2014 | |
|----------------|-------------------------|-------------------|---------------------|-------------------|
| | € billion | % of total | € billion | % of total |
| Consumer..... | 8.4 | 31.3 | 5.9 | 23.9 |
| SME..... | 6.1 | 22.9 | 2.6 | 10.4 |
| Corporate..... | 12.2 | 45.8 | 4.1 | 16.3 |
| | 26.7 | 100.0 | 12.6 | 50.6 |

| | 31 December 2013 | | 30 June 2014 | |
|-------------------------------------------|------------------|--------------|--------------|--------------|
| | € billion | % of total | € billion | % of total |
| Restructuring and recovery ⁽¹⁾ | | | | |
| of which: | | | | |
| - Corporate | - | - | 5.8 | 23.5 |
| - SME | - | - | 1.5 | 6.0 |
| - Recoveries | - | - | 4.1 | 16.3 |
| Total restructuring and recovery | - | - | 11.4 | 45.8 |
| International banking services | - | - | 0.8 | 3.3 |
| Wealth management | - | - | 0.1 | 0.3 |
| Total | 26.7 | 100.0 | 24.9 | 100.0 |

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

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

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

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

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

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

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

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

Consumer Banking

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

Most of the Issuer's consumer lending takes the form of mortgage loans, overdraft accounts with predetermined credit limits and personal and hire purchase loans. The Issuer offers flexible mortgage loans according to the needs of its customers. For small business lending, security is almost always taken in the form of personal guarantees from the owner of the borrowing company and/or other persons backed by mortgages over real property and/or pledges of shares and/or fixed and floating charges over corporate assets.

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

- *Improving customer experience through all channels.* Customer service standards for branch appearance, cashier and telephone service (e.g. response time and length of customer queues) and training programmes for staff on these customer service standards have been developed and rolled out. The customer's experience is continuously monitored through call centre collection of customer feedback and market research. The migration of information technology systems, which was completed in June 2014 across all divisions, also improved the efficiency of customer service through the Issuer's alternative distribution channels such as its ATM network, e-banking platform (1bank) and mobile banking. 1bank offers customers the opportunity to carry out banking transactions through the phone or internet 24 hours a day, seven days a week.
- *Retain and increase deposits while managing costs.* Targeted marketing campaigns employing mass and social media, mail and the internet are used to communicate the Issuer's recovery and renewed strength. Following the migration of IT systems, the Issuer has adjusted its customer segmentation into "premier", "mass affluent" and "mass" in order to tailor its products and services to customer needs and implement loyalty schemes. Premier customers are retail customers with deposits with the Issuer of between €75,000 and €500,000, mass affluent customers are retail customers with deposits with the Issuer of between €25,000 and €75,000 and mass customers are retail customers with deposits with the Issuer of less than €25,000.
- *Manage and improve quality of loan portfolio.* The consumer loan portfolio is monitored in order to identify potential customers who might default or require restructuring solutions. The Issuer has

implemented targets on asset quality, based on 90+DPD targets for each branch, and collectability, based on a percentage of arrears from the previous month to be collected by each branch in the current month.

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

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

SME Banking

The Group's banking facilities for SMEs comprise overdraft accounts, loans of fixed maturity, invoice discounting, domestic factoring, trade finance, import and export factoring, hire-purchase financing and leasing, bills discounting and stock financing. The Issuer also provides letters of credit and letters of guarantee. The Issuer's SME lending in Cyprus is channelled through 14 business centres, which are separate from the Issuer's retail branch network.

For SME lending, security is almost always taken in the form of personal and corporate guarantees from the owners/shareholders of the borrowing company and/or other persons backed by mortgages over real property and/or pledges of shares and/or fixed and floating charges over corporate assets.

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

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

also implemented new systems and processes that improve the speed at which client requests are authorised and approved.

- *Improve quality of new advances.* The strategy for new advances is directed to viable customers with proven repayment ability based on the Issuer's lending policy/criteria and the Loan Origination Directive. The SME division will monitor the general economic and industry performance indicators and will develop internal tools which will allow it to assess and identify the growth potential as well as the risks of promising sectors of the domestic economy such as professional services, tourism and hospitality, education, energy, health, information and communication and green projects. The analysis of promising sectors will involve discussions with the economic research and finance division on economic and industry performance indicators, such as NPL statistics produced by the CBC (see "*The Banking Sector in Cyprus — Cyprus Banking System 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 Issuer has implemented targets on asset quality, based on 90+DPD targets for each business centre, and collectability, based on a percentage of arrears from the previous month to be collected by each business centre in the current month. The Issuer has developed tools and action plans for customers at an early stage of delinquency, which have been implemented in order to improve collections prospects and provide sustainable and viable restructuring solutions. The SME banking division is working closely with the RRD team in developing these strategies.
- *Stabilise deposit balances while managing costs.* Targeted marketing campaigns use mass and social media, mail and the internet to communicate the Issuer's recovery and renewed strength to potential customers. Deposit accounts are monitored daily in order to identify and contact clients who are potential depositors or have increased their rate or size of withdrawals or account activity.
- *Support for SMEs through financing and financial assistance planning.* The SME division assists a selection of SMEs with their financial business planning, taking account of their banking activity, financial performance ratios and prospects. The SME division is in the process of developing cash flow calculation and loan repayment tools for the Issuer's website. In January 2014, the consumer and SME division of the Issuer established a new department of European relations which focuses on the provision of loans to SMEs which are partially administered, funded or guaranteed by the European Investment Fund (EIF) and/or the European Investment Bank (EIB). The Cyprus Entrepreneurship Fund (CYPEF) was recently created by the Government to strengthen entrepreneurship in Cyprus by providing financing to SMEs on favourable terms, including reduced interest rates, potentially reduced collateral requirements and extended loan maturities and grace periods. Amounts dedicated from the Government to CYPEF are made available through the EIB and CYPEF is managed by the EIF. The EIF was established in 1994 to provide financial support for SMEs in Europe and the EIB and the European Commission have a 62.1% and 30.0% equity stake, respectively, in the EIF. The European relations department is in the process of developing products backed by the CYPEF. As of 30 June 2014, the Issuer had €22.8 million (Jeremie FRSP I and II) in loans to SMEs which were partially funded by the EIF and €3.6 million (Jeremie FLPG) in loans to SMEs which were partially guaranteed by the EIF.
- *Enhance profitability with a focus on fee generation.* The SME banking division continues to focus on fee-generating activities such as credit cards, trade finance, transaction banking services and corporate finance.

Corporate Banking

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

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

Most of the Group's corporate lending takes the form of loans bearing interest rates which vary according to each customer's credit risk. Maturities of corporate loans in the Issuer's portfolio typically range from a period of less than one year to ten years depending on the nature and purpose of the facility. In general, security is required in the form of fixed or floating charges on the assets of the borrower, mortgages over real property, pledges of shares, cash collateral and personal and/or corporate guarantees.

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

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

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

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

- *Enhance profitability with a focus on fee generation.* The corporate banking division continues to focus on fee generating activities such as factoring, debtor collection, assessment services, ledger administration, and trade finance. Transaction banking and cash management services will be launched for large corporate customers with high credit turnover and with a need for specialised electronic services. Relevant products will cater for liquidity management, payments and reporting. Furthermore, corporate finance services will be promoted in cooperation with CISCO and the cross

selling of credit cards and insurance products in conjunction with the consumer business line is also being undertaken.

- *Adopting a customer-centric culture to provide high quality service.* In order to provide high-quality service, the corporate banking division has assigned its most experienced relationship managers to "prime" clients with advances of €20 to €100 million, an annual credit turnover of more than €25 million and/or significant market influence. The relationship managers are responsible for the development of account plans which identify and address their financing needs (as well as those of their key shareholders and executives) and promote the cross-selling of products such as payroll services or corporate credit cards. In order to maintain the quality of service provided by its relationship managers, the corporate banking division has implemented a policy of no more than 10 "prime" customer groups per relationship manager. With respect to the rest of corporate banking client base, a limited number of customer groups (approximately 20) have been allocated to relationship officers, with the objective of maximising the quality of customer service and the effectiveness of account monitoring.
- *Targeted new lending to promising sectors of the domestic economy.* The corporate banking division has begun to monitor the general economic and industry performance indicators and has started to develop internal tools which will allow it to assess and identify the growth potential as well as the risks of promising sectors of the domestic economy such as professional services, tourism and hospitality, education, energy, health, information and communication and green projects. The analysis of promising sectors involves discussions with the economic research department and finance division on economic and industry performance indicators, such as NPL statistics produced by the CBC (see "*The Banking Sector in Cyprus — Cyprus Banking System Structure — Cyprus banking system by assets*"). The corporate banking division works with the economic research department to formulate industry performance indicators, which rank each sector using a number of key performance indicators. As of 30 June 2014, 29.1% of the Group's total loan portfolio in Cyprus was concentrated in the real estate and construction sectors (see "*Risk Factors — Risks Relating to the Group's Business — A significant proportion of the Group's loan portfolio is comprised of non-performing loans, a significant proportion of which are comprised of large corporate exposures and exposures to the real estate and construction economic sectors*"). However, following the transfer of corporate loans to the RRD, the corporate banking division has been left with a corporate loan portfolio which is more diversified with concentrations in the trade, hotels and catering, manufacturing and services sectors. Industry expertise is also being developed through the collection and analysis of industry specific information for use by relationship officers and managers. Specific clients with a healthy risk profile in the targeted sector are approached with a tailored financing package to address their specific needs.
- *Protecting the quality of the corporate loan portfolio.* "Early warnings" such as the reduction of inflows into current accounts are used to identify clients that are at risk of default. The quality of new lending is also maintained by adhering to the new Group lending policy which has imposed tighter credit approval requirements in line with the recently enacted Loan Origination Directive. In addition, the corporate banking division is developing a close working relationship with the RRD in order to assess pre-arrear options for clients with early warning signs of default and implementing efficient post-restructuring procedures for corporate clients that have been rehabilitated by the RRD. For a description of the process for the management of delinquent corporate loans, see "*Restructuring and Recoveries Division*" below.
- *Retain deposits while managing costs.* Deposit accounts are monitored daily in order to identify and contact clients who are potential depositors or that have increased their rate or size of withdrawals or account activity. In particular, the corporate banking division has identified customer groups with deposits of more than €500,000 and/or which withdrew substantive amounts of funds before 25 March 2013 and is implementing, in conjunction with the Group's wealth management division, a

customised action plan to reaffirm the Group's relationship with these customer groups. In particular, the Issuer is promoting the services of the wealth management division to key persons (such as major shareholders, directors and senior management) at these customer groups. The development of new consumer deposit products for "premier" customers are being promoted to key executives to foster a closer institutional relationship with these customer groups.

International Banking Services

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

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

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

- *Enhancing customer service based on customer characteristics.* Through its experienced and trained dedicated personal bankers, IBS's objective is to offer high-quality customer service based on its understanding of the needs and characteristics of each particular customer segment. IBS utilises information technology based service channels and products to offer fast, reliable, cost effective and customised banking solutions based on each customer segment's needs. One of IBS's primary objectives is the reactivation of existing clients' accounts.
- *Rebuilding relationships with, and retaining the deposits of, large corporate customers.* Because large corporate customers were the most affected by the bail-in of the Issuer's depositors pursuant to the Recapitalisation and now constitute a significant portion of the Issuer's shareholders, a key focus for IBS has been the strengthening of relationships with its large corporate customers by offering dedicated service and continuous information.
- *Rationalising international business unit network and becoming more cost-efficient.* IBS has reduced the size of its international business unit network from 13 in March 2013 to eight in June 2014 which includes an international business unit specialising in the service of shipping customers. The IBS network also includes two international lending units. IBS staff levels increased from approximately 260 immediately prior to the Recapitalisation to approximately 530 due to the absorption of employees of ex-Laiki Bank. As a result of the voluntary retirement scheme (VRS) implemented in 2013, as well as staff transfers to other divisions, IBS has reduced its staff to approximately 350 as of 30 June 2014.

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

Restructuring and Recoveries Division

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

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

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

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

RRD Structure

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

- *Retail and SME arrears management.* Four call centres staffed by a total of 46 credit officers focused on consumer loan collections. Customers addressed by these call centres have increased from approximately 3 thousand in November 2013 to approximately 17 thousand in June 2014. The retail arrears management department employs 59 customer relationship officers and another 61 customer relationship officers have been allocated to eight business support units focused on debt collection and restructuring in relation to SME loans. As of 30 June 2014, the business support units were responsible for managing a SME portfolio of €1.5 billion.
- *Corporate management services.* All corporate exposures greater than €100 million are managed by the major corporates management team. As of 30 June 2014, the major corporates management team was responsible for managing a total corporate loan portfolio of €3.6 billion. The major corporates management team is comprised of 37 full-time employees supported by external accountants and consultants. Each corporate group was assigned a small team of dedicated officers to develop a tailored action plan for the group. An action plan has been internally agreed and is in the process of being executed for each corporate group managed by the major corporates management team.

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

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

Collection process for delinquent loans

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

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

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

Restructuring solutions

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

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

Short-term restructuring solutions can include the following:

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

Long-term restructuring solutions can include the following:

- *Extension of maturity*: extension of the maturity of the loan which allows a reduction in instalment amounts by spreading the repayments over a longer period.
- *Additional security*: when additional liens on unencumbered assets are obtained as additional security from the borrower in order to compensate for the higher risk exposure and as part of the restructuring process.
- *Forbearance of penalties in loan agreements*: waiver, temporary or permanent, of violations of covenants in the loan agreements.

- *Rescheduling of payments*: the existing contractual repayment schedule is adjusted to a new sustainable repayment program based on a realistic, current and forecasted, assessment of the cash flow generation of the borrower.
- *Strengthening of the existing collateral*: a restructuring solution may entail the pledge of additional security, for instance, in order to compensate for the reduction in interest rates or to balance the advantages the borrower receives from the restructuring.
- *New loan facilities*: new loan facilities may be granted during a restructuring agreement, which may entail the pledge of additional security and in the case of inter-creditor arrangements the introduction of covenants in order to compensate for the additional risk incurred by the Group in providing a new financing to a distressed borrower.

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

Wealth, Brokerage and Asset Management Division

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

Institutional Wealth and Global Markets

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

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

trading), the department also offers customised risk solutions for corporations that address both market and asset price risk, including derivative products to hedge exposures to interest rates, foreign exchange, commodities and/or inflation. The treasury sales department is also responsible for designing and hedging structured investment products.

Private Banking

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

Wealth Management Services

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

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

Investment and Energy Strategy

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

The Cyprus Investment and Securities Corporation Ltd (CISCO)

CISCO was established in 1982 as the first investment and securities house in Cyprus. Since 1988, CISCO has been a wholly-owned subsidiary of the Group. CISCO provides a range of specialised financial services encompassing investment banking, asset management and brokerage services. CISCO has a financial service provider licence from the CySEC and is a member of the CSE and a remote member of ATHEX. Its market share for brokerage activities on the CSE reached 17.9% in 2013 (2012: 23.0%).

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

Laiki Financial Services Ltd

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

Restructuring Plan Objectives

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

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

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

Insurance Services

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

Life Assurance

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

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

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

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

As of 30 June 2014, EuroLife had total funds of €462.0 million, of which €363.4 million represented funds attributable to unit linked policies where the investment risk is passed on to policyholders. A further €82.4 million represented the deficiency reserve of EuroLife which is invested in short-term money market instruments, corporate bonds and government bonds. In addition, €5.6 million represented funds attributable to group pension contracts under EuroLife's management. The remaining €10.6 million represented non-unit-linked funds which are invested primarily in government bonds and bank deposits, with relatively small percentages invested abroad or in the Cypriot equity market.

EuroLife operates a branch in Greece under the name Kyprou Zois, which offers credit insurance and savings products to the Issuer'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 Issuer is exploring the possibility of transferring the portfolio to another insurance company.

General Insurance

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

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

GIC possesses a licence and offers insurance cover under 15 insurance technical classes, including: accident, liability for ships, general liability, land vehicles, goods in transit, miscellaneous financial loss, fire and natural forces, legal expenses and other damage to property.

The accounting class of fire and other damage to property is GIC's main business and during the year ended 31 December 2013 accounted for approximately 43.2% of gross premium income (47.6% during the year ended 31 December 2012) and during the three months ended 31 March 2014 accounted for approximately 51.5% of gross premium income (49.3% during the three months ended 31 March 2013). As of 31 March 2014, GIC had an approximately 18.9% share of the fire insurance market in Cyprus.

GIC's claims ratio for the fire business is historically very low, with risk being spread across Cyprus. Risks are spread among a large number of smaller policies and GIC has traditionally had a relatively low maximum retention level. However, because of the low value of much of the property insured, approximately 70.3% of GIC's fire policies as of 30 June 2014 fall within its retention level. The remaining business is principally reinsured on a treaty and facultative basis with Munich Re and other international reinsurers.

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

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

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

CNP

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

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

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

International Operations

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

- all international banking subsidiaries of the Group in the United Kingdom, Russia and Channel Islands;
- the management of the loan portfolio transferred to the Issuer from Laiki Bank's branch in the United Kingdom on 1 April 2013;

- the winding-down and disposal of the Group's remaining loan portfolio and related collateral in Romania;
- the management of several international exposures and loans;
- the management of the Group's participation in Byron Capital Partners Ltd and Marfin Diversified Strategy Fund Plc; and
- supporting the Group's Treasury division in the management of funding gaps associated with the Issuer's international subsidiaries.

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

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

Russia

The Group operates in the Russian market primarily through Uniastrum. Uniastrum was founded in 1994, is headquartered in Moscow and, as of August 2014, had a regional network of 131 branches, including 85 regional offices in 48 Russian regions. The Group also provides leasing services through a subsidiary in Russia.

In line with the Group's Restructuring Plan and divestment of non-core business, the Group has closed 52 outlets and retired approximately 1,197 employees in Russia since December 2013, which has had the effect of reducing operating costs. To further optimise Uniastrum's branch network and overall costs and enhance its operational efficiency at all business levels, the Group implemented the following during the first eight months of 2014:

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

- took steps to increase deposit balances and liquidity buffers of Uniastrum.

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

The Issuer may be required to provide additional funding or capital to Uniastrum, in particular, if the CBR determines that Uniastrum requires additional capital as a result of its review of Uniastrum's loan portfolio which commenced on 31 July 2014.

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

Retail Banking

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

SME Banking

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

Corporate Banking

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

United Kingdom

Bank of Cyprus UK Ltd

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

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

United Kingdom branch of Laiki Bank

On 1 April 2013, the customer loans and advances as well as the premises (6 properties) of the United Kingdom branch of Laiki Bank were transferred to the Group pursuant to the Laiki Transfer Decrees. These advances will continue to be administered by the United Kingdom branch of Laiki Bank under a service level agreement with the Issuer. As of 31 December 2013 and 30 June 2014, customer loans and advances amounted to €561.6 million and €395.5 million, respectively. Responsibility for the sale of the premises maintained by the United Kingdom branch of Laiki Bank has been assumed by the Group's valuation and estate department. In line with the Restructuring Plan's objective for the disposal of non-core assets, on 31 October 2014, the Issuer sold the UK Loan Portfolio. The nominal value of the UK Loan Portfolio, as at the cut-off date for the transaction, was £289 million.

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 Issuer or BOC UK.

Channel Islands

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

Greece

The Group exited Greece, a market in which it has operated for the last 22 years, through the disposal of loans, fixed assets and deposits of its banking and leasing operations in Greece to Piraeus Bank pursuant to the Greek Operations Decree. The Group's remaining activities and assets in Greece following the disposal to Piraeus Bank include the provision of insurance services through the Greek branch of EuroLife, the management of a €245.7 million, as at 30 June 2014, contingent off balance sheet exposure comprised of letters of guarantee issued by the Issuer before the date of the Greek Operations Decree (which no longer

have the benefit of security and collateral as a result of the disposal of the loans to Piraeus Bank) and the management of a real estate portfolio, consisting of repossessed properties that were not part of the assets sold to Piraeus Bank under the Greek Operations Decree. Responsibility for the management of the Group's real estate assets and letters of guarantee exposure in Greece has been assumed by the Group's operations division. See "*Property*" below for more detail on the Group's real estate in Greece.

Romania

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

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

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

Ukraine

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

International Corporate Banking

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

Property

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

- the Group's real estate portfolio in Cyprus and Greece which is principally comprised of real estate which had been seized by the Group as a result of enforcing loan collateral as part of customer loan

restructurings. The Group's real estate portfolio in Romania is managed by the IO division (see "*International Operations — Romania*" above); and

- the Group's two property development companies in Cyprus, Kermia Ltd (**Kermia**) and Kermia Properties & Investments Ltd (**KPI**).

As of 30 June 2014, the Group had own use and investment properties in Greece with a total book value of €176.6 million. As of 30 June 2014, the Group had own use and investment properties in Cyprus, including the properties owned by Kermia and KPI, with a total book value of €485.2 million.

Kermia and KPI are both wholly-owned subsidiaries of the Group with total assets as at 30 June 2014 of €35.7 million and €16.6 million, respectively. Kermia specialises in the development, trading and management of property and owns Kermia Hotels Ltd, which manages the Kermia Beach Bungalow Hotel, a tourist complex in Ayia Napa, Cyprus. KPI is mainly engaged in the development and management of property.

In line with the Restructuring Plan, the Group's operations division is focused on the disposal of the Group's real estate portfolio in Greece and Cyprus, including the Group's interests in Kermia and KPI. See "*Risk Factors — Risks Relating to the Economic Crisis in Cyprus — Exposure to the Cypriot residential real estate market makes the Group vulnerable to developments in this market*" for a discussion of the risks involved in the disposal of real estate in Greece and Cyprus.

Group Compliance Division

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

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

- *The Regulatory and Ethics Compliance Department.* The overall objective of this department is to establish and maintain an ethical corporate culture for the Group and its primary responsibilities include facilitating the identification, management and monitoring of compliance risk, reporting on key compliance issues, monitoring and supporting key corporate governance responsibilities, monitoring new legislation and regulations, supporting Group subsidiaries and branches with their compliance matters and managing the training of staff on regulatory and compliance matters; and
- *The Money Laundering Compliance Department.* This department is divided into four sub-departments:
 - (i) The Money Laundering Risk Monitoring Team is primarily responsible for investigating alerts, carrying out internal investigations, submitting reports on suspicious transactions to the financial intelligence unit and responding to compliance queries (including from correspondent banks);
 - (ii) The Money Laundering Assurance Team is primarily responsible for onsite anti-money laundering visits and risk-control self assessments;

- (iii) The Money Laundering Risk Assessment Team performs due diligence on new and existing client accounts, politically exposed persons and other high risk customers, sanctions reviews and assesses correspondent banks and third parties (introducers); and
- (iv) The Operations Team administers information technology systems and the policy and procedural framework of the department, as well as the required reporting to the CBC. The operations team is also responsible for training staff on anti-money laundering issues and for monitoring overseas operations.

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

- *Risk Appetite Statement and Guidelines in Relation to Mitigating Risk Pertaining to Money Laundering and Terrorist Financing.* This policy provides a framework for executive management and the Board of Directors to more clearly define a risk based strategy for the prevention and suppression of money laundering and terrorist activities.
- *Policy Relating to the Prevention of Money Laundering and Terrorism Financing.* This policy sets out rules on the appointment of a compliance officer for each subsidiary company, performance of due diligence on customers and transaction parties and the retention of appropriate records and data for at least 10 years.

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

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

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

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

For more information, see "*Risk Factors — Risks Relating to the Group's Business — The Group is exposed to the risk of fraud and illegal activities*" and "*Regulation and Supervision of Banks in Cyprus — Money Laundering and Terrorist Financing*".

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

- Complaints Management policy;
- Competition Law policy;

- New products and services policy;
- Anti-bribery policy;
- Data protection policy;
- Market abuse procedure;
- Regulatory developments and communications with competent authorities; and
- MiFID obligations on personal transactions.

The following policies are in process of being finalised:

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

Material Contracts

Set out below is a summary of all material contracts that are not entered into in the ordinary course of the Issuer's business, which could result in any Group member being under an obligation or entitlement that is material to the Issuer's ability to meet its obligation to Covered Bondholders in respect of the Covered Bonds 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 Issuer has entered into a framework agreement with EBRD, pursuant to which the Issuer has agreed that the Capital Raising will be carried out in accordance with and the Issuer will apply, certain environmental and social policies of EBRD.

Litigation and Related Matters, including Regulatory Proceedings

Neither the Issuer 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 Issuer is aware) during the 12 months preceding the date of this Base 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 **Decrees**) and to the problems brought about as a result of the said Decrees. In most cases, the Issuer 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 Issuer

A number of customers have filed actions against the Issuer alleging that the Issuer is guilty of mis-selling in relation to securities issued by the Issuer and have claimed various remedies, including the return of the money they have paid. The Issuer 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 Issuer observes that such claims vary between themselves considerably. In the case of many of them (including all institutional investors and those purchasers who had received investment advice from independent investment advisers before proceeding with the purchase) the Issuer believes that it has a number of viable legal defences, which it will advance in the course of proceedings, particularly with respect to institutional holders. In the case of retail investors, particularly where it can be documented that the relevant Issuer officers "persuaded" them to proceed with the purchase and/or purported to offer "investment advice", the Issuer may face more significant difficulties. In any event, the resolution of the claims brought in the courts of Cyprus and Greece could take a number of years. Whilst there can be no assurance that the Issuer will be successful in defending all the relevant claims, it is not thought that such claims will have a material impact on the financial condition of the Issuer.

In addition, the CBC has conducted an investigation into the Issuer's issue of capital securities and concluded that the Issuer breached certain regulatory requirements concerning the issue of 2009 Convertible Capital Securities but not in relation to the CECS. The CBC imposed upon the Issuer a fine of €4,000. On 25 October 2014, the Issuer filed a recourse before the Supreme Court against the CBC's ruling and its imposition of a fine.

The Hellenic Capital Market Commission Investigation

The Issuer is currently under investigation in Greece by the Hellenic Capital Market Commission (the **HCMC**) in relation to the issue of 2009 Convertible Capital Securities and CECS. The HCMC is investigating whether the Issuer violated certain provisions of Greek law by providing investment advice without having entered into the required client agreements or having conducted the required fitness test pursuant to article 25 of Greek law 3606/2007 (transposing Directive 2004/39/EC on Markets in Financial Instruments) and the implementing regulation.

The HCMC may impose a fine of up to €3 million or an amount equal to double the amount of any benefit accrued to the Issuer. If the HCMC imposes a fine on the Issuer, the Issuer has the right to judicial review in the administrative courts in Greece. An adverse outcome may facilitate civil actions against the Issuer. However, the Group does not expect that the final outcome will have a material adverse effect on the financial condition or the reputation of the Group. While the decision of the HCMC in this matter will not be binding on the Greek or Cypriot courts, it may be put before the court by the complainants in any proceedings against the Issuer.

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 Issuer.

The Cyprus Securities and Exchange Commission Investigations

On 2 August 2013, CySEC published its conclusions regarding an investigation it had conducted into the Issuer concerning the failure in June 2012 to disclose material information to investors concerning a capital shortfall to meet the European Banking Authority (**EBA**) requirements. CySEC came to the conclusion that the Issuer was in breach of the Law on Insider Dealing and Market Manipulation (Market Abuse) of 2005 and on 27 November 2013 imposed an administrative fine on the Issuer of €70,000. On 27 November 2013, CySEC also imposed administrative fines on certain of the then members of the Board of Directors. On 14 August 2013 the Issuer filed a recourse before the Supreme Court challenging CySec's decision published on 2 August 2013. On 8 January 2014, the Issuer filed a recourse before the Supreme Court challenging CySEC's decision (as far as concerns the Issuer) of 27 November 2013.

CySEC has concluded (in two stages) during 2013 and 2014 its investigation in respect of the Group's exposure to Greek Government bonds, related non-disclosure of material information and other corporate

governance deficiencies. In this respect, CySEC has issued two decisions, coming to the conclusion that the Issuer was in breach of certain laws regarding disclosure of information and has imposed as administrative fines upon the Issuer the total sum of €1,110,000. It has also imposed fines upon certain of the then members of the Board of Directors and management of the Issuer. The Issuer has filed a recourse before the Supreme Court regarding the decisions of CySEC and the fines imposed upon it. CySEC has meanwhile filed legal actions against the Issuer for the non-payment of the fines imposed.

Recently, CySEC issued its decision regarding the Group's failure to publish its 2012 annual financial statements within the legally prescribed time limits. No fine was imposed, but a reprimand has been administered.

On 13 October 2014, CySEC issued certain “observations” to the Issuer in relation to certain matters in its financial statements for 2010 and 2011 relating to certain disclosures for assumptions used in goodwill impairment testing. No fine was imposed and no reprimand was administered.

In addition to the above, as of the date of this Base Prospectus, CySEC is in the process of investigating:

- The increase of the share capital of Uniastrum in 2008.
- The level of goodwill impairment of Uniastrum recognised in the 2012 interim financial statements of the Issuer.
- Matters concerning the Issuer's investment in Banca Transilvania.
- A possible violation of Article 11 (1) (a) of Law 116 (I) / 2005, as in force, regarding the non-disclosure of inside information in relation to the funding through the ELA.
- A possible violation of Article 11 (1) (a) of Law 116 (I) / 2005, as in force, regarding the non-disclosure of inside information in relation to a request by the Issuer to the Ministry of Finance for granting additional state guarantees worth €3 billion, for bonds that the Issuer intends to issue for liquidity purposes.
- The adequacy of provisions for impairment of loans and advances recognised by the Issuer in the years 2011 and 2012.
- The level of impairment of Greek government bonds in 2011.

A decision of CySEC will not be binding on the courts. If a person wishes to claim damages or any other remedy against the Issuer, he must bring fresh proceedings against the Issuer before the competent Courts of the Republic of Cyprus.

Bail-in related litigation

Depositors

A number of the affected depositors filed claims against the Issuer and other parties (such as the CBC and the Ministry of Finance of Cyprus) on the ground that, inter alia, the Resolution Law and the Bail-in Decrees are in conflict with the Constitution of the Republic of Cyprus and the European Convention on Human Rights. Actions on the part of the affected depositors have been filed before the District Courts (the **District Courts**) and their objective is to obtain damages for the loss allegedly sustained by them as a result of the bail-in of their deposits effected by the relevant Decrees. In a number of those actions, interim orders were issued prohibiting the Issuer from treating the deposits of the applicants in question as bailed-in (i.e. converted into shares of the Issuer). The Issuer took active steps and obtained the discharge and cancellation of all of these interim orders. In parallel, the Issuer is defending the actions of depositors vigorously.

Resolution of disputes through the courts in Cyprus can take five years or more and accordingly, the Issuer believes that the substantive proceedings before the District Courts will take a significant period of time.

Shareholders

Numerous claims filed by shareholders against the Government and the CBC before the Supreme Court in relation to the dilution of their shareholding as a result of the Recapitalisation pursuant to the Resolution Law and the Bail-in Decrees issued thereunder. The objective of these proceedings before the Supreme Court was to obtain the annulment (i.e. cancellation and setting aside) of the Bail-in Decrees as unconstitutional and/or unlawful and/or irregular. The Issuer appeared in these proceedings as an interested party and has supported the position that as with depositors the cases should be adjudicated upon in the context of private law. As of the date of this Base Prospectus, both the Resolution Law and the Bail-in Decrees have not been annulled by a court of law and thus remain legally valid and in effect. On 9 October 2014, the Supreme Court, accepting the Government's and the Issuer's position, ruled that the proceedings fall within private and public law, and accordingly all recourses instituted before the Supreme Court (in its revisional jurisdiction) were dismissed. It is expected that actions for damages will be instituted in due course before the District Courts. Final adjudication of these claims through the courts in Cyprus could take a number of years.

Claims based on set-off

Certain claims have been filed by customers against the Issuer. These claims allege that the implementation of the bail-in under the Bail-in Decrees was not carried out correctly in relation to them and, in particular, that their rights of set-off were not properly respected. Such proceedings will take a long time before a final outcome is reached and it is not thought that they will have a material impact on the financial condition of the Issuer.

Laiki Bank depositors and shareholders

The Issuer has been joined as a defendant with regard to certain claims which have been brought against Laiki Bank by its depositors, shareholders and holders of debt securities. These claims have been brought on grounds similar to the claims brought by the Issuer's bailed-in depositors and shareholders as described above. Again, the legal process will be long. The Issuer will continue defending such proceedings vigorously.

Implementation of Decrees

Occasionally, other claims are brought against the Issuer in respect of the implementation of the Decrees issued following the adoption of the Resolution Law (as regards the way and methodology whereby such Decrees have been implemented). All such claims are being vigorously disputed by the Issuer, in close consultation with the appropriate state and governmental authorities.

The position of the Issuer is that the Resolution Law and the Decrees take precedence over all other laws. As matters now stand, both the Resolution Law and the Decrees issued thereunder are constitutional and lawful, in that they were properly enacted and have not so far been annulled by any court.

Commission for the Protection of Competition Investigation

Following an investigation, which began in 2010, the Cypriot Commission for the Protection of Competition (the **CPC**) in April 2014 issued its statement of objections, alleging violations of Cypriot and EU competition law relating to the activities and/or omissions in respect of card payment transactions by, among others, the Issuer. 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 Issuer (the Issuer owns 75% of shares in JCC) together with the conduct of other banks, violates competition law in various respects. Both the Issuer and JCC are contesting the allegations and charges.

There is also an allegation concerning the Issuer's arrangements with American Express, namely that such exclusive arrangements violate competition law. The Issuer contests such allegations and intends to file a defence in the matter.

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

CNP – Arbitration

CNP had certain exclusive arrangements with Laiki Bank with respect to insurance products offered in Cyprus through the formation of a local company (**CNP Cyprus**). In this local company, CNP France held 50.1% of the shares and Laiki Bank held 49.9% of the shares. In the context of the total arrangement between the parties, two agreements were in place between CNP and Laiki Bank, a Shareholding Agreement (the **Shareholding Agreement**) and a Distribution Agreement (the **Distribution Agreement** and, together with the Shareholding Agreement, the **Agreements**). As regards the Shareholding Agreement, the Issuer (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 Issuer is a successor to Laiki Bank in respect of both Agreements and that the said Agreements (particularly the Distribution Agreement) have been violated. Sums of €105 million and €75 million are claimed by CNP against the Issuer. The Issuer takes the view that it has viable defences in respect of both proceedings which it intends to contest vigorously. One of the defences raised by the Issuer is that of frustration, namely that as a result of the very significant changes of March 2013 and subsequently the Agreements as concluded between CNP and Laiki Bank cannot possibly operate in the context of the new circumstances. The hearing of the Arbitration will take place some time in May 2016.

Other Litigation

The Group is involved in a number of other litigation proceedings involving cases against the Group arising in the course of its normal operating activities, mainly in Cyprus and Greece. For one of these cases (Themis case below) relating to the discontinued operations in Greece a provision of €38.3 million plus interest has been recognised, following a court judgment. The case is now pending before the Supreme Court.

Romanian proceedings

For the past few years, two officers of the Issuer have been accused of and charged with offences relating to the manipulation of the market in Romania (in respect of the purchase of a holding in Banca Transilvania). These officers were acquitted twice in the past but the Romanian Prosecution Authority filed a final appeal before the High Court of Justice, namely the highest judicial tier in Romania, before which "new evidence" was placed. In a decision issued on 2 July 2014, the High Court confirmed the previous acquittals and dismissed all charges against the accused.

Provident Fund Cases

Twenty three claims are pending before the Labour Disputes Tribunal by former employees with respect to their retirement benefits. These employees retired and/or departed in 1999 and claim that the Issuer and/or the Issuer's provident fund did not calculate their benefits correctly. In the event that the claims succeed, the total amount will be in the region of €24 million. A provision has been made based on management's best estimate of probable outflows.

Themis case

The Issuer 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 Issuer, under an assignment agreement, sued Themis for the balance of the construction fees. The claim of the Issuer was rejected and the appellate court issued a decision in favour of Themis for the amount of €38.3

million plus interest. The Supreme Court has heard an application to vacate, the judge rapporteur issued a recommendation to the Supreme Court in favour of Themis, but the Supreme Court has not yet issued its final judgments in this matter. The case relates to the discontinued operations of the Issuer in Greece. The Issuer does not expect that the final outcome of this case will have a material adverse effect on the financial condition or the reputation of the Issuer.

Internal Audit Investigations

The Issuer regularly conducts internal audit investigations with regard to a number of issues. In late May 2014, the Audit Committee reviewed an internal audit report (dated 19 May 2014) which concerned the timing of the Issuer's reclassification of government bonds in 2010 and 2011, particularly with respect to the timing of reclassification of Greek government bonds during the second quarter of 2010. On the decision of the Board, this internal audit report has been recently referred to the CBC for guidance and advice. On 28 July 2014, the CBC issued a letter stating that the only issue that seems to exist is that the intention to reclassify the government bonds concerned was not appropriately documented by the Issuer's top management at the time it was originally taken, as required by proper corporate governance principles. On the understanding that corrective measures have since been taken, the CBC considers the issues raised in the internal audit report to be unfounded. Based on the currently available information, the Issuer is of the view that any further investigations or claims resulting from this process will not have a material impact on the financial position of the Issuer.

Private Criminal Prosecutions

Six private criminal prosecutions have been instituted by certain customers of the Issuer against the Issuer and certain of its Directors and officers advancing their own grievances and complaints. These are proceedings instituted by individuals and not the State. Two of these concern allegations of failure to restructure loan obligations of clients, another two concern alleged misrepresentations in the financial statements, one concerns alleged conspiracy with respect to a claim under a guarantee and one refers to the registration of mortgages under false pretences. In all probability, they will be dismissed. The Issuer has asked the Attorney-General to discontinue the proceedings (*nolle prosequi*).

General Criminal Investigations

As part of the investigations and inquiries following and relating to the financial crisis which culminated in March 2013, the Attorney-General and the Police are conducting various investigations (confidentially).

The Issuer is fully cooperating with the authorities of the Republic of Cyprus and is providing all information requested of it.

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 Issuer has a primary listing on the main market of the CSE and a secondary listing on ATHEX (although, since, 19 March 2013, the Existing Shares of the Issuer have been suspended from trading on both exchanges) and, therefore, the Group is also subject to the applicable capital markets laws.

In this section, references are made to laws, directives and regulations as amended from time to time.

The CBC is responsible for the licensing and supervision of credit institutions in Cyprus in accordance with (i) the Business of Credit Institutions Law of 1997, (ii) the Law on the Establishment and Operation of Deposit Protection and Resolution of Credit and Other Institutions Scheme of 2013 and the regulations issued thereunder on the Cypriot Deposit Protection Scheme (see "*– Deposit Protection Scheme*"), (iii) the Regulations on the Establishment and Operation of an Investor Compensation Fund for Clients of Banks of 2004 and 2007 on the Cypriot investor compensation fund, established under the Investment Firms Law of 2002, (iv) the Prevention and Suppression of Money Laundering Activities Laws of 2007 to 2013 on anti-money laundering activities (see "*– Money Laundering and Terrorist Financing*"), (v) the Payment Services Laws of 2009 and 2010 on payment services and credit institutions and (vi) other relevant laws of Cyprus. Furthermore, in accordance with the Central Bank of Cyprus Law of 2002, the CBC has additional regulatory and supervisory powers relating to the operation of credit institutions in Cyprus.

The CBC issues a banking licence to credit institutions meeting the requirements set out in the provisions of the Business of Credit Institutions Law of 1997. Specifically, the Business of Credit Institutions Law of 1997 regulates or determines, inter alia, the criteria to be considered in the granting of an establishment and operation licence of a credit institution in Cyprus and in the revocation of such licence, the business of credit institutions, the establishment and provision of services by credit institutions, relations with third countries, matters relating to the capital of a credit institution, matters relevant to special participations of credit institutions in other businesses and the participations of individuals or entities in credit institutions, the maintenance of liquidity, the supervision and inspection of credit institutions by the CBC, both on a unconsolidated and a consolidated basis, bank secrecy, professional secrecy, matters relating to reorganisation measures, the winding up and dissolution of credit institutions and penalties. In 2013, the Resolution Law was enacted to provide a special resolution regime for Cypriot banks and other financial institutions.

The ECB is the central bank for the Eurozone and administers the monetary policy of the Eurozone. With the goal of establishing a single supervisory mechanism to oversee and unify credit institutions in the Eurozone, Regulation (EU) No 1024/2013 (the **ECB Regulation**), adopted on 15 October 2013, confers on the ECB prudential supervisory responsibility over credit institutions in the Eurozone and other EU Member States that participate in the SSM (together with the Member States of the Eurozone, **participating Member States**), with a view to contributing to the safety and soundness of credit institutions and the stability of the financial system within the EU and each Member State. The ECB fully assumed the following supervisory responsibilities, among others, on 4 November 2014 (subject to implementation arrangements and measures set forth in article 33(2) of the ECB Regulation):

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

- to assess notifications regarding the acquisition and disposal of qualifying holdings in credit institutions;
- in relation to significant credit institutions, to ensure compliance with requirements on securitisation, large exposure limits, liquidity, leverage, as well as on the reporting and public disclosure of information on those matters;
- in relation to significant credit institutions, to ensure compliance with respect to corporate governance, including requirements on risk management processes, internal control mechanisms, remuneration policies and practices and effective internal capital adequacy assessment processes (including internal ratings based models);
- in relation to significant credit institutions, to carry out supervisory reviews, including, where appropriate and in coordination with the **EBA**, stress tests and supervisory reviews to impose specific additional own funds requirements, specific publication requirements, specific liquidity requirements and other measures;
- in relation to significant credit institutions, to supervise the credit institutions on a consolidated group basis, extending supervision over parent entities established in one of the participating Member States; and
- in relation to significant credit institutions, to carry out supervisory tasks in relation to recovery plans, provide early intervention where a credit institution or group does not meet or is likely to breach the applicable prudential requirements and, only in the cases explicitly permitted under law, implement structural changes to prevent financial stress or failure, excluding any resolution powers.

The ECB and the national central banks together constitute the Eurosystem (the **Eurosystem**), the central banking system of the Eurozone. The ECB will exercise its supervisory responsibilities under the ECB Regulation in cooperation with the national central banks in the participating Member States. As such, in Cyprus, the ECB cooperates with the CBC and the Issuer is a significant credit institution for the purposes of the ECB Regulation.

As regards the monitoring of financial institutions, the national competent authorities (**NCA**s) will continue to be responsible for supervisory matters not conferred on the ECB, such as consumer protection, money laundering, payment services, and branches of third country banks. The ECB, on the other hand, 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 Member States; the ECB will, however, only authorise a credit institution if the NCA of the relevant participating Member State has confirmed that relevant authorisation requirements in that state's laws have been met); (ii) ensure compliance with all prudential requirements laid down in general EU banking rules; (iii) set, where necessary, higher prudential requirements for certain banks to protect financial stability under the conditions provided by EU law; (iv) impose robust corporate governance practices and internal capital adequacy assessment controls; and (v) intervene at the early stages when risks to the viability of a credit institution exist, in coordination with the relevant resolution authorities.

The operation and supervision of credit institutions within the EU is governed by Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (**CRD IV**) and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (the **CRR**, and together with CRD IV, **CRD IV/CRR**). CRD IV was required to be transposed into the national law by 31 December 2013, though certain provisions (including provisions relating to the requirements to maintain a capital conservation buffer and an institution-specific countercyclical capital buffer, the global and other systematically important institutions, the recognition of a

systemic risk buffer rate, the setting of countercyclical buffer rates, the recognition of countercyclical buffer rates in excess of 2.5%, the decision by designated authorities on third country countercyclical buffer rates, the calculation of institution-specific countercyclical capital buffer rates and restrictions on distributions) shall enter into force from 1 January 2016. In August 2014, the CBC issued a directive on Governance and Management Arrangements transposing certain aspects of CRD IV into Cypriot law. Full implementation of CRD IV is expected to occur during 2014.

The CRR is directly applicable in all EU Member States from 1 January 2014, with the exception of certain of its provisions related to the application of the liquidity requirements on an individual basis and the disclosure of leverage ratios (which will apply from 1 January 2015) and stable funding (which will apply from 1 January 2016).

Under the current regulatory framework, credit institutions operating in Cyprus are required to, among other things:

- comply with the capital adequacy ratios determined by the CBC;
- observe the liquidity ratios prescribed by the CRD IV/CRR;
- comply with certain concentration ratios determined by the CBC;
- maintain efficient internal control, compliance and risk management systems and procedures;
- adopt a remuneration policy and set up a remuneration committee of the board of directors;
- submit to the CBC periodic reports and statements;
- disclose data regarding the credit institution's financial position and the risk management policy;
- provide the CBC with such further information as it may require;
- in connection with certain operations or activities, notify or request the prior approval of the CBC, in each case in accordance with the applicable laws of Cyprus and the relevant acts, decisions and circulars of the CBC; and
- permit the CBC to conduct audits and inspect books and records of the credit institution, in accordance with Cyprus law.

If a credit institution breaches any law or regulation falling within the scope of the supervisory power attributed to the CBC, the CBC is empowered to, amongst other things:

- require the relevant credit institution to take appropriate measures to remedy the breach or to restrict its operations by imposing conditions on its licence (which may include, requiring the relevant credit institution to take certain actions or refrain from taking certain actions, imposing limitations on the acceptance (and solicitation) of deposits, the granting of credit or the making of investments, prohibiting the entering into of certain transactions, requiring the removal of corporate officers, requiring the holding of own funds in excess of prescribed levels and requiring the implementation of policies on the treatment of certain assets and risk);
- impose fines;
- assume control of, and carry on in the credit institution's name, the business of the credit institution, for so long as the CBC considers necessary;

- demand the increase of a credit institution's share capital;
- demand that the credit institution prepares and submits a recovery plan and submit information so that the CBC can prepare a resolution plan in its capacity as Resolution Authority;
- demand that dividends be limited or withheld; and
- revoke the licence of the credit institution where the breach cannot be remedied and place it in a state of special liquidation (i.e., where a court application is made for liquidation on an ex-parte basis where services performed by the relevant credit institution concern the public interest).

In 2013, the Resolution Law was enacted to provide a special resolution regime for Cypriot banks and other financial institutions (see "*— Resolution Law*" below).

In relation to the recovery and resolution of credit institutions, the European Commission submitted a "Proposal for a directive of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directives 77/91/EEC and 82/891/EC, Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC and 2011/35/EC and Regulation (EU) No. 1093/2010" on 6 June 2012. This proposal formed the basis of the Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU and CRD IV, and Regulations (EU) No 1093/2010 and (EU) No 648/2012 (the **BRRD**) which was adopted by the European Parliament and the Council of the EU on 15 April and 6 May 2014, respectively, and was published in the Official Journal of the EU on 12 June 2014 and entered into force on 2 July 2014, the 20th day following its publication. Following the implementation of the BRRD in Cyprus, the majority of measures of which need to be implemented with effect from 7 January 2015, many of the Cypriot law provisions summarised above and contained in the Resolution Law will need to be amended or replaced in order to be consistent with the BRRD's provisions.

The BRRD equips the NCAs with common and effective tools and powers to tackle bank crises preemptively, safeguarding financial stability and minimising taxpayer exposure to losses in insolvency. The framework is meant to apply in relation to banks of all sizes and consists of three pillars: preparatory and preventative measures, early intervention, and resolution tools and powers, within a framework of improved cross-border cooperation.

The range of powers available to the relevant authorities consist of three elements: (i) preparatory steps and recovery and resolution plans to minimise the risks of potential problems (preparation and prevention); (ii) in the event of incipient problems, powers to arrest a bank's deteriorating financial situation at an early stage so as to avoid insolvency (early intervention); and (iii) if insolvency of an institution presents a concern as regards the general public interest, a clear means to reorganise or wind down the bank in an orderly fashion while preserving its critical functions and limiting to the maximum extent any exposure of taxpayers to losses in insolvency (resolution). In addition, the BRRD provides a framework to improve cooperation across borders to coordinate resolution measures in all affected Member States in the event that a cross-border banking group should fail.

The BRRD establishes common parameters for triggering the application of resolution tools. The conditions that have to be met before the competent authorities take a resolution action in relation to a credit institution are: (a) the NCA determines that the institution has reached a point of distress such that there are no realistic prospects of recover in an appropriate timeframe; (b) there is no reasonable prospect that any alternative private sector or supervisory action taken would prevent the failure of the institution within a reasonable timeframe; and (c) a resolution action is necessary in the public interest. When the trigger conditions for resolution are satisfied, the BRRD provides a set of resolution tools that resolution authorities have the power to apply singly or in conjunction. These tools are the following:

- *Sale of business.* Resolution authorities may effect a sale of the institution, in whole or in part, on commercial terms, without requiring the consent of the shareholders or complying with other procedural requirements.
- *Bridge Institution.* Resolution authorities may transfer all or part of the business of an institution to a publicly controlled entity. The operations of a bridge institution are temporary, the aim being to sell the business to the private sector when market conditions are appropriate.
- *Asset Separation.* Resolution authorities may transfer impaired or problem assets to an asset management vehicle to allow them to be managed and worked out over time.
- *Bail-In.* Resolution authorities may write down the claims of unsecured creditors of a failing institution and/or convert such claims into equity.

According to the transposition provisions of the BRRD, Member States are to adopt and publish by 31 December 2014 at the latest the laws and regulations necessary to implement it. Member States shall apply their implementing laws and regulations from 1 January 2015. However, as an exception to this, Member States shall apply the provisions adopted in order to implement the bail-in tool from 1 January 2016 at the latest.

The BRRD relies on a network of NCAs and resolution funds to resolve banks. Nevertheless, according to the European Commission, such an approach is not sufficient for those Member States which share the supervision of credit institutions within the SSM, which is expected to be operational in November 2014. The European Council has recognised that in the banking union, bank supervision and resolution need to be exercised by the same level of authority, thus making the need for the establishment of the Single Resolution Mechanism (the **SRM**) with a central decision-making body and a Single Bank Resolution Fund (the **SRF**) obvious.

On 15 April 2014, the European Parliament adopted a regulation for the SRM and this regulation was published in the Official Journal of the European Union on 30 July 2014 (the **SRM Regulation**). The SRM Regulation establishes uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the SRM and the SRF. The SRM Regulation entered into force on 19 August 2014.

The SRM Regulation builds on the rulebook on bank resolution set out in the BRRD and establishes the following:

- the SRM applies to all banks within the SSM. The single resolution board (the **SRB**) will prepare resolution plans for and directly resolve all banks directly supervised by the ECB and for cross-border banks. National resolution authorities will prepare resolution plans and resolve banks which only operate nationally and are not subject to full ECB direct supervision, provided that this will not involve any use of the SRF. Member States can opt to have the SRB directly responsible for all their banks. The SRB will decide in any case for all banks, including those that operate nationally and are not subject to full ECB direct supervision, whether resolution will involve the use of the SRF;
- centralised decision-making will be built around a strong SRB and will involve permanent members as well as the European Commission, the Council, the ECB and the national resolution authorities. In most cases, the ECB will notify that a bank is failing to the SRB, the European Commission, and the relevant national resolution authorities. The SRF will then assess whether there is a systemic threat and the availability of any private sector solution. If no private sector solution exists, it will adopt a resolution scheme including the relevant resolution tools and any use of the SRF. The European Commission is responsible for assessing the discretionary aspects of the SRB's decision and endorsing or objecting to the resolution scheme. The European Commission's decision is subject to approval or objection by the Council only when the amount of resources drawn from the SRF is

modified or if there is no public interest in resolving the bank. If the Council or the European Commission objects to the resolution scheme, the SRB will need to amend the resolution scheme. The resolution scheme will be implemented by the national resolution authorities. If resolution entails state aid, the European Commission will need to approve the aid prior to the adoption of the resolution scheme by the SRB;

- in its plenary session, the SRB will take all decisions of a general nature and any individual resolution decisions involving the use of the SRF in excess of €5 billion. In its executive session, the SRB will take decisions in respect of individual entities or banking groups where the use of the SRF remains below this threshold. The composition of the executive session of the SRB will include the chair, the executive director and three other permanent members, with the European Commission and the ECB sitting as permanent observers. In addition, to ensure that the interests of all Member States on which the resolution had an impact were considered, Member States that can potentially be affected by the resolution based on the institution being resolved will also participate in the session. None of the participants in the deliberation will have a veto;
- all the banks in the SSM will contribute to the SRF. The SRF has an estimated target level of €55 billion and can borrow from the markets if decided by the SRB in its plenary session. The SRF will be owned and administrated by the SRB. The SRF will reach a target level of at least 1% of covered deposits over an eight-year period. During this transitional period, the SRF, established by the SRM Regulation, will comprise national compartments corresponding to each participating Member State. The resources accumulated in those compartments will be progressively mutualised over a period of eight years, starting with 40% of these resources in the first year. The establishment of the SRF and its national compartments and decisions as to their use will be regulated by the SRM Regulation, while the transfer of national funds into the SRF and the activation of the mutualisation of the national compartments will be provided for in an inter-governmental agreement established among the participating Member States in the SSM; and
- the SRF will be funded through contributions made by all credit institutions established in participating Member States. Each year, the SRB, after consulting the ECB or the NCAs, and in close cooperation with the national resolution authorities, will calculate the individual contributions. The European Commission will adopt delegated acts to specify, among other things, the criteria for establishing the annual contributions payable by credit institutions. The European Commission published a consultation paper on the contributions of credit institutions to the resolution funding arrangements under the BRRD and the SRF on 20 June 2014. The consultation closed on 14 July 2014. The results of the consultation will further inform the work of the European Commission on the delegated act under the BRRD and the proposal for a Council implementing act under the SRM, which the European Commission intends to adopt simultaneously in September 2014.

The SRM is scheduled to enter into force on 1 January 2016 (with certain exceptions).

The Issuer has a primary listing on the main market of the CSE and a secondary listing on ATHEX. The Issuer 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 Issuer and the venue of its primary listing, the Issuer (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 Central Bank of Cyprus Directives to Banks for the Calculation of the Capital Requirements and Large Exposures of 2006 (the **CBC Directives**), and was subsequently amended to capture all related EU Directives by the CBC Directives to Banks for the Calculation of the Capital Requirements and Large Exposures of 2006 to (No. 2) 2011.

In December 2010, the Basel Committee issued two prudential framework documents ("Basel III: A global regulatory framework for more resilient credit institutions and banking systems", December 2010 and "Basel III: International framework for liquidity risk measurement, standards and monitoring", December 2010) which comprise the Basel III capital and liquidity reform package (**Basel III**). The Basel III documents were revised in June 2011. The Basel III framework has been transposed into law in the EU through new banking regulations adopted on 26 June 2013: CRD IV and the CRR. CRD IV/CRR came into force on 1 January 2014, with particular elements being phased in over a period of time (the requirements will be largely fully effective by 2019 and some minor transitional provisions provide for the phase-in until 2024) but it is possible that in practice implementation under national laws may be delayed until after such date.

Some important points of CRD IV/CRR framework include:

- *Quality and Quantity of Capital.* CRD IV/CRR revised the definition of regulatory capital and its components at each level. It also proposed a minimum CET 1 capital ratio of 4.5% and Tier I capital ratio of 6.0% and introduced a requirement for additional Tier I and Tier II capital instruments to have a mechanism that requires them to be written-off on the occurrence of certain triggering events (e.g. a bail-in of the institution), which would apply to internationally active credit institutions;
- *Capital Conservation Buffer.* In addition to the minimum CET 1 capital ratio and Tier I capital ratio, credit institutions will be required to hold an additional buffer of 2.5% of common equity as capital conservation buffer. Depletion of the capital conservation buffer will trigger limitations on dividends, distributions on capital instruments and compensation and it is designed to absorb losses in stress periods;
- *Systemic Risk Buffer.* According to CRD IV/CRR, Member States may require the creation of a buffer against systemic risk in the financial sector or subsets thereof in order to prevent and mitigate long-term non-cyclical systemic or macroprudential risks not covered by CRD IV/CRR. The buffer should be at least 1% and is constituted by CET 1 elements;
- *Deductions from CET 1.* CRD IV/CRR revises the definition of items that should be deducted from regulatory capital. In addition, most of the items that are now required to be deducted from regulatory capital will be deducted in whole from the CET 1 component;
- *A Grandfathering Period for Existing "own funds" items.* Capital instruments that qualify as own funds under Directive 2006/48/EC will be phased out over a period that began on 1 January 2014 and ends on 31 December 2021. The regulatory recognition of capital instruments that qualified as own funds prior to 31 December 2011 will be reduced by a specific percentage in subsequent years.

Step-up instruments will be phased out at their effective maturity date (i.e., their call and step-up date) if the instruments do not meet CRD IV/CRR criteria for inclusion in Tier I or Tier II. Existing public sector capital injections will be grandfathered until 31 December 2017;

- *No Grandfathering for Instruments issued after 1 January 2012.* Only those instruments that were issued before 31 December 2011 qualify for the transition arrangements discussed above;
- *Countercyclical Buffer.* To protect the banking sector from excess aggregate credit growth, CRD IV/CRR gives Member States the right to require an additional buffer of 0% to 2.5% of CET 1, to be imposed during periods of excess credit growth, according to national circumstances. The countercyclical buffer, when in effect, will be introduced as an extension of the conservation buffer range;
- *Central Counterparties (CCPs).* A 4.0% risk-weight factor is introduced to certain trade exposures to qualifying CCPs (replacing the current 0% risk-weighting). The capitalisation of credit institution exposures to CCPs will be based in part on whether the CCP is a qualifying CCP, i.e., a CCP authorised or recognised under Regulation (EU) No 648/2012 (since non-qualifying CCPs will be treated as bilateral exposures and will not receive the preferential capital treatment referred to above). As mentioned above, a credit institution's collateral and mark-to-market exposures to CCPs meeting these enhanced principles will be subject to 2.0% risk-weight, and default fund exposures to CCPs will be capitalised based on a risk-sensitive waterfall approach;
- *Asset Value Correlation Multiplier for Large Financial Institutions.* A multiplier of 1.25 is proposed to be applied to the correlation parameter of all exposures to financial institutions meeting particular criteria;
- *Counterparty Credit Risk.* CRD IV/CRR raises counterparty credit risk management standards in a number of areas, including for the treatment of so-called wrong-way risk, i.e., cases where the exposure increases when the credit quality of the counterparty deteriorates. For example, a capital charge for potential mark-to-market losses associated with a deterioration in the creditworthiness of a counterparty and the calculation of expected positive exposure by taking into account stressed parameters;
- *Leverage Ratio.* Credit institutions are required under CRD IV/CRR to submit to their NCA all necessary information on the leverage ratio and its components and, from 1 January 2015, to disclose information on the leverage ratio publicly. In this regard, the Basel Committee has stated that it intends to make final adjustments to the definition and calibration of the Basel III leverage ratio before 2017 based on its findings during the "parallel run period" between 1 January 2013 and 1 January 2017 during which it is testing a minimum requirement of 3% for the leverage ratio, with a view to migrating to a binding minimum requirement from 1 January 2018;
- *Systemically Important Institutions.* Systemically important credit institutions should have loss-absorbing capacity beyond the minimum standards and work on this issue is ongoing. Under CRD IV/CRR, global systemically important institutions will, and other systemically important institutions may, be required to maintain a buffer of up to 3.5% and 2% of the total risk exposure amount, respectively, taking into account the criteria for its identification as a systemically important credit institution. That buffer shall consist of and be supplemental to CET 1 capital; and
- *Liquidity Requirements.* CRD IV/CRR contains high level provisions on the liquidity coverage ratio (which is an amount of unencumbered, high quality liquid assets that must be held by a credit institution to offset estimated net cash outflows over a 30-day stress scenario, and will be phased in gradually, starting at 60% in 2015, and expected to be 100% in 2018) and the net stable funding ratio (which is the amount of longer-term, stable funding that must be held by a credit institution over a one year timeframe based on liquidity risk factors assigned to assets and off-balance sheet liquidity

exposures, and which is being developed). The European Commission is required under CRD IV/CRR to adopt a delegated act on the liquidity coverage ratio by 30 June 2014; this act should apply from 1 January 2015 at the earliest. The European Commission is also required to produce a report on the net stable funding ratio by 31 December 2016, containing a legislative proposal if appropriate. The Basel Committee's aim is that the net stable funding ratio should be the minimum binding standard by 1 January 2018.

Although the CRR is directly applicable in each Member State, it leaves a number of important interpretational issues to be resolved through technical standards, and leaves certain other matters to the discretion of the NCA in each Member State. In addition, as contemplated on 4 November 2014, the ECB has assumed certain supervisory responsibilities formerly handled by national regulators. The ECB may interpret CRD IV/CRR or exercise discretion accorded to the NCA under CRD IV/CRR in a different manner than national regulators. The manner in which many of the new concepts and requirements under CRD IV/CRR will be applied to the Issuer 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 Issuer's capital requirements and capital costs (see "*Risk Factors — Risks Relating to the Group's Business — The Group is subject to evolving minimum capital requirements which may require it to raise additional capital or result in increased costs*").

In addition to the substantial changes in capital and liquidity requirements introduced by CRD IV/CRR, there are several new global initiatives, in various stages of finalisation, which represent additional regulatory pressure over the medium term and will impact the EU's future regulatory direction. These initiatives include, among others, the revised Markets in Financial Instruments Directive and the Markets in Financial Instruments Regulation (see "*— MiFID (the Markets in Financial Instruments Directive (Directive 2004/39/EC))*") below) and the European Market Infrastructure Regulation (see "*— The European Market Infrastructure Regulation (EMIR)*") below).

The Basel Committee has also published certain proposed changes to the current securitisation framework which may be accepted and implemented in due course.

In April 2014, the implementing technical standards for supervisory reporting were adopted by the European Commission and were published in the Official Journal of the European Union on 28 June 2014. These implementing technical standards, which apply as from 1 January 2014, establish rules on prudential reporting laid down in CRD IV/CRR and set out the content and format of data to be reported by credit institutions to their respective NCAs. The scope of the reporting requirements extend to reporting on the following items:

- own funds;
- financial information, including "FINREP" reporting for IFRS credit institutions;
- real estate losses;
- large exposures;
- leverage ratio;
- liquidity coverage ratio; and
- liquidity net stable funding ratio.

Solvency II

The directive on the undertaking and pursuit of the business of insurance and reinsurance "Solvency II" (Directive 2009/138/EC) of 25 November 2009 (**Solvency II**) is a fundamental review of the capital adequacy regime for the European insurance sector business. When implemented the capital structure and overall governance of the Group's insurance business will alter and this may have an impact on the Group's capital position and the allocation of capital within the Group. The Group's insurance companies, General Insurance of Cyprus Ltd (**GIC**), EuroLife and CNP Cyprus Insurance Holdings Ltd, do not anticipate any material issues in complying with Solvency II requirements on the current timetable. Directive 2013/58/EU set the date for transposition of the Solvency II framework into national law at 31 March 2015, and 1 January 2016 was set as the date of application and subsequent removal of the existing relevant insurance and reinsurance directives.

MiFID (the Markets in Financial Instruments Directive (Directive 2004/39/EC))

Directive 2004/39 on markets in financial instruments (as supplemented by Directive 2006/73 and Commission Regulation 1287/2006) (**MiFID**) provides for the regulation of firms that provide investment services and advice and introduced a regulatory regime for the trading of financial instruments on securities markets and other trading platforms. MiFID was incorporated into Cypriot law by the Investment Services and Activities and Regulated Markets Law and the CBC and CySEC have issued several directives with respect to the requirements of this law.

MiFID introduced significant changes in Cyprus' regulatory framework with a view to: improving investor protection, increasing transparency, requiring investment services providers to categorise their clients as per the client's risk profile, offering increased transparency on fees and expenses charged to clients, ensuring the timely and duly forwarding of clients' orders to exchanges, improving procedures to identify and prevent conflicts of interest and other relevant matters.

The Group has instituted appropriate procedures to comply with the requirements of MiFID, as implemented into Cypriot legislation and regulations, and to be in line with applicable guidelines and best practices in relation to the provision of investment services and advice as well as the trading of financial instruments.

MiFID will be amended by a new European Union Directive (commonly referred to as **MiFID II**) and Regulation (commonly referred to as **MiFIR**). MiFID II and MiFIR are intended to improve the functioning of financial markets in light of the financial crisis and to establish a safer and more transparent financial system by enhancing regulatory requirements, market transparency and strengthening investor protection. MiFID II and MiFIR were published in the Official Journal of the European Union on 12 June 2014. Member States are required to implement MiFID II by 3 July 2016 and the national implementing measures shall apply, in relation to most provisions, from 3 January 2017. MiFIR will apply directly to investment firms regulated under MiFID from 3 January 2017 (with the exception of certain provisions).

Investor Compensation Fund

The Issuer is a member of the Investor Compensation Fund for Clients of Banks (the **Fund**) which was established pursuant to the Investment Firms Law of 2002 and the Establishment and Operation of an Investor Compensation Fund for Customers of Banks Regulations of 2004 (Regulations 530/2004).

The Fund was established on 1 May 2004 and is administered by a management committee of five members, two of which must be the Governor of the CBC and the Senior Manager of the Banking and Supervision and Regulation Division of the CBC. All Cypriot incorporated banks, which offer certain investment services, are required to become members of the Fund. In addition to the Issuer's initial contribution to the Fund (which was a lump sum payment fixed in accordance with the covered services which the Issuer is licensed to provide, the Issuer is obligated to contribute annually an amount of up to 0.001% of the eligible funds and financial instruments of the Issuer's clients (as defined in Regulations 530/2004). This contribution is

required to be paid between the 16 and 31 of March of each year, and is calculated on the basis of the eligible funds and financial instruments of the Issuer's clients for the previous year. Moreover, the management committee of the Fund may decide to call upon the members of the Fund to pay an extraordinary supplementary contribution if it deems that the existing means for the payment of compensation are inadequate, particularly in the event of a liquidation procedure occurring in respect of a member bank.

The object of the Fund is to provide compensation to certain clients to whom member banks have provided investment services in cases where the relevant bank is unable, due to its financial circumstances:

- to return to these clients funds owed to them or funds which belong to them but are, directly or indirectly, held by the member bank in the context of providing investment services to such clients; or
- to hand over to these clients financial instruments which belong to them and which the member bank concerned holds, manages or keeps on their account.

The total amount of compensation payable per client is €20,000 and the Fund does not cover certain types of clients, the most notable exception being clients which are institutional and professional investors.

Deposit Protection Scheme

The Deposit Protection and Resolution of Credit and Other Institutions Scheme 2013 (the **Deposit Protection Scheme**) was established and has been in operation since March 2013. The relevant legal framework is Article 34 of the Business of Credit Institutions Laws of 1997, the Laws on the Establishment and Operation of Deposit Protection and Resolution of Credit and Other Institutions Scheme of 2013 and the Establishment and Operation of the Deposit Protection and Resolution of Credit and Other Institutions Scheme Regulations of 2013.

The Deposit Protection Scheme is comprised of three funds: the Deposit Protection Fund for banks, the Deposit Protection Fund for cooperative credit institutions and the Resolution of Credit and Other Institutions Fund. The Deposit Protection Scheme is administered by a management committee, the members of which are representatives from the Ministry of Finance of Cyprus and the CBC.

The purpose of the funds administered under the Deposit Protection Scheme is:

- to compensate depositors of a bank in the event that the bank is unable to repay its deposits; and
- to fund the implementation of resolution measures in respect of banks.

The Deposit Protection Scheme is denominated in all currencies and participation in the Deposit Protection Scheme is compulsory for all credit institutions with authorisation to operate and accept deposits in Cyprus from the CBC. Accordingly, all credit institutions incorporated in Cyprus (including their branch operations located in other Member States of the EU) and all Cypriot branches of credit institutions incorporated in countries other than EU Member States are required to contribute to the relevant funds under the Deposit Protection Scheme. The Cypriot branch operations of credit institutions incorporated in other EU Member States are covered by the corresponding deposit protection schemes in the applicable EU Member State. The management committee has the power to exempt, from the obligation to contribute to the funds under the Deposit Protection Scheme, credit institutions established in other countries which are licensed to carry on banking business in another country. The Issuer is obligated to contribute, within 21 business days of receipt of notice from the management committee requesting a contribution to the Deposit Protection Fund for banks, the percentage, determined by the management committee, based on the average deposit base as reported on the last day of each month of the year prior to the decision of the management committee to require payment of a contribution to the Deposit Protection Fund for banks. The management committee may also, in limited circumstances to recover amounts paid out of the Deposit Protection Funds and to

ensure that there is available capital, require a special contribution. If a covered credit institution's contribution to the applicable Deposit Protection Fund exceeds 1% of its deposit base, it is not required to make any additional contributions to the applicable Deposit Protection Fund.

The general parameters of the Deposit Protection Scheme are that:

- the payment of compensation is triggered if it is determined that a credit institution is unable to repay deposits. This determination can be made by the CBC or through an order issued by a Cypriot court or the competent court in the jurisdiction where the credit institution is incorporated, for the special liquidation of the credit institution concerned; and
- the maximum amount of compensation, per depositor per credit institution, is €100,000.

The Deposit Protection Scheme does not provide compensation in relation to certain categories of deposits such as bank deposits (interbank), deposits by cooperative credit institutions, insurance companies, government departments, semi-government organisations and local authorities, deposits by collective investment schemes and deposits by financial institutions. In addition, deposits by persons:

- against which criminal proceedings have been instigated or for which a confiscation order has been made, under the Money Laundering Activities Laws or a corresponding law of another country; or
- who, in the opinion of the management committee, are responsible for the credit institution's bankruptcy or have profited out of circumstances which led to the credit institution's bankruptcy or any other similar situation,

are also excluded from compensation under the Deposit Protection Scheme.

Cypriot Guarantee Scheme for Credit Institutions

In 2012, the Government established a €6 billion guarantee scheme for credit institutions incorporated in Cyprus and licensed by the CBC (including subsidiaries of foreign financial institutions) and the Cooperative Central Bank to facilitate the access by eligible credit institutions to medium-term funding and to reinforce the overall stability of the banking system.

Pursuant to the Granting of Government Guarantees for the Conclusions of Loans and/or the Issue of Bonds by Credit Institutions Law of 2012, and implementing decrees, the maximum amount of Government guarantees that may be allocated to any credit institution cannot exceed 15% of the total domestic deposits of such credit institution and guarantees can only be granted in respect of debt obligations for a term between 3 months and 5 years. In addition, pursuant to the relevant Cypriot legislation, as long as the Government guarantee is in place, the relevant credit institution is, among other things, not allowed to repurchase its own shares, provide any discretionary bonuses to members of its board of directors or senior management or engage in aggressive commercial strategies which would not otherwise take place without the guarantee.

Before a Government guarantee can be granted, the relevant credit institution is required to provide the CBC with a plan for its mid-to-long term funding requirements and provide (subject to limited exceptions) eligible collateral to cover the guarantee allocated. In addition, the government guarantee scheme for credit institutions provides for the payment of a fee calculated based on the tenor of the debt obligation subject to the guarantee and the risk profile of the credit institution (based on an analysis of its credit default swap data or sample bank credit default swap data).

On 6 November 2012, the European Commission approved the establishment of the bank guarantee scheme under EU state aid rules, and in June 2014, the European Commission announced that the fourth extension of the bank guarantee scheme until 31 December 2014 was in line with EU state aid rules (having confirmed the same in January 2013, July 2013 and December 2013). For more information, see "*Risk Factors — Risks*

Relating to the Group's Business — The Issuer is dependent on central bank (ECB and Emergency Liquidity Assistance (ELA)) funding for liquidity and difficulties in securing traditional sources of liquidity may affect the Group's ability to meet its financial obligations".

Payment Services and Single Euro Payments Area

Payment Services

Cyprus has transposed Directive 2007/64/EC on payment services, also known as the "Payment Services Directive" (the **PSD**) into the Payment Services Law of 2009 and 2010, requiring every payment service provider, such as the Issuer, to ensure in an accessible form a minimum level of information and transparency regarding the provided payment services, under the terms and conditions set forth in such law. The PSD also provides further protection regarding the rights of the users of the payment services, but it only applies where both the payer's payment service provider and the payee's payment service provider are located in the EU, with the exception of the provision regarding the value date of the transaction.

On 24 July 2013, the European Commission published a proposal for a new payment services directive to incorporate and repeal the PSD. This proposal, referred to as the **PSD2**, is expected to improve the functioning of the internal market for payment services and more broadly for all goods and services.

Single Euro Payments Area (SEPA)

Regulation (EC) No 2560/2001 on cross-border payments in euro laid the foundations of the SEPA policy by establishing the principle that banks are not permitted to impose different charges for domestic and cross-border payments or automated teller machine (**ATM**) withdrawals within the EU. After the publication of the PSD, Regulation (EC) No 924/2009 on cross-border payments in the European Community, which repealed Regulation (EC) No 2560/2001, came into force on 1 November 2009 and introduced additional provisions that further promoted EU financial integration in general and SEPA implementation in particular and reduced significantly the charges payable by consumers and other payment service users for regulated payment services, such as credit transfers, direct debits, cash withdrawals and money remittance. Regulation (EC) No 924/2009 applies to payments in euro in all EU Member States.

Regulation (EC) No 924/2009 has been amended by Regulation (EU) No 260/2012 which is also known as the SEPA (migration) Regulation (the **SEPA Regulation**). The SEPA Regulation established technical and business requirements for credit transfers and direct debits in euro. In non-euro countries, the provisions of the SEPA Regulation will become effective as of 31 October 2016. Effectively, this means that as of these dates, existing national euro credit transfer and direct debit schemes will be replaced by SEPA credit transfer and SEPA direct debit schemes, which should comply with the technical requirements detailed in the SEPA Regulation. The currency of the funds exchanged through such schemes is also euro.

Full compliance with the SEPA Regulation is expected to lead to more streamlined internal processes, lower information technology costs, reduced costs based on bank charges, a consolidated number of bank accounts and cash management systems, and more efficiency and integration with an organisation's payment business.

Capital Control Measures

In order to address the risk of a significant outflow of funds from the Cypriot banking sector as a result of negotiations between the Government and the Troika for financial assistance, the first Enforcement of Restrictive Measures on Transactions in case of Emergency Law of 2013 Decree (each such decree, a **Capital Controls Decree**) was issued by the Ministry of Finance of Cyprus on 27 March 2013 and imposed a wide ranging set of restrictions and controls on the flow of funds from within and outside of Cyprus including:

- a limit on the amount of cash that can be withdrawn daily to €300 per natural person and €500 per legal person (or their equivalent in foreign currencies) in each credit institution irrespective of the number of accounts held;
- the prohibition on the cashing of cheques;
- the prohibition on the transfer of funds of more than €5,000 per month to accounts held outside of Cyprus or in any other bank, subject to limited exceptions; and
- increased scrutiny of large cashless payments or transfers of deposits/funds from Cyprus to accounts held outside of Cyprus.

The Ministry of Finance of Cyprus issued a Capital Controls Decree on 25 April 2013, which permitted the transfer of funds by international customers of credit institutions which are a branch or a more than 50% subsidiary of a foreign bank operating in Cyprus unless the transfer of funds involved domestic customers or domestic banks. On 30 July 2013, the Ministry of Finance of Cyprus issued a Capital Controls Decree that specified restrictions on the Affected Deposits, which originated on 30 July 2013 as a result of a written notification of the Resolution Authority, from the conversion of titles, governed by the terms of Annexes A and B of the Bail-in Decrees (see "*Restructuring of the Issuer and Laiki Bank — Recapitalisation of the Issuer — Holders of deposits and other products of the Issuer as of 26 March 2013 — Deposits conversion*") into deposits, and which included a prohibition on the termination of any Affected Deposits (subject to limited exceptions), set the interest rates applicable to the Affected Deposits and provided the Issuer with the option of rolling over the Affected Deposits into another fixed term deposit of an equal term. The Issuer has not exercised this option in relation to New Deposits with a fixed term of 6 months and has chosen to exercise this option in a limited manner with respect to New Deposits with a fixed term of 9 and 12 months (see "*Restructuring of the Issuer and Laiki Bank — Recapitalisation of the Issuer — Release of New Deposits*" for more details on the release of the 6-month, 9-month and 12-month new deposits).

However, the Ministry of Finance of Cyprus has progressively relaxed the restrictions and prohibitions contained in each successive Capital Controls Decree issued since March 2013. In June 2014, the Ministry of Finance of Cyprus abolished the €300 daily cash withdrawal limits from all bank accounts, along with the restrictions on breaking fixed-interest time deposits prior to maturity. Although the domestic capital controls have essentially been lifted (including the ability to open domestic bank accounts freely), the restrictions on the transfer of funds of more than €5,000 outside of Cyprus remains. The Government, in August 2013, published a roadmap which provides for the relaxation of capital controls in Cyprus in line with targets being met in relation to stabilisation measures being implemented with respect to the Cypriot banking sector. Subject to continued progress with the Cypriot economic recovery, the Ministry of Finance of Cyprus has publicly stated that it expects all capital controls to be lifted by the end of 2014.

Resolution Law

In 2013, the Resolution Law was enacted to provide a regime to allow the CBC, in its capacity as Resolution Authority, to resolve failing banks in Cyprus. As a result of amendments made to the Resolution Law in August 2013, the Resolution Authority is comprised of the Cypriot Minister of Finance, the CBC and the chairman of the board of CySEC.

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

- the power to write down capital instruments and eligible liabilities of a financial institution and/or the power to restructure or convert them into ordinary shares (so called "bail-in");
- the power to direct the sale of the relevant financial institution or the whole or part of its business on commercial terms without requiring the consent of the shareholders or complying with the procedural requirements that would otherwise apply;

- the power to transfer all or part of the business of the relevant financial institution to a "bridge bank"; and
- the power to transfer the impaired or problem assets of the relevant financial institution to an asset management vehicle to allow them to be managed over time.

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

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

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

In addition, it is expected that the Resolution Law will be further amended in due course to reflect the provisions of the BRRD.

CBC Credit Risk Directives

As part of the restructuring of the financial sector in Cyprus, the CBC issued, at the end of 2013 and in 2014, a number of new directives which significantly impact the Issuer's credit risk policies and the management of its credit risk. The Group has instituted, or is in the process of instituting, appropriate procedures to comply with the requirements of the directives described below.

Directive on Loan Origination Processes and Processes of Reviewing Existing Loans

The Directive on Loan Origination Processes and Processes of Reviewing Existing Loans issued by the CBC (the **Loan Origination Directive**) prescribes new minimum practices to be followed by, and new documentation requirements for, credit institutions during the process of assessing and granting or reviewing the provision of credit facilities. In particular, this directive has significantly increased the amount of data required from both borrowers and guarantors in relation to their financial history, regardless of loan amount. Credit institutions were required to be in full compliance with the Loan Origination Directive by 31 March 2014.

The Loan Origination Directive:

- includes detailed requirements for the type of information credit institutions are required to collect during the loan origination process. The information requirements are specific to the category of borrower and type of loan for which the application has been made;
- includes detailed criteria that credit institutions must consider in the evaluation of credit applications, such as the borrower's repayment ability, credit rating, loan contribution and collateral quality, among others;
- creates new guidelines for lending in foreign currencies;
- creates procedures and guidelines that credit institutions must adhere to when extending credit to real estate companies or for the purchase of real property;
- creates procedures for the review of existing credit facilities and for type of information credit institutions are required to collect during the review process;
- includes guidelines for the selection and use of property surveyors and the preparation of property valuation reports; and
- provides a set of best practices to be followed by credit institutions in granting credit facilities to customers.

Directives on Arrears Management of 2013 and 2014

The Arrears Management Directive requires the establishment of internal divisions and processes (including an appeals process for borrowers) in relation to the management of delinquent loans, sets out a code of conduct for dealing with borrowers who are in default and parameters for cooperation between credit institutions in relation to borrowers who have borrowed from multiple credit institutions.

The Arrears Management Directive requires credit institutions to ensure the application of efficient and effective strategies, policies, structures, procedures and mechanisms for the management of arrears and the attainment of fair and viable restructurings of credit facilities for borrowers in financial difficulties. At a minimum this includes:

- the establishment of policies on arrears management for each category of credit facility;
- the implementation of appropriate governance structures and control mechanisms by the credit institution with regard to arrears management;
- the implementation of portfolio segmentation requirements to permit credit institutions to segment and analyse their loan books in granular detail;
- the establishment of a clear and determined approach to arrears management for each category of credit facility;
- the establishment of procedures, mechanisms and systems, including data requirements, for arrears management;
- adherence to the CBC's "Code of Conduct on the Handling of Borrowers in Financial Difficulties";

- the establishment of an independent, centralised arrears management unit within the credit institution (see "*Business Description of the Group — Banking and financial services — Restructuring and Recoveries Division*"); and
- the establishment of an independent internal appeals process for borrowers and the establishment of an appeals committee within the credit institution that is independent from the credit granting, monitoring and restructuring functions.

The Issuer has developed a comprehensive strategy for the management of arrears, which it has submitted to the CBC. The CBC has, with assistance of an external expert, reviewed credit institutions' arrears management policies and practices in light of international best practice. The responsible CBC supervisory units are expected to examine the implementation of credit institutions' action plans to correct deficiencies, if any, identified by the external expert and will submit the main findings and recommendations to the CBC board. After completion of the review of credit institutions' arrears management policies, revisions of the Arrears Management Directive and the related code of conduct are expected to be introduced. For more information, see "*Risk Factors — Regulatory and Legal Risks — The Group's business and operations are subject to substantial regulation and supervision and can be negatively affected by its non-compliance with certain existing regulatory requirements and any adverse regulatory and governmental developments*".

Directive on Loan Impairment and Provisioning Procedures of 2014

The Directive on Loan Impairment and Provisioning Procedures of 2014 issued by the CBC (the **Loan Provisioning Directive**) sets out loan provisioning requirements and procedures and requires credit institutions to include appropriate disclosure in their financial statements which reflect the quality of their loan portfolio and provisioning policies and levels. Credit institutions are required to submit a detailed action plan leading to full compliance with the provisions of the Loan Provisioning Directive in their annual financial statements for 2014.

Directive on the Definitions of Non-Performing and Restructured Credit Facilities of 2013

The Directive on the Definitions of Non-Performing and Restructured Credit Facilities of 2013 issued by the CBC (the **NPL Directive**) provides for a new definition of non-performing loans which came into effect on 1 July 2013. The new definition of non-performing loans is stricter than the more common definition of non-performing loans which is based on a loan being more than 90 days past due.

In accordance with the NPL Directive, an NPL is defined as a loan which is:

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

Restructured loans remain as NPLs for six months following the commencement of the new repayment schedule of capital instalments or in the case of gradually increasing instalments, six months from the first month from which the higher instalment is due. In the case of lump-sum or bullet payments at maturity in excess of 20% of the loan amount, the loan remains as an NPL until its maturity.

On 5 August 2014, the EBA published a final draft of the implementing technical standards on supervisory reporting on forbearance and non-performing exposures under Article 99(4) of Regulation (EU) No 575/2013. These technical standards are expected to enter into force before the end of 2014. The CBC has informed credit institutions in Cyprus that their reporting obligations under the NPL Directive will continue until the year ended 31 December 2014. The EBA's technical standards focus on a 90-day past due threshold

for non-performing exposures, while the definition of forbearance focuses on concessions extended to debtors who face, or may face, difficulties in meeting payments. The adoption of these standards by the European Commission will harmonise the definition of NPLs across all Member States.

Directive on Governance and Management Arrangements in Credit Institutions

In August 2014, the CBC issued the Governance Directive which imposes new requirements for corporate governance on credit institutions operating in Cyprus. The Governance Directive, amongst other things, establishes new requirements for the board of directors and board committees of credit institutions in Cyprus. The Governance Directive also establishes new rules for the internal control functions, including rules regarding compliance, audit, risk and information security.

Consumer Protection

Banks in Cyprus are subject to consumer credit legislation that seeks to protect consumers from abusive contractual terms and conditions. This legislation also sets forth rules on the distance marketing and advertisement of consumer financial services, prohibits unfair and misleading commercial practices and includes penalties for violations of such rules and prohibitions. The Unfair Contract Terms in Consumer Contracts Laws of 1996 to 2014, for example, provides that, inter alia, terms which allow a seller or a services provider to (i) terminate (without a material reason) a contract of unlimited duration without providing reasonable notice; or (ii) unilaterally amend the terms of a contract (without there being a material reason, which is specified in the contract), may be rendered void and unenforceable. See also " – *Interest Rates*".

In 2010, Cyprus transposed Directive 2008/48/EC of the European Parliament and of the Council on credit agreements for consumers (repealing the previous Directive 87/102/EEC) through the passing of the Consumer Credit Agreements Law of 2010 (No. 2) to 2013 which in respect of certain consumer credit arrangements and amongst other things, provides the minimum content of pre-contractual information, introduces the obligation to assess the creditworthiness of the consumer, determines the minimum content of credit agreements, establishes the "Real Total Annual Interest Rate" and regulates issues regarding credit providers and credit intermediaries and other specific issues.

Moreover, the Consumer Credit (Housing Loans and Hire Purchase Agreements) Law of 2001 includes provisions for the protection of consumers in relation to certain housing loans and hire purchase agreements.

Money Laundering and Terrorist Financing

As a fully cooperative member of the Financial Action Task Force (**FATF**) and a Member State of the European Union, Cyprus abides by FATF recommendations and has transposed into national law Council Directives 2005/60/EC and 2006/70/EC and has adopted the International Convention for the Suppression of the Financing of Terrorism through the passing of the Prevention and Suppression of Money Laundering Activities Law 2007 and the issue by the CBC of the Fourth CBC Directive on the Prevention of Money Laundering and Terrorism Financing (together, the **Money Laundering Activities Laws**).

The Money Laundering Activities Laws, inter alia, cover the following and establishes that:

- money laundering, including money laundering deriving from tax evasion, and terrorist financing are criminal offences;
- credit institutions and financial organisations, including credit companies and insurance companies that provide life insurance or/and services related to investments, are included among the persons being bound by the provisions of the law;

- credit institutions are obliged to apply measures for verifying the identity of their customers, ongoing monitoring of the business relationship, holding files and reporting suspicious transactions to competent authorities;
- the CBC is the competent authority supervising, among others, credit institutions in relation to their compliance with the requirements prescribed by the Money Laundering Activities Laws and responsible for issuing implementing administrative and regulatory acts, while the Ministry of Finance of Cyprus is the central coordinator regarding the implementation of such law, assessment of the effectiveness of the mechanisms put in place for this purpose and coordination and enhancement of the actions of all competent authorities involved;
- banking secrecy related restrictions do not apply in the context of the exchange of information for the purpose of money laundering prevention and suppression;
- the Cypriot Unit for Combating Money Laundering (**Mokas**) is responsible for investigating reports filed by all persons subject to the requirements of the Money Laundering Activities Laws with respect to suspicious transactions; and
- a money laundering compliance officer (approved by the CBC) is required to be appointed by the board of directors of each credit institution and that such compliance officer is required to file an annual report on compliance matters with the relevant credit institution's board of directors and the CBC. This reporting obligation is separate from the obligation to report certain suspicious transactions to Mokas.

The CBC has issued a number of decisions which are applicable to credit and financial institutions supervised by them and, where relevant, take into account and reflect the FATF recommendations and the common position regarding the obligations imposed by Regulation (EC) No 1781/2006 "on information on the payer accompanying transfers of funds". These decisions relate to, among other matters, the "know-your-customer" process and related documentation, an indicative typology of unusual or suspicious transactions and the framework of administrative sanctions that may be imposed upon credit and financial institutions supervised by the CBC.

Furthermore, the CBC has adopted regulations generally providing guidance on matters relating to tax evasion (for example, recommending that due diligence is performed on cash withdrawals in excess of €15,000).

The MoU includes an anti-money action plan focused on: strengthening customer due diligence procedures; ensuring the transparent and timely access to information on the beneficial ownership of trusts; and the implementation of a risk-based approach to supervision for financial and non-financial institutions.

The Group has put in processes to procure compliance with the Money Laundering Activities Laws as well as the sanctions administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury.

Equity Participation in Companies

Credit institutions in Cyprus must follow certain procedures regarding holdings in other companies. Under the Business of Credit Institutions Laws of 1997, unless the CBC grants its prior written approval and subject to any conditions connected to such approval, an authorised credit institution cannot acquire or hold (directly or indirectly) more than 10% of the share capital of any other company or otherwise exercise control (10% or more of the voting rights of credit institution or its holding company or the power to elect the majority of the directors of a credit institution) over such company. An authorised credit institution incorporated in Cyprus is also subject to two additional requirements: (i) the value of any share capital held in any other company

cannot exceed 15% and (ii) the total value of its shareholdings in other companies cannot exceed 60%, in each case, of its own funds.

Excluded from this restriction are arrangements where a credit institution acquires or holds:

- any part of the share capital of a company under an underwriting or sub-underwriting contract (subject to certain time-related conditions);
- any holding of share capital in a company which carries out functions integral to or closely related to the business of credit institutions (e.g. lending services, payment services, security-related services and trustee functions); and
- any part of the share capital of a company acquired or held as a result of the satisfaction of debts due to it (subject to certain time-related conditions).

The CRR, which, since 1 January 2014, applies directly in all Member States (including Cyprus) provides that NCAs of Member States shall publish their choice of the requirements applicable to acquisitions by credit institutions of qualifying holdings in other companies, based on the choices made available in article 89 of the CRR (i.e., for qualifying holdings exceeding certain thresholds, whether the NCA chooses to apply a risk weight of 1250% or to prohibit such qualifying holdings in excess of certain thresholds). On 14 August 2014, the CBC published its election and credit institutions in Cyprus must apply a risk weight of 1250% in accordance with article 89 3(a) of the CRR.

New and significant holdings (concentrations) must be reported to the Cyprus Commission for the Protection of Competition according to the Control of Concentrations between Undertakings Law of 2014 (Law 83(I)/2014), and, if such transactions have a European Community dimension within the meaning of Regulation (EC) No 139/2004 on the control of concentrations between undertakings (as supplemented by Commission Regulation (EC) 802/2004), these new and significant holdings must also be notified to the European Commission and cannot be put into effect prior to receiving a clearance from the European Commission. With respect to listed companies, the CySEC and the CSE must be notified once the ownership threshold of 5% is exceeded (whether in a single transaction or in a series of transactions), in accordance with the Securities and Cyprus Stock Exchange Laws of 1993 to 2012. Moreover, pursuant to the provisions of the Takeovers Bids Law of 2007, a person or persons acting in concert who acquire(s) 30% or more of the voting rights of a company registered in Cyprus and whose shares are traded on a regulated market in Cyprus is generally under an obligation to make an offer to buy all remaining shares.

Constraints on the Use of Capital

There are no constraints on the use of capital that have or may have a significant impact, directly or indirectly, on the Group's activities, except for the constraints imposed by the banking regulations discussed above and the legal framework applicable to credit institutions operating in Cyprus.

Part of this framework includes a prohibition set out in the Business of Credit Institutions Laws of 1997 requiring CBC written approval (with such approval subject to the provisions set out in Cypriot company law) for any transaction which relates to a credit institution acquiring or dealing for its own account in its own shares. The granting, directly or indirectly, of credit facilities for the purchase of a credit institution's own shares or the shares of a holding company or subsidiary is also prohibited.

Equity Participations of Individuals or Legal Entities in Cypriot Credit Institutions

Any individual or legal entity that has decided to acquire "control" (10% or more of the voting rights of credit institutions or its holding company or the power to elect the majority of the directors of a credit institution) or further increase its equity participation beyond, directly or indirectly, certain legally defined thresholds (20%, 30% or 50%) of equity participation in a Cypriot credit institution (or its parent) must

notify the CBC of this decision and obtain the CBC's approval for such acquisition, pursuant to the Business of Credit Institutions Laws of 1997.

The CBC will conduct an assessment of the acquirer and approve or reject the contemplated acquisition. If a person fails to comply with the CBC notification requirement, the CBC may, among other things, declare ineffective the legal documentation underlying the acquisition, suspend the voting rights attached to the relevant shares and impose fines.

The notification obligations also exist in the case where an individual or legal entity decides to cease to hold, directly or indirectly, an equity participation or voting rights in a Cypriot credit institution or to reduce its current participation or voting rights resulting in a decrease thereof below the legally defined thresholds set out above, or to cease to "control", directly or indirectly, a Cypriot credit institution. In connection with this notification requirement, there is also an obligation on Cypriot credit institutions to inform the CBC annually on changes to the percentages of holding in its capital structure so that the CBC is aware of the identity of any beneficial owner holding at least 5% of the voting rights in any Cypriot credit institution.

Interest Rates

Pursuant to The Liberalisation of Interest Rates and Related Matters (Amending) Law of 2014, terms in agreements relating to credit facilities that give a credit institution the right to unilaterally increase the interest rate margin payable by the borrower are void and unenforceable. This law applies to all credit facilities in existence as at the date the law came into effect (9 September 2014) and all agreements relating to credit facilities entered into thereafter. In addition, the law, inter alia,:

- requires credit institutions to ensure clarity and transparency on changes to the amount of interest charged, to the timing of interest payments and the methodology for calculating such interest; and
- establishes that default interest shall not exceed 2%. If a credit institution cannot show that the default interest charged in the past above the 2% threshold relates to its real costs, the credit institution will have to reimburse the borrower for the additional amounts charged.

The CBC has issued a directive on 24 April 2013 requiring credit institutions to maintain an additional special reserve relating to high deposit interest rates. The special reserve applies to deposits with an interest rate higher than the relevant EURIBOR/LIBOR plus 3%.

Compulsory Deposits with the CBC

The compulsory reserve requirement framework has been amended in accordance with EU regulations. As from January 2012, the compulsory reserve requirement ratio set by ECB Regulation (EU) No 1745/2003 and ECB Regulation (EU) No 1358/2011 is 1% for all categories of deposits to clients comprising the commitment base, with the exception of the following categories, to which a zero ratio applies:

- deposits with agreed maturity over two years;
- deposits redeemable at notice over two years;
- repurchase agreements; and
- debt securities with agreed maturity over two years.

As of the date of this Base Prospectus, the Issuer is in compliance with the applicable compulsory reserve requirements.

Loan Collateral

Banks are allowed to provide loans and credit to their customers on an unsecured and secured basis against real estate and movable property, assets and receivables including cash deposits.

Mortgages, charges (fixed and floating), pledges and assignments are all recognised as valid security interests in Cypriot law. The primary step for the perfection of security in Cyprus is registration with either the Registrar of Companies and/or registration with a specialist register (e.g. the Districts Lands Office in respect of mortgages).

In general, loan collateral can be enforced by obtaining a judgment of a competent court in Cyprus or through the appointment of a receiver or manager in the manner set out in the relevant security agreement. The general timeframe for the enforcement of loan collateral after a court judgment has been obtained has historically taken between five and 13 years, which is much longer than the international standard. With respect to mortgaged property, however, the recently enacted Foreclosure Law is intended to enable foreclosure within two years. For additional information on the status of amendments to foreclosure legislation, see "*Laws relating to Foreclosures*" and for more information on the enforcement of security, see "*The Mortgage and Housing Market in Cyprus – Enforcing security*".

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

Laws relating to Foreclosures

As part of the MoU policy reforms prepared by the Troika, the Foreclosure Law was passed by the Cypriot parliament in September 2014. This law is intended to amend the legal framework on foreclosures and the forced sales of mortgaged property, and is expected to improve banks' ability to negotiate with borrowers, as well as decreasing the time needed to re-possess, in the event that negotiations fail. For more information on the enforcement of security, see "*The Mortgage and Housing Market in Cyprus – Enforcing security*".

The Foreclosure Law aims to ensure that foreclosures cannot be indefinitely delayed and establishes procedures for the valuation and auctioning of properties. The law, however, gives borrowers the right to appeal, inter alia, against valuations and imposes an obligation on lenders to attempt to reach an agreement with borrowers to restructure the defaulted loan. The law also ensures the protection of property buyers who have deposited their sale contract at the Land Registry Department, but who have not secured the property's title deed. Contemporaneously with the passing of the Foreclosure Law, the Cypriot parliament also passed The Legal Aid (Amending) (No 3) Law of 2014, which will expand mortgagors' rights to legal assistance in court proceedings relating to foreclosures. In addition, the Cypriot parliament passed the Central Bank of Cyprus (Amending) (No 2) Law of 2014, which requires the CBC to report to the Cypriot parliament on a quarterly basis on the number and types of debts which have been restructured per credit institution and to report on developments with the application of the Foreclosure Law.

However, opposition political parties, acting together, were able to pass at the same time as the Foreclosure Law a series of separate supplementary bills intended to provide additional protections to borrowers that could potentially conflict with the main objectives of the Foreclosure Law. These supplementary bills if enacted into law in their current form will:

- release mortgagors and any guarantors from the obligation to pay any shortfall between the sale proceeds from the forced sale of a mortgaged property and the amount of the mortgaged debt (The Release of Mortgagor and Guarantors from the Guarantee (after the forced sale of mortgaged property) Law of 2014 and The Release of Guarantors from Guarantees (after the forced sale of mortgaged property) Law of 2014);
- provide borrowers (and others with a legal interest) with respect to mortgaged properties that are primary residences (i.e., a property used on a permanent basis as a family home) and certain

commercial mortgaged properties (i.e., the main premise for the conduct of business) additional protection by giving such persons the right to file an application with the court requesting that any forced sale proceedings are suspended. When deciding whether to issue an order suspending proceedings, a court will be expected to consider the financial circumstances of the borrower, how they came to default on their obligations (e.g. as a result of prevailing economic conditions) and whether the parties attempted to restructure the debt before proceedings were initiated. If the application is successful, the court will specify the duration of the suspension but the lender has the right to make an application for an order to lift the suspension if it is of the view that the financial circumstances of the borrower has improved. The right to file the application requesting the suspension of foreclosure proceedings applies to borrowers with a debt of less than €350,000 and, in the case of commercial mortgaged properties only, requires the borrower to have turnover of less than €2 million during the 12 preceding calendar months (The Forbearance of Collection of Debts, Protection of Primary Residence and Commercial Premises and the Regulation of other Related Matters (Temporary Provisions) Law of 2014);

- delay the implementation of the Foreclosure Law until the implementation of a new insolvency framework, expected by the end of the year (The Suspension of the Coming into Force of the Transfer and Mortgage of Immovable Property (Amending) Law of 2014 Until the Coming into Force of the New Insolvency Framework Law of 2014);
- give customers the right to file a complaint with the Governor of the CBC alleging a breach of the Arrears Management Directive by credit institutions. If the Governor of the CBC following an investigation, which may not exceed 45 days, establishes that a breach has occurred, the relevant credit institution will be prohibited from commencing a forced sale against mortgaged property that is a primary residence and any proceedings that have been commenced will be suspended until the breach is rectified in full (The Business of Credit Institutions (Amending) Law of 2014); and
- give the CBC the power to regulate through the issue of directives and guidelines the number and type of forced sales that can take place per credit institution (The Central Bank of Cyprus (Amending) (No 3) Law of 2014).

Four of the supplementary bills (The Release of Mortgagor from the Payment of Outstanding Amounts Following the Sale of Mortgaged Property Law of 2014, The Release of Guarantors from Guarantees Following the sale of mortgaged property Law of 2014, The Forbearance of Collection of Debts, Protection of Primary Residence and Commercial Premises and the Regulation of other Related Matters (Temporary Provisions) Law of 2014 and The Suspension of the Coming into Force of the Transfer and Mortgage of Immovable Property (Amending) Law of 2014 Law of 2014) were referred to the Supreme Court by the Cypriot President for a ruling on their constitutionality. On 31 October 2014, the Supreme Court unanimously held that the four supplementary bills were unconstitutional.

In addition, the Cypriot President declined to sign into law The Business of Credit Institutions (Amending) Law of 2014 and The Central Bank of Cyprus (Amending) (No 3) Law of 2014, which were, accordingly, sent back to the Cypriot parliament for further consideration. On 23 September 2014, the Cypriot parliament voted to withdraw The Business of Credit Institutions (Amending) Law of 2014 and refer it to the ECB for its consideration. However, The Central Bank of Cyprus (Amending) (No 3) Law of 2014 was re-confirmed (with an amendment allowing the CBC to regulate foreclosure procedures if the CBC reaches the view that the financial stability of Cyprus is being affected by such procedures), and was enacted into law in October 2014.

Generally, see *"Risk Factors — Regulatory and Legal Risks — The Group's business and operations are subject to substantial regulation and supervision and can be negatively affected by its non-compliance with certain existing regulatory requirements and any adverse regulatory and governmental developments"* and *"Risk Factors — Risks Relating to the Economic Crisis in Cyprus - The implementation, conditions and requirements of the MoU entered into between Cyprus and the Troika, and any government actions aimed at*

alleviating the economic crisis, are uncertain and may create adverse results or have an adverse effect on the Issuer".

Capital Requirements in Foreign Markets

Group subsidiaries are regulated and supervised by the regulator in their respective jurisdictions of incorporation and are subject to local guidelines and directives. All Group subsidiaries comply with their applicable minimum capital requirement ratios.

Amendments to Cyprus Tax Legislation

The House of Representatives of Cyprus approved a number of legislative bills which amended Cyprus' tax legislation in line with the MoU. For more information, see "*The Macroeconomic Environment in Cyprus — The Cypriot Economic Crisis — Tax and other fiscal measures*".

The Foreign Account Tax Compliance Act

FATCA was enacted in 2010 by the U.S. Congress as part of the Hiring Incentives to Restore Employment (HIRE) Act. FATCA requires Foreign Financial Institutions (**FFIs**), such as the Issuer and many entities in its Group, to report to the U.S. Internal Revenue Service (the **IRS**) information about financial accounts held by U.S. taxpayers or by foreign entities in which U.S. taxpayers hold a substantial ownership interest.

In order to avoid withholding under FATCA, a participating FFI will have to enter into an agreement with the IRS to: (a) identify U.S. accounts; (b) report certain information to the IRS regarding U.S. accounts; and (c) withhold a 30% tax on certain U.S.-connected payments to non-participating FFIs and account holders who are unwilling to provide the required information.

FFIs that do not enter into an agreement with the IRS will be subject to a 30% withholding tax on certain U.S.-source payments made to them. The FATCA rules will apply beginning 1 July 2014.

Registration of FFIs will take place through the "FATCA Registration Website" and, upon approval, the FFIs will receive a Global Intermediary Identification Number (**GIIN**) from the IRS. Usually, every month since June 2014, the IRS publishes a list of registered and approved FFIs and their GIINs. Withholding agents will rely on this list to verify an FFI's GIIN and not withhold on payments made to the FFI.

The U.S. Department of the Treasury has collaborated with foreign governments to develop two alternative model intergovernmental agreements (**IGAs**) that facilitate FATCA implementation and further reduce burdens on FFIs in partner jurisdictions. Under a Model 1 IGA, reporting Model 1 FFIs would report specified information about U.S. accounts to their government, followed by the automatic exchange of that information on a government-to-government basis with the United States. Under a Model 2 IGA, reporting Model 2 FFIs would report specified information about U.S. accounts directly to the IRS in a manner consistent with the final FATCA regulations (as modified by the applicable Model 2 IGA), supplemented by a government-to-government exchange of information on request.

The U.S. Treasury has engaged with more than 80 countries and jurisdictions around the world to combat offshore tax evasion and improve global tax compliance. Currently, more than 30 countries have signed or initialled these agreements, specifically (for example): for Model 1 IGA — the United Kingdom, Mexico, Bermuda, Guernsey, Isle of Man, Italy, Jersey, Malta, the Netherlands, Denmark, Ireland, Spain, Norway, Germany, France, Costa Rica and Cayman Islands; and for Model 2 IGA — Austria, Bermuda, Chile, Japan and Switzerland and more signed agreements are expected to follow in the near future. The Government has reached an agreement in substance in respect of a Model 1 IGA with the United States, and this agreement is expected to be signed during 2014.

All Group FFIs (except for Uniastrum) have registered with the IRS as Model 1 IGA Registered Deemed Compliant FFIs and have obtained their GIINs. In the absence of an IGA, Uniastrum is expected to be registered as a Participating FFI.

Taking into consideration the impact that FATCA will have on Group entities that are considered FFIs, as well as the fact that Cyprus is expected to sign an intergovernmental agreement with the IRS during 2014, the Issuer is closely following developments regarding FATCA and is coordinating with all relevant authorities.

The European Market Infrastructure Regulation (EMIR)

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

Broadly, EMIR's requirements in respect of derivative contracts, as they apply to FCs, are (i) mandatory clearing of OTC derivative contracts declared subject to the clearing obligation through an authorised or recognised central counterparty (a **CCP**); (ii) the implementation of risk mitigation techniques in respect of uncleared OTC derivative contracts; and (iii) reporting and record-keeping requirements in respect of all derivative contracts. These requirements are described in more detail below.

- *Clearing Obligation.* The "frontloading" period with respect to the clearing obligation began on 18 March 2014, which means that any OTC derivative contracts entered into by FCs from such date which fall within the classes of derivative contracts ultimately declared subject to the clearing obligation may need to be cleared (subject to certain phase-in and remaining maturity requirements, which have not yet been published); provided such contracts are entered into with entities who are also subject to the clearing obligation (such as another bank).
- *Risk Mitigation Techniques.* The Issuer 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 Issuer 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 Issuer 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 Issuer, pursuant to which counterparties, such as the Issuer, must keep records of any derivative contracts they have concluded and any modification thereto for at least five years following the termination of the contract.

Regulatory Proposals in Cyprus

One of the pillars of the MoU requires the implementation of structural reforms to support competitiveness and the sustainable growth of the Cypriot banking sector and the wider economy (see "*The Macroeconomic Environment in Cyprus*").

Some of the initiatives currently being formulated by the Government include:

- establishing a modern insolvency framework, which is expected to include, inter alia (i) laws relating to the insolvency of companies and natural persons for the purposes of making the insolvency process in Cyprus more efficient; and (ii) laws establishing a regime for the proper licensing and regulation of insolvency practitioners;
- the creation of a central credit register for credit assessment purposes, which is expected to record a broad range of data for both performing and non-performing borrowers, including information on loans and deposit accounts with other credit institutions; and
- various tax reforms aimed at reinforcing the efficiency and effectiveness of revenue collection, bolstering tax administration agencies and infrastructure, improving the effectiveness of the immovable property tax and facilitating the exchange of information of tax matters across Member States (see "*Risk Factors — Regulatory and Legal Risks — The Group is exposed to tax risk and failure to manage such risk may have an adverse impact on the Group*").

Generally, see "*Risk Factors — Regulatory and Legal Risks — The Group's business and operations are subject to substantial regulation and supervision and can be negatively affected by its non-compliance with certain existing regulatory requirements and any adverse regulatory and governmental developments*".

EU Regulatory Proposals

Proposed EU regulation on mandatory separation of certain banking activities

On 29 January 2014, the European Commission adopted a proposal for a new regulation following the recommendations released on 31 October 2012 by the High Level Expert Group (the Liikanen Group) on the mandatory separation of certain banking activities. The proposed regulation contains new rules to stop the biggest and most complex banks from engaging in the activity of proprietary trading. The new rules would also give supervisors the power to require those banks to separate certain trading activities from their deposit-taking business if the pursuit of such activities compromises financial stability. In connection with this proposal, the European Commission has adopted accompanying measures aimed at increasing transparency of certain transactions in the shadow banking sector.

The proposed regulation will apply to European banks that will eventually be designated as global systemically important banks under CRD IV/CRR or that exceed the following thresholds for three consecutive years: (a) total assets are equal to or exceed €30 billion and (b) total trading assets and liabilities are equal to or exceed €70 billion or 10% of their total assets. The banks that meet the aforementioned conditions will be automatically banned from engaging in proprietary trading, defined narrowly as activities with no hedging purposes for client activities or no connection with customer needs. In addition, such banks will also be prohibited from investing in or holding shares in hedge funds, or entities that engage in proprietary trading or acquires units/shares in hedge funds. Other trading and investment banking activities — including market-making, lending to venture capital and private equity funds, investment and sponsorship of complex securitisation, sales and trading of derivatives — are not subject to the ban, however they might be subject to separation.

The proprietary trading ban is proposed to apply as of 1 January 2017 and the effective separation of other trading activities is proposed to apply as of 1 July 2018.

RESTRUCTURING OF THE ISSUER AND LAIKI BANK

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

- the immediate resolution of Laiki Bank into a "good" bank and "bad " bank;
- the recapitalisation of the Issuer through a bail-in of uninsured depositors, shareholders and other creditors of the Issuer; and
- the acquisition by Piraeus Bank S.A. (**Piraeus Bank**) of the Greek branches of the Issuer, 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 Issuer 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 Issuer of:
- certain assets(including a €1.2 billion receivable owing to Laiki Bank from the Issuer in connection with the sale of the Group's Greek operations) and liabilities in Cyprus of Laiki Bank, including its shares in subsidiaries incorporated in Cyprus;
- certain of Laiki Bank's liabilities, mainly comprising €4.2 billion of customer deposits and €9.1 billion of ELA;
 - certain assets and liabilities of the United Kingdom and Greek operations of Laiki Bank, comprised mainly of loans and any related security originated by Laiki UK, shares in Laiki Bank's subsidiary Marfin Capital Partners Ltd (UK), interbank deposits and real property in the United Kingdom and Greece; and
 - contracts of employment of employees of Laiki Bank in Cyprus; and
- on 1 April 2013, the acquisition of customer deposits amounting to €325.2 million and certain liquid assets of the United Kingdom branch of Laiki Bank by Bank of Cyprus UK Ltd, a wholly-owned subsidiary of the Group.

Under the Laiki Transfer Decrees, the Resolution Authority was required to determine the final value of the assets and liabilities of Laiki Bank transferred to the Issuer 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 Issuer 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 Issuer to issue Class A Shares representing 18.056371% of the total share capital of the Issuer outstanding at the time. As a result of the Recapitalisation as further described in "*Recapitalisation of the Issuer*" below, Laiki Bank's holding of Class A Shares was converted into ordinary shares of the Issuer.

As of the date of this Base Prospectus, Laiki Bank held 858,708,764 ordinary shares in the Issuer representing 9.624% of the Issuer's total share capital and is the single largest shareholder in the Issuer (see "*Risk Factors – Regulatory and Legal Risks – The ordinary shares of the Issuer are currently suspended from trading and the Issuer may be adversely affected when trading in the ordinary shares resumes*"). 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 Issuer) 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 Issuer, the administration of them is in the hands of the Resolution Authority and, in accordance with the MoU, the Resolution Authority has instructed Laiki Bank's special administrator to appoint a well-recognised and independent consulting or auditing firm or international institution to be entrusted with the voting rights associated with the ordinary shares held by Laiki Bank. It is expected that these ordinary shares will be sold with a view to maximising returns for Laiki Bank's creditors.

Recapitalisation of the Issuer

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

Holder of debt securities of the Issuer as of 29 March 2013

The Bail-in Decrees provided that claims in respect of the subordinated debt of the Issuer 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 Issuer's subordinated debt were comprised of the following subordinated debt securities:

- Capital Securities 12/2007 (ISIN: CY0140670114) issued by the Issuer 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 Issuer 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 Issuer 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 Issuer in May 2011 of which the outstanding principal amount as of 29 March 2013 was €428,521,983 (the **2011 EUR CECS** and together with the 2007 Capital Securities, the 2008 Convertible Bonds and the 2009 Convertible Capital Securities the **Euro Capital Securities**); and
- Convertible Enhanced Capital Securities (ISIN: CY0141890114) issued in U.S. Dollars by the Issuer in May 2011 of which the outstanding principal amount as of 29 March 2013 was \$39,711,653 (the **2011 USD CECS** and, together with the 2011 EUR CECS, the **CECS**).

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

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

Holders of ordinary shares of the Issuer 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 Issuer 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 Issuer as borrower) of the Issuer. This excess amount was subject to conversion into shares of the Issuer and cash deposits with the Issuer 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 Issuer had against the holder (e.g. an outstanding advance or loan by the Issuer to the holder) were netted against the total amount of products and/or deposits held by it at the Issuer; 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 Issuer:

- 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 Issuer:

- BOC Compass EUR: euro-denominated capital guaranteed structured product linked to a basket of equity indices;
- BOC Compass USD: U.S. Dollar-denominated capital guaranteed structured product linked to a basket of equity indices;
- BOC Horizon EUR: euro-denominated capital guaranteed structured product linked to a euro-denominated equity index;

- SEK 100% Capital Guaranteed, 100% Participation Himalayan World Index Linked Deposit: the lawful currency of the Kingdom of Sweden (**SEK**)-denominated capital guaranteed structured product with 100% participation in the performance of a basket of equity indices; and
- Avantage: euro-denominated capital guaranteed structured product linked to the performance of a basket of indices.

The Issuer 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 Issuer and cash deposits involved prior interim conversions in accordance with the Bail-in Decrees as summarised below:

Excess amount conversion

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

Title A conversion

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

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

Title B conversion

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

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

Deposits conversion

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

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

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

Class A Shares conversion

All of the Class A Shares resulting from the interim conversions described above (comprising 47.5% of the excess amount for each holder) were further converted into ordinary shares of the Issuer. 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 Issuer 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 Issuer 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 Issuer 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 Issuer'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 Issuer's share premium reserve was reduced to zero and the total amount of the reduction was applied to write off accumulated losses of the Issuer up to 29 March 2013.

Impact of the Recapitalisation

The Issuer's accumulated losses of €2,786.9 million were written off through a reduction in the Issuer's share capital of €2,353.3 million, the utilisation of the Issuer'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 Issuer 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 Issuer, the unavailability of financial information and the continued negotiations between the Government and the Troika that resulted in the MoU and EAP, the Issuer 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 Issuer 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 Issuer, the Issuer accounted for this transaction by reference to the fair value of the individually identifiable assets and liabilities acquired for which a reliable fair value could be established. As a result of the above accounting treatment, no profit or loss arises from these transactions. See also "*Risk Factors — Risks Relating to the Group's Business — The independent auditor's report in respect of the Issuer's consolidated financial statements as at and for the year ended 31 December 2013 and the independent auditor's review report in respect of the Issuer's unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2014 are qualified and contain an emphasis of matter*".

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

The following tables show the composition of the Issuer's share capital as of 30 July 2013 and as of the date of this Base 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 Issuer pursuant to the Laiki Transfer Decrees (the **Laiki Shares**).
- the Placing Shares; and
- the Open Offer Shares.

The Bail-in Shares, Diluted Shares and Laiki Shares comprise all of the ordinary shares of the Issuer as at 30 July 2013. Following the issue of the Bail-in Decrees, certain depositors and third parties secured (on an ex-parte basis) interim orders from the Cypriot courts and Greek courts restricting the Issuer 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 Issuer as if the Bail-in Decrees were not applicable to them. These actions have been and are being contested by the Issuer before the appropriate courts.

Share capital of the Issuer 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 and Open Offer Shares comprise all of the ordinary shares of the Issuer as of the date of this Base Prospectus. On the date of this Base Prospectus, deposits totalling approximately €297 thousand are subject to interim orders and appear in the books of the Issuer as if the Bail-in Decrees were not applicable to them.

Share capital of the Issuer as of the date of this Base Prospectus

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

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

Release of New Deposits

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

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

Piraeus Bank acquisition of the Greek operations of the Issuer

In March 2013, the Greek operations of the Issuer, 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 Issuer'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 Issuer

On 25 April 2013, in accordance with the Sale of certain operations in Romania of Bank of Cyprus Public Company Ltd Decree of 2013 (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.

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 Issuer's risk policy and systems and annually assesses the adequacy and effectiveness of the risk management policy and makes recommendations to the Board of Directors regarding these matters. The RMD is also involved in direct risk monitoring of international and domestic subsidiaries and has been mandated to design policies reflecting the risk appetite of the Group, monitor risks in a proactive manner across the different business segments, taking into account all relevant CBC guidelines and regulatory requirements.

As a result of implementing new and stricter credit risk management policies and processes in line with the Group's conservative risk appetite and strategy under the Restructuring Plan, the RMD function has been reassessed and reorganised to improve and enhance credit risk monitoring and reporting. As part of the reorganisation process, new departments have been created to address particular risks, and new subdivisions have been created within existing departments. The total number of employees in the Group's RMD has also increased from 89 as of 31 March 2013, which includes 38 employees absorbed from Laiki Bank's risk management department, to 121 employees as of 30 June 2014.

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

- *Credit Risk Management*. This department is divided into three sub-departments:
 - (i) the Credit Risk Policy (**CRP**) department develops the Group's credit risk policy, lending policies and approval limits;
 - (ii) the Credit Risk Reporting & Control (**CRR&C**) department is responsible for monitoring the Group's credit portfolio, implementing the credit provisioning policy and reports on the relevant credit risk metrics; and
 - (iii) the Credit Risk Assessment (**CRA**) department safeguards the effective management of credit risk at all stages of the credit cycle. The CRA department is a new sub-department that was established in accordance with CBC directions.
- *Credit Appraisal*. This department is engaged in reviewing and approving credit applications, within an approved set of limits. Under the previous RMD structure, the Credit Appraisal department reported directly to the GCEO; however, under the current structure, the Credit Appraisal department reports to the GCRO.
- *Market Risk*. This department monitors risk from changes in market rates, liquidity risk and credit risk in relation to the Group's investments in liquid assets. For more detail on the market risk unit, see "*Asset and Liability Management*" below.

- *Operational Risk.* This department is responsible for identifying key operational risks which are both assessed and managed through the implementation of the Group operational risk management policy. This policy includes the holding of risk control self-assessment workshops with employees of the Group, the maintenance of an operational loss collection process and evaluations of outsourcing activities, new and amended procedures and new products and services of the Group from an operational risk perspective. The operational risk department also cooperates with other departments of the Group (such as information technology, legal, information security, physical security, health and safety, and compliance) and business lines in general in order to monitor and identify operational risks.
- *Information Security.* This department has established an information management programme in order to identify, assess and mitigate information security risks and ensure compliance with the applicable data protection laws and regulations issued by the CBC. This is executed in practice through the use of policies, processes, systems and personnel operating under the following domains: governance, information protection, personnel, access control, infrastructure protection, physical protection, applications protection and threat and incident management. The Information Security department was previously within the Operational Risk department but has become a stand-alone department as part of the RMD reorganisation.
- *International Risk Management and Other Subsidiaries.* This department's primary responsibilities are to ensure that the business conducted by the Group's overseas operations and foreign subsidiaries is consistent with the Group's risk appetite and that these overseas operations and foreign subsidiaries implement risk management policies, procedures and methodologies which are consistent with the Group's risk management guidelines. The International Risk Management and Other Subsidiaries department is a new department that was created as part of the RMD reorganisation.
- *Capital Risk Management.* This department is responsible for the calculation and reporting, both regulatory and management, of the Group's risk-weighted assets (**RWAs**) in line with the requirements of CRD IV/CRR (as defined in "*Regulation and Supervision of Banks in Cyprus*"). The Capital Risk Management department is also involved in any regulatory or other management assessments involving the Group's capital adequacy requirements. The Capital Risk Management department is a new department that was created as part of the RMD reorganisation.
- *Credit Risk Systems & Analytics (CRSA).* This department is responsible for the development, evaluation and calibration of all risk-related models. In particular, the CRSA develops and runs the Group's credit scoring models and credit rating systems.

Overall Risk Strategy and Appetite

The Group's overall risk strategy and appetite will remain conservative throughout the period of the Restructuring Plan. In particular:

- *Credit risk.* The Group has implemented conservative credit risk policies and a proactive approach on the monitoring of credit risk. Through the establishment of the RRD, the Group has strengthened the management and recovery of its delinquent loans as well as larger corporate exposures (regardless of delinquency status);
- *Liquidity and funding risk.* The Issuer aims to decrease its reliance on ELA funding; and
- *Market risk.* The Issuer does not run proprietary trading books and aims to maintain neutral or near neutral positions with respect to foreign currency risk and interest rate risk; and

- *Operational risk.* The Group has implemented a "zero-tolerance" policy towards internal fraud and non-compliance with regulatory requirements and a low tolerance towards other operational risks/losses in accordance with the Group's risk appetite.

Credit Risk

Credit risk is the risk that arises from the possible failure of one or more customers to discharge their obligations towards the Group. As part of its restructuring of the financial sector of Cyprus, the CBC has recently issued, at the end of 2013 and in 2014, a number of new directives which significantly impact the Issuer'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 Issuer is in compliance, or is in the process of complying, with the requirements of these new directives. For more detail on these new directives, see "*Regulation and Supervision of Banks in Cyprus — CBC Credit Risk Directives*".

Credit Risk Management

The key elements of the Group's new credit risk policy and processes are:

- (a) 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.
- (b) 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
- (c) an increase in the frequency of the review of credit limits on a continuous basis and the concentration limits on an annual basis; and
- (d) 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 Issuer's headquarters and is mainly responsible for the continuous monitoring of the quality of the Group's credit portfolio and the implementation of the Group's provisioning policy. In general, the CRR&C's monitoring of the Group's credit portfolio is based on a regular review of basic key performance indicators such as NPLs, 90+DPD ratios, excesses and arrears, and credit exposures to related accounts are aggregated and monitored on a consolidated basis. However, the department also monitors any concentrations in the Group's credit exposure to different sectors of the economy and pays particular attention to any loans with an increased risk profile. Loans with an increased risk profile include restructured loans, loans showing early warning signs of default (such as interest or principal arrears or write-offs, credit accounts with debit balances and interest and/or large security gaps), and loans which require a scheduled review or a review triggered by, amongst other things, out-of-date valuations of collateral, out-of-date audited financial accounts and/or expired fire insurance policies. In addition, the CRR&C, in cooperation with the business divisions, monitors compliance with the applicable loan quality targets and the transfer of delinquent loans from these divisions to the RRD. The CRR&C establishes the Group's loan provisioning policy and calculates the level of loan provisions to be provided based on its review of the Group's credit portfolio. The CRR&C and CRA monitor the implementation of covenants placed on decisions issued by Loans Committee members.

The CRA is also based in the Issuer's headquarters and tests the managements of credit risk at all stages of the credit cycle. In particular, the CRA reviews all customer credit applications over €10 million (currently) and provides an assessment of the risks associated with the proposed funding to the Executive Loans Committee and the Group Highest Executive Loans Committee. For customer credit applications below €10 million (currently), the CRA provides an assessment of the risks associated with the proposed funding to the Loans Committee on an ad hoc basis. The CRA also performs random checks of all credit approval authorities for compliance with the Group's lending policies, credit approval limits and the conditions for approval of the loan concerned. Sample testing of applications is also carried out in order to take corrective actions and identify any inefficiencies or training requirements. Additionally, the CRA is assigned to perform quality assurance exercises

The Credit Appraisal department is independent of the relevant business divisions, including the RRD, and reviews and approves all credit applications. This department is mainly staffed by experienced credit officers responsible for reviewing and, subject to the credit approval limits described below, approving credit applications for new facilities, debt restructurings, other credit requests submitted by various business units in Cyprus as well as, in the case of credit applications above the limits set by the ALCO for the countries concerned, by the Group's banking subsidiaries in the United Kingdom and Russia.

Credit Approval Limits

Credit approval limits are determined by reference to the total liabilities of the Group. A credit appraiser in the Credit Appraisal department is responsible for approving non-RRD originated credit exposures of up to €3 million. For RRD originated credit exposures of up to €3 million, credit applications are approved by specialist teams within the SME underwriting department and the retail underwriting department that focus on restructured and problematic loans and which report directly to the manager and the head of the Credit Appraisal department, respectively. For any credit exposure, including RRD originated credit exposures, over €3 million but under €10 million (currently), a loans committee (typically comprised of at least three senior credit appraisers) is convened. Credit exposures over €10 million (currently) but under €25 million are approved by the Executive Loans Committee and credit exposures over €25 million but under €50 million are approved by the Group Highest Executive Loans Committee. The Executive Credit Loan Committee is usually comprised of three senior credit appraisers and three officers from other departments of the Issuer

(none of which may be from business units, including the RRD) as well as a representative from the CRA. At least three of the permanent members of the Executive Credit Loan Committee must attend each meeting in order for it to be quorate. The Group Highest Executive Loans Committee is comprised of six permanent members which includes the manager of the Credit Appraisal department. At least three of the permanent members of the Group Highest Executive Loans Committee must attend each meeting in order for it to be quorate.

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

Credit Criteria by Lending Segment

The Issuer's primary lending criterion is the borrower's repayment ability. The Issuer 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 Issuer uses, amongst others, behavioural scoring which takes into account such factors as the conduct of existing accounts and whether the customer has been in arrears.

With respect to SME and corporate lending, the CRP has introduced the following additional credit criteria in line with its conservative credit risk policy:

- *Collateral coverage.* Increases in collateral coverage triggered by higher credit facility utilisations and increases in credit limits available under credit facilities;
- *Restricted sectors.* The CRP has defined economic sectors to be avoided (such as trade in tobacco, weapons and used cars), which are determined based on the historical NPL performance of that sector and on performance expectations from the Group's economics department, and existing loans to borrowers in these sectors are managed with a view to decreasing the Issuer's exposure to them; and
- *Foreign exchange disbursements.* Disbursements in foreign currencies are generally not permitted but applications can be examined exceptionally at the highest committee level.

In addition, SMEs and corporate customers are assessed by the Issuer's credit rating system. The Issuer's credit rating system calculates the following ratings for these customers:

- (a) 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.
- (b) Their **borrower rating** (an assessment of the credit-worthiness of the customer taking into account financial index, account behaviour with the Issuer, the directors'/guarantors' account behaviour with the Issuer, the management of the enterprise and sectoral risks as well as the operations liquidity and capital structure).

- (c) 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 Issuer vis-à-vis the customer). This module will support the creation of loss given default, exposure at default and expected loss in compliance with the Basel III internal-ratings based approach. The facility structuring module component that calculates the transaction rating is currently under review and is expected to be utilised in the near future.

In addition, the Issuer is in the process of developing a new modelling and assessment tool to identify potential problematic clients. This assessment tool will be incorporated into the Issuer's existing rating scoring system and will be designed to send alerts to the client's home branch so that the branch managers may contact the client to minimise any potential risk of default.

In addition, the Issuer'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 Issuer generally lends on the security of a first charge and takes a second charge only in exceptional circumstances (for example where the Issuer'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 Issuer 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 Issuer 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 Issuer 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 Issuer and their connected persons, the Issuer complies with the relevant provisions of the Banking Law of 1997 (the **Banking Law**) and the relevant exposures are set out in the Group's Consolidated Financial Statements (see "*Management and Corporate Governance — Related Party Transactions*").

Provisioning

A full review of the Group's portfolio is carried out quarterly under the supervision of the CRR&C in order to review all loans which meet certain criteria. These criteria are revised regularly to keep up with market

developments and are specific to each country. The criteria for specific provisions currently include all non-performing loans and all performing restructured loans with direct facilities in excess of €7.5 million.

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

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

In relation to collective provisions, loans are grouped based on similar credit risk characteristics taking into account the type of the loan, past-due days and other relevant factors.

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

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 Issuer and other Group companies including the operations in the United Kingdom, the Channel Islands and Russia. There are also local ALCOs in the other banking and insurance units (the United Kingdom and Russia), that monitor the implementation of asset and liability management for their local operations.

Liquidity and Funding Risk

Liquidity risk is the risk that the Group is unable to fully or promptly meet current and future payment obligations as and when they fall due. This risk includes the possibility that the Group may have to raise funding at higher cost or sell assets at a discount. It reflects the potential mismatch between incoming and outgoing payments, taking into account unexpected delays in repayment or unexpectedly high payment outflows. Liquidity risk involves both the risk of unexpected increases in the cost of funding of the portfolio of assets and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

Following the negotiation between the Government and the Troika in relation to the provision of financial assistance to Cyprus, various capital controls were put into place that restricted the free movement of funds within and outside of Cyprus. For a description of these capital controls, see "*Regulation and Supervision of Banks in Cyprus — Capital Control Measures*". With the relaxation of these capital controls and the

continuing economic crisis in Cyprus, the Group has increased its monitoring of cash flows and highly liquid assets both in terms of depth and frequency. For example, until March 2013, the Board of Directors was informed of compliance with internal and regulatory liquidity ratios for each banking unit and for the Group on at least a quarterly basis. Since May 2013, the Board of Directors has been informed of the liquidity position of the Group at minimum on a monthly basis.

Local treasury centres at each banking unit are responsible for managing liquidity in their respective unit. Group Treasury is responsible for liquidity management at Group level and for overseeing the operations of each banking unit, to ensure compliance with internal and regulatory liquidity policies and provide direction as to the actions to be taken regarding liquidity availability. Every unit targets to finance its own needs in the medium term. Group Treasury assesses on a continuous basis, and informs the ALCO at regular time intervals, about the adequacy of the liquid assets and takes the necessary actions to enhance the Group's liquidity position.

Liquidity is also monitored daily by the MR. MR reports to the ALCO the regulatory liquidity position of the various units and of the Group, at least monthly. The ALCO of each unit is responsible for monitoring the liquidity position of its unit and ensuring compliance with the approved policies. After the Recapitalisation of the Issuer in March 2013, the ALCO monitors mostly the stock of liquid assets and the cash outflows of the Issuer in Cyprus, since these are considered to be of utmost importance. The Board of Directors, through its Board Risk Committee, reviews at every meeting, the liquidity of the Group. Information on inflows/outflows is also provided.

As part of the Group's procedures for monitoring and managing liquidity risk, there is a Group funding crisis contingency plan for handling liquidity difficulties. The plan details the steps to be taken, in the event that liquidity problems arise, which escalate to a funding crisis meeting of the ALCO. The plan sets out a series of possible actions that can be taken. This plan, as well as the Group's liquidity policy, are reviewed by the ALCO. The latter submits (via the Board Risk Committee) the updated policy with its recommendations to the Board of Directors for approval. The approved policy is notified to the CBC.

Funding and liquidity sources

Following the bail-in of the Issuer in 2013, the Group's main sources of funding and liquidity are its customer deposits and central bank funding, either through the Eurosystem monetary policy operations or through ELA. For a discussion of the change in the Group's funding profile from 2012 to 30 June 2014, see "*Operating and Financial Review and Prospects — Liquidity and Capital Resources*".

The Group has limited access to interbank and wholesale markets, which combined with a general reduction in deposits in Cyprus, has resulted in increased reliance on central bank funding.

The funding provided by the Issuer to its subsidiaries for liquidity purposes is repayable as per the terms of the respective agreements. For lending provided for capital purposes, the prior approval of the regulator is usually required on any repayment before the maturity date and, for BOC UK, approval is also required for repayment. BOC UK and BOC CI cannot place funds within the Group in excess of maximum limits set by the local regulators. Subsidiaries can proceed with dividend distribution in the form of cash to the Issuer provided that they are not in breach of their regulatory capital and liquidity requirements. Certain subsidiaries have a recommendation from their regulator to avoid any dividend distribution at this point in time and, in the case of BOC UK, express consent must be obtained from the United Kingdom's Prudential Regulation Authority before any dividend distribution.

Liquidity reserves

Liquidity reserves include available cash and cash equivalents, unencumbered highly liquid securities and other unencumbered securities that can be sold in the market or used for secured funding purposes.

The Group's liquidity reserves are managed by Group Treasury. Liquid asset investments take place within limits and parameters specified in the liquid assets investment policy approved by the Board of Directors.

As of 30 June 2014, the Group had liquidity reserves of €1.8 billion (€2.0 billion as at 31 December 2013), of which €1.1 billion (€1.3 billion as at 31 December 2013) are eligible for the purposes of calculating the Issuer's Liquidity Coverage Ratio (**LCR**) under CRD IV requirements. The Group only holds LCR Level 1 eligible assets which include high quality debt securities issued by a government or central bank, multilateral agency bonds, cash and reserves at central banks.

The Council of Ministers and the Committee on Financial and Budgetary Affairs of the House of Representatives of Cyprus have approved the issuance of €2.9 billion of guarantees for bonds or loans issued by credit institutions under the Granting of Government Guarantees for Loans and/or issuance of Bonds by Credit Institutions Law of 2012. It is expected that the Group will be able to make use of the above guarantees if the need arises.

Market Risk

In line with the Group's overall conservative risk strategy and appetite for the period of the Restructuring Plan, the Issuer 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 Issuer's financial condition to adverse movements in interest rates. Changes in interest rates affect the Issuer'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 Issuer's net interest income and economic value.

Interest rate risk is managed through maximum loss limits on the impact on net interest income which are set for each banking unit of the Group. These limits are set as a percentage of Group capital and as a percentage of net interest income. Small limits for open interest rate positions for periods of more than three years are also in place, as well as a limit (based on the Group's Tier 1 capital) for the maximum acceptable change in the Group's economic value (for a 200 basis points change in interest rates).

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. In order to manage currency risk, the Board of Directors has approved open position limits for the total foreign exchange position 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 Base Prospectus was B2 (30 June 2014: B3; 31 December 2013: B3; 31 December 2012: Baa1). If debt securities issued by the Republic of Cyprus were excluded, the average rating of the Group's portfolio of debt securities would be Aa2 as of 30 June 2014.

Operational Risk

Operational risk is defined as the risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems or external events, including legal risk.

The Group's management of operational risk is geared towards maintaining a strong internal control governance framework and managing operational risk exposures through a consistent set of management processes that focus on risk identification, assessment, control and monitoring.

The main objectives of operational risk management within the Group are: (i) the development of operational risk awareness and culture, (ii) the provision of adequate information to the Group's management at all levels in relation to the operational risk profile on Group, entity and activity level, so as to facilitate decision making for risk control activities, and (iii) the control of operational risk to ensure that operational losses do not cause material damage to the Group's franchise and have minimal impact on the Group's profitability and corporate objectives. During 2013, a Group-wide operational risk management software was implemented to streamline and further automate operational risk management activities.

Operational risk loss events are classified and recorded in the Group's internal loss database to enable risk identification, root-cause analysis and corrective action. In 2013, 434 loss events with gross loss over €1,000 were recorded (compared to 495 in 2012). The Group has adequate insurance policies to cover unexpected operational losses.

The Group strives to continuously enhance its risk control culture and increase awareness of its employees on operational risk issues through ongoing staff training.

Operational risks can arise from all business lines and from all activities carried out by the Group. To enable effective management of all material operational risks, the operational risk management policy adopted by the Group is based on the three lines of defence model, through which risk ownership is dispersed throughout the organisation. The first line of defence comprises management and staff who have immediate responsibility of day-to-day operational risk management. Each business unit owner is responsible for identifying and managing all the risks that arise from the unit's activities as an integral part of their first line responsibilities. The second line of defence comprises the risk management function whose role is to provide operational risk oversight and independent and objective challenge to the first line of defence. The third line of defence comprises the Internal Audit function and the Audit Committee of the Board of Directors, which provide independent oversight of the integrity and effectiveness of the risk management framework throughout the Group.

The Eurogroup decisions and Recapitalisation of the Issuer in 2013 gave rise to significant challenges in terms of operational risk management. During the first half of 2014, the Group's most significant operational risk was related to the absorption of the operations of Laiki Bank in Cyprus and the final integration of the Group's information technology systems and data with those of Laiki Bank. In June 2014, the Group substantially completed its integration of ex-Laiki Bank operations through the migration of information technology systems across all divisions. The day-to-day operational issues are being addressed by the

business lines in consultation and close cooperation with the operation risk department and other control functions. The operational risk department monitors and assesses the potential risks and implements measures to control and mitigate them. To date, no risks have materialised in loss incidents for the Group from this process.

In addition, a number of regulatory changes were put in effect which demanded new software and procedures that give rise to operational risks related to data integrity, data aggregation, as well as non-compliance with the new regulatory provisions. To date, there have been no significant loss incidents for the Group from this process.

Other Risks

Business Continuity Risk

Business Continuity Plans and Disaster Recovery Plans exist and are being continuously enhanced for all markets in which the Group operates to ensure continuity and timely recovery after events that may cause major disruptions to the business operations.

Reputational Risk

Reputational risk refers to the risk arising from negative perception on the part of the Issuer'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 Issuer 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 Issuer's credibility with its customers is highly dependent on the Group's ability to protect and safely process the confidential information it receives from its customers and in relation to its businesses.

The information security department is an independent function reporting directly to the GCRO. Information is protected in accordance with applicable international standards and regulations and certain information security policies approved by the Board of Directors. A Security Awareness Programme is planned to increase the awareness of all staff to all information security matters. The Group's databases are protected against electronic risks and a number of strict policies and baselines exist for the network, back-ups emails and the internet. Information technology applications are also protected in line with international best practices.

Insurance risk

Insurance risk is the risk that an insured event under an insurance contract occurs and the uncertainty of the amount and the timing of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. In particular, the actual claims and benefit payments may exceed the amount of liabilities recognised in the financial statements. Insurance events are random and the actual number and amount of claims and benefits differs from year to year from those estimated using statistical and actuarial methods.

The Group's insurance subsidiaries address their risk exposure through the diversification across a large portfolio of insurance contracts, careful selection of policyholders in accordance with underwriting strategy guidelines and assessment of credit risk and the use of reinsurance arrangements. Although reinsurance arrangements mitigate insurance risk, the Group's insurance subsidiaries are not completely relieved of their direct obligations to their policyholders and a credit exposure exists to the extent that any reinsurer is unable

to meet its contractual obligations. For this reason, the Group's insurance subsidiaries regularly monitor the credit worthiness of reinsurance companies with which they cooperate.

MANAGEMENT AND CORPORATE GOVERNANCE

Overview

In April 2014, the CSE issued an updated Corporate Governance Code. As a company listed on the CSE, the Issuer has adopted the Corporate Governance Code and applies its principles. Although the Issuer currently complies with the provisions of the Corporate Governance Code, there were certain exceptions during 2013 relating to (i) the independence of directors and the composition of the committees of the Board of Directors prior to the appointment of the interim Board of Directors and (ii) the participation of the Chief Executive Officer in the Risk Committee of the interim Board of Directors (which was agreed with the CBC). These exceptions have been rectified.

In addition, in August 2014, the CBC issued the Governance Directive, which, among other things, limits the number of directorships to a maximum of 13 (two of which must be executive directors). The Board of Directors is currently comprised of 12 non-executive directors, 10 of whom are independent, and one executive director. As required by the Governance Directive, the Issuer has informed the CBC of its non-compliance with the foregoing provision and has provided the CBC with a timetable for compliance within the statutory time period of one year. The Issuer currently expects to be in compliance with the Governance Directive following the AGM to be held on 20 November 2014.

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

On 29 October 2014, the Issuer published AGM Notice, which included a number of resolutions submitted to the Issuer by certain shareholders to be examined and, if considered appropriate, adopted by the shareholders of the Issuer, including:

- a special resolution amending the articles to specify that the number of directors shall not be less than seven nor more than 13;
- ordinary resolutions for the removal from office as director of the Issuer of Mr. Anton Smetanin, Mrs. Anjelica Anshakova, Mr. Dmitry Chichikashvili, Mr. Eriskhan Kurazov, Mr. Adonis Papaconstantinou and Mr. Marinos Gialelis; and
- ordinary resolutions for the appointment as director of the Issuer, subject to CBC approval, of Dr. Josef Ackermann, Mr. Wilbur Ross, Mr. Arne Berggren, Mr. Maxim Goldman, Dr. Christodoulos Patsalides and Mr. Michalis Spanos.

In addition, Dr. Christis Hassapis, Mr. Xanthos Vrachas and Mr. Andreas Yiasemides will retire at the AGM and have stated that they will not offer themselves for re-election whereas Mr. Vladimir Strzhalkovskiy, Mr. Marios Kalochoritis and Mr. Ioannis Zographakis will retire at the AGM and offer themselves for re-election and Mr. John Patrick Hourican will offer himself for re-election. It should be noted that Mr Konstantinos Katsaros resigned from his office as director of the Issuer with effect on 20 October 2014.

Board of Directors

On 26 April 2013 the CBC, in its capacity as Resolution Authority, appointed an interim Board of Directors, in accordance with the requirements of the MoU. As agreed in the MoU, the interim Board of Directors' appointment was to be effective until the next general meeting of the Issuer's shareholders. On 30 July 2013 the CBC, in its capacity as Resolution Authority, notified the Issuer that it was no longer under resolution.

Consequently, the shareholders' rights were reinstated as of that date and on 10 September 2013 the shareholders of the Issuer elected a new Board of Directors.

The Board of Directors is currently comprised of 12 non-executive directors, 10 of whom are independent, and one executive director. The primary role of the Board of Directors is to provide entrepreneurial leadership of the Group within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board of Directors sets the Group's strategic objectives, ensures that the necessary financial and human resources are in place for the Group to meet its objectives and reviews management performance. The Board of Directors also sets the Group's values and standards and ensures that its obligations towards its shareholders and other stakeholders are understood and met.

The Board of Directors meets on a regular basis and has a formal schedule of matters for consideration. During 2013, 68 meetings of the Board of Directors were held due to the unprecedented and particularly challenging events and circumstances affecting the Group. The main areas of focus for the Board of Directors were the preparation of the Issuer's strategy and Restructuring Plan, liquidity and arrears management, the Recapitalisation and the implementation of the various decrees issued by the Resolution Authority, improvement of the risk management framework, the smooth integration of Laiki Bank and the general improvement of operational efficiency through branch rationalisation and the implementation of voluntary retirement schemes. All directors have access to the advice and services of the company secretary. Independent professional advice is also available to the directors in accordance with the internal policy that was formulated and approved by the Board of Directors.

In accordance with the articles of association of the Issuer, 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 Base Prospectus comprises five non-executive directors, the majority being independent. The audit committee considers and makes recommendations to the Board of Directors on matters relating to the review and assessment of, among others, the Group's financial statements and the adequacy and effectiveness of the system of internal controls based on the reports prepared by the Group internal audit function. The audit committee also considers and makes recommendations to the Board of Directors on compliance issues based on the reports prepared by the Group compliance function. The audit committee oversees the Group's external auditors and their relationship with the Group, including the monitoring of the balance between audit and auxiliary non-audit services. The audit committee held 26 meetings during 2013.
- *Remuneration and Human Resources Committee* – The remuneration and human resources committee as of the date of this Base Prospectus comprises five non-executive directors, the majority being independent. The remuneration and human resources committee considers and makes recommendations to the Board of Directors on matters relating to the remuneration of executive and non-executive directors and senior executive management, as well as the overall Group remuneration policy. The remuneration and human resources committee prepares the annual Board of Directors remuneration report which is ratified by the Board of Directors and submitted to the shareholders at the annual general meeting. The remuneration and human resources committee held ten meetings during 2013.

- *Nominations and Corporate Governance Committee* – The nominations and corporate governance committee as of the date of this Base Prospectus comprises four non-executive directors, two of which are independent. The nominations and corporate governance committee makes recommendations to the Board of Directors for the appointment of new directors in order to fill vacant positions on the Board of Directors, taking into consideration relevant factors and criteria. The nominations and corporate governance committee also assesses the structure, size, composition and performance of the Board of Directors on an annual basis and submits any recommendations to the Board of Directors. The nominations and corporate governance committee is responsible for the formulation of the succession plans of the Board of Directors. In addition, the nominations and corporate governance committee has general responsibility for the application of corporate governance principles by the Group. The nominations and corporate governance committee held 12 meetings during 2013.
- *Risk Committee* – The risk committee as of the date of this Base Prospectus comprises six non-executive directors, all of which are independent. The risk committee examines, inter alia, the Group's risk policy and systems and assesses annually the adequacy and effectiveness of the risk management policy and makes recommendations to the Board of Directors regarding these matters. The risk committee held 13 meetings during 2013.
- *Strategy and Restructuring Committee* – The strategy and restructuring committee as of the date of this Base Prospectus comprises eight non-executive directors, the majority being independent. The strategy and restructuring committee monitors the restructuring of the Group. After its establishment on 10 September 2013, the strategy and restructuring committee held five meetings during 2013. While the establishment of a strategy and restructuring committee is not a requirement of the Corporate Governance Code, this committee was established to assist the Board of Directors in matters relating to the Issuer's strategy and the Restructuring Plan.

Directors

The Board of Directors of the Issuer, which is also the Group's main board of directors, currently has 12 non-executive directors, 10 of whom are independent, and one executive director. The business address of each of the directors in their capacity as directors of the Issuer is 51 Stassinou Street, Ay. Paraskevi, Strovolos, 2002 Nicosia, Cyprus and their respective positions and date appointed to the Board of Directors are as follows:

| Name | Position | Committee Membership | Date Appointed to Board of Directors |
|-------------------------|------------------------------------------------|----------------------------------------------------|---------------------------------------------|
| Christis Hassapis | Chairman and Independent Director | Nominations and Corporate Governance Committee | 10 September 2013 |
| Vladimir Strzhalkovskiy | Vice-Chairman and Independent Director | Risk Committee | 10 September 2013 |
| John Patrick Hourican | Chief Executive Officer and Executive Director | | 26 November 2013 |
| Anjelica Anshakova | Independent Director | Audit, Risk, Strategy and Restructuring Committees | 10 September 2013 |
| Dmitry Chichikashvili | Independent Director | Risk, Strategy and Restructuring Committees | 10 September 2013 |

| Name | Position | Committee Membership | Date Appointed to Board of Directors |
|-------------------------|----------------------------------------|----------------------------------------------------------------------------------------------------------------------|---------------------------------------------|
| Marinos Gialeli | Independent Director | Audit, Remuneration and Human Resources, Risk, Strategy and Restructuring Committees | 10 September 2013 |
| Marios Kalochoritis | Independent Director | Remuneration and Human Resources, Nominations and Corporate Governance, Strategy and Restructuring Committees | 10 September 2013 |
| Eriskhan Kurazov | Independent Director | | 10 September 2013 |
| Anton Smetanin | Independent Director | | 10 September 2013 |
| Xanthos Vrachas | Independent Director | Audit, Risk, Remuneration and Human Resources, Strategy and Restructuring Committees | 10 September 2013 |
| Ioannis Zographakis | Independent Director | Audit, Risk, Strategy and Restructuring Committees | 10 September 2013 |
| Adonis Papaconstantinou | Non-Executive Non-Independent Director | Remuneration and Human Resources, Nominations, Corporate Governance, Strategy and Restructuring Committees | 10 September 2013 |
| Andreas Yiasemides | Non-Executive Non-Independent Director | Audit, Nominations and Corporate Governance, Remuneration and Human Resources, Strategy and Restructuring Committees | 10 September 2013 |

Christis Hassapis. *Chairman and Independent Director.* Mr. Hassapis was born in 1959. He has a Bachelor's degree in mechanical engineering from the George Washington University and a Master's and a Ph.D. degree in economics from Boston College. He has been a professor at the Department of Economics, School of Economics and Management of the University of Cyprus, since 1993. He has participated in more than 25 international conferences on finance and economics and co-organised several international conferences. He has served, among others, as an elected member of the board of the University of Cyprus, as a member of the University of Cyprus Senate, as vice dean for the School of Economics and Management, as a member of the academic council of the Economics Research Centre, as a member of the Research Centre

for Banking and Finance, as the chairman of the board of UCy Voice Radio Station, as a member of the Cyprus Council for the Recognition of Higher Education Qualifications for Economics, as a member of the board of Diogenis Business Incubator and as a member of numerous board committees, such as the internal audit committee, the finance and tenders committee, the development planning committee and many others.

Vladimir Strzhalkovskiy. *Vice-Chairman and Independent Director.* Mr. Strzhalkovskiy was born in 1954. He has a Ph.D. degree in economics (applied mathematics) from the Leningrad Institute of Electronic Engineering. He has served as the deputy minister of the Ministry of Economic Development of the Russian Federation from July 2000 to November 2004, chairman of the executive board of the World Tourism Organisation from 2003 to 2004 and head of the Federal Agency Tourism Organisation from November 2004 to August 2008. He has also served as chief executive officer of JSC Norilsk Nickel from 2008 to 2012, as a member of the board of directors of Inter RAO UES, a diversified energy company, from June 2011 to June 2013 and as chief executive officer and chairman of the management board from August 2008 to December 2012 and as vice president from December 2012 to June 2013 of the Mining and Metallurgical Company.

John Patrick Hourican. *Chief Executive Officer and Executive Director.* Mr. Hourican was born in 1970. He served as the former head of investment banking at RBS from October 2008 until February 2013. Between 2007 and 2008, he served on behalf of a consortium of banks (RBS, Fortis and Santander) as chief financial officer of ABN AMRO Group and as a member of its managing board. He joined RBS in 1997 as a leveraged finance banker. He held a variety of senior positions within RBS's wholesale banking division, notably on the division's board as finance director and chief operating officer. He also ran RBS's leverage finance business in Europe and Asia. Mr. Hourican started his career at Price Waterhouse and he is a Fellow of the Institute of Chartered Accountants in Ireland. He is a graduate of the National University of Ireland and Dublin City University.

Anjelica Anshakova. *Independent Director.* Ms. Anshakova was born in 1970. She graduated from Kiev State University of Economics with a major in banking. She is a member of the Association of Chartered Certified Accountants since 1998. She obtained certification from the Chartered Institute of Management Accountants in 2002. She worked in the Kiev and Moscow offices of international consulting company Arthur Andersen for eight years. After the merger of Arthur Andersen with Ernst & Young, Ms. Anshakova continued in the subdivision responsible for bank audit and consulting. In 2003 she worked for the PromSvyazCapital group in various positions, including executive director. She then joined a leading printing and publishing house in Moscow before becoming a director of JSC Link Capital in 2006. She is a member of the board of directors and the head of the audit committee of JSC BINBANK.

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

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

Marios Kalochoritis. *Independent Director.* Mr. Kalochoritis was born in 1973. He holds an MBA from Harvard Business School and a B.Sc. in Finance from Louisiana State University. Since August 2013, he lives in Dubai and works as an investment professional with regional high net worth individuals providing

consulting services in connection with the establishment of family offices. During the period from 2008 through 2013, he lived in Cyprus where, as the managing director, he set up and ran the operations and risk management function of a global macroeconomic hedge fund. Prior to that he was senior vice president for Credit Suisse Bank in Zurich and was in charge of business development for Central and Eastern Europe and Turkey. Between 2003 and 2006 he was the chief financial officer for Amana Group in Dubai, a major regional construction group. Prior to that he was the co-founder of a boutique investment bank in New York. He started his career at Enron in Houston where as a financial analyst and later an associate in the finance department, he analysed and made investments in oil and gas, energy and other infrastructure opportunities around the world. He also interned with J.P. Morgan bank in New York and McKinsey & Co in Athens. He is the non-executive chairman of the Kermia group, the Issuer's real estate development and hotel management subsidiary.

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

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

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

Ioannis Zographakis. *Independent Director.* Mr. Zographakis was born in 1963. He holds a bachelor's degree in civil engineering from Imperial College in London and an MBA from Carnegie Mellon University. He has worked with Citibank for over 20 years, in the United States, United Kingdom and Greece. He started his career in 1990 with Citibank in Greece as a management associate for Europe, Middle-East and Africa (EMEA). He then worked as the deputy treasurer and treasurer for the consumer bank in Greece, before moving to the United States in 1996 as the director of finance for CitiMortgage. In 1997 he became the financial controller for Citigroup's consumer finance business in the United States and then he was the chief financial officer for the consumer assets division. From 1998 until 2004 he worked in the Student Loan Corporation, a Citigroup subsidiary and a New York Stock Exchange-traded company. He started as the chief financial officer, became chief operations officer and in 2001 he was named the chief executive officer. In 2005 he became Citibank's consumer lending head for Europe, Middle-East and Africa and the United Kingdom retail bank head. In 2006, he took a position as Citibank's retail bank head in Greece where he stayed until 2011. He has been a director of the Student Loan Corporation, a director and the secretary of the audit committee for Tiresias (Greek Credit Bureau), a director and member of the audit committee for Diners Club Greece, the vice-chairman of the Citi insurance brokerage board in Greece and the chairman of the investments and insurance supervisory committee in Citibank Greece.

Adonis Papaconstantinou. *Non-Executive Non-Independent Director.* Mr. Papaconstantinou was born in 1953. He graduated with honours in 1977 from London University (Queen Mary College) where he studied computer science. He is also a graduate (1996) of Columbia University's senior executive programme. From 1977 until 2003 he was employed by NCR Corporation. During his tenure with NCR Corporation he assumed a number of management positions culminating to the position of vice president and area managing director for NCR Corporation's Middle East and Africa region, an organisation with Headquarters in Nicosia, Cyprus. He also was the chairman of the board for NCR (Cyprus) Ltd, NCR (IRI) Ltd, NCR (North Africa) Ltd as well as chairman of the NCR (Cyprus) Ltd Provident Fund Committee. In 2003 he co-founded Bartercard (Cyprus) Ltd, the Cyprus licensee of Bartercard International, an Australian trade exchange organisation. He is the managing director of Bartercard (Cyprus) Ltd. He holds the following professional qualifications: Fellow of the British Computer Society since 1988, Chartered Engineer at the Engineering Council since 1993, Chartered Fellow of the British Computer Society since 2004 and member of the Cyprus Computer Society since inception. Mr. Papaconstantinou is the chairman of the Laiki Bank Depositors Association.

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

Executive Committee

The executive committee consists of the following members:

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

Related Party Transactions

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

(1) On 29 March 2013, the Board of Directors collectively resigned, together with the chief executive officer and the deputy chief executive officer, and were replaced by an interim Board of Directors prior to the appointment of the current Board of Directors on 10 September 2013. As a result, loans and advances to other key management personnel and connected persons for the year ended 31 December 2012 and for the six months ended 30 June 2013 are not comparable to the year ended 31 December 2013 or the six months ended 30 June 2014.

The above table does not include period or year-end balances for members of the Board of Directors and their connected persons who resigned during the period or year.

In addition to loans and advances, there were contingent liabilities and commitments in respect of members of the Board of Directors and their connected persons, mainly in the form of documentary credits, guarantees and commitments to lend amounting to €16,124 thousand and €231 thousand as at 31 December 2012 and 2013, respectively, and €1,809 thousand and €121 thousand as at 30 June 2013 and 2014, respectively. As of 31 December 2013 and 30 June 2014 there were no directors and their connected persons, whose total loans and advances exceeded 1% of the net assets of the Group per director (2012: €13,813 thousand). There were also contingent liabilities and commitments to other key management personnel and their connected persons amounting to €77 thousand and €743 thousand as at 31 December 2012 and 2013, respectively, and nil and €702 thousand as at 30 June 2013 and 2014, respectively. The total unsecured amount of the loans and advances and contingent liabilities and commitments to members of the Board of Directors, key management personnel and other connected persons (using forced-sale values for tangible collaterals and assigning no value to other types of collateral) at 31 December 2012 and 2013 and 30 June 2013 and 2014 amounted to €4,191 thousand, €1,439 thousand, €2,797 thousand and €1,616 thousand, respectively.

Transactions with connected persons of the current members of the Board of Directors. Mr. Xanthos Vrachas, who was appointed on the Board of Directors on 10 September 2013, is the CFO of Universal Insurance Agency Ltd to which the Group paid €119 thousand and €67 thousand relating to insurance transactions for the year ended 31 December 2013 and the six months ended 30 June 2014, respectively.

Transactions with connected persons of the directors who resigned during 2013. During 2013, the Group also had the following transactions with connected persons: reinsurance premiums amounting to €56 thousand (2012: €205 thousand) paid to companies of the Commercial General Insurance Group in which Mr. Andreas Artemis, who was a non-executive director until 29 March 2013, holds an indirect interest; purchases of equipment and services amounting to €1 thousand (2012: €274 thousand) from Pylones SA Hellas and Unicars Ltd in which Mrs. Anna Diogenous, who was a non-executive director until 29 March 2013, holds an indirect interest; purchases of equipment amounting to €89 thousand (2012: €513 thousand) from Mellon Cyprus Ltd which is significantly influenced by a person connected to Mrs. Anna Diogenous; insurance commissions amounting to €29 thousand (2012: €144 thousand) to D. Severis and Sons Ltd which is owned by Mr. Costas Z. Severis, who was a non-executive director until 29 March 2013, and rents amounting to €71 thousand (2012: €310 thousand) paid by Tseriotis Group in which Mrs. Anna Diogenous holds an indirect interest. The total amount of professional fees paid to the law office Andreas Neocleous and Co LLC, in which Mr. Elias Neocleous, who was a non-executive director until 29 March 2013, is a partner, amounted to €14 thousand (2012: €324 thousand).

In addition, the Group had the following transactions with connected persons in their capacity as members of the interim Board of Directors: legal fees amounting to €10 thousand paid to A. Poetis & Sons in which Mr. Andreas Poetis, who was a non-executive director until 10 September 2013, is a partner and actuarial fees amounting to €48 thousand paid to AON Hewitt Cyprus Ltd in which Mr. Philippos Mannaris, who was a non-executive director until 10 September 2013, is a partner.

During 2012, immovable property amounting to €185 thousand was acquired from a subsidiary of the Issuer by a company that is being influenced by connected persons of Mr. Vassilis G. Rologis.

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

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

Except as disclosed with respect to the executive and non-independent non-executive directors above, there are no actual or potential conflicts of interest between the duties to the Issuer of the members of the Board of Directors and their private interests and other duties which are of material significance to the Issuer and any of such members.

Fees and emoluments of members of the Board of Directors and other key management personnel

Detailed information on director (executive and non-executive) and key management personnel remuneration for the years ended 31 December 2012 and 2013 and for the six months ended 30 June 2013 and 2014 follows:

| | Year ended 31 December | | Six months ended 30 June | |
|-----------------------------------------------------------------------------------|------------------------|--------------|--------------------------|--------------|
| | 2012 | 2013 | 2013 | 2014 |
| | (€'000) | | | |
| Director emoluments | | | | |
| <i>Executive directors</i> | | | | |
| Salaries and other short-term benefits | 1,191 | 452 | 271 | 422 |
| Termination benefits..... | - | 84 | 84 | - |
| Employer's contributions | 77 | 27 | 17 | 23 |
| Retirement benefit plan costs | 134 | 31 | 12 | 55 |
| | <u>1,402</u> | <u>594</u> | <u>384</u> | <u>500</u> |
| <i>Non-Executive directors</i> | | | | |
| Fees..... | 578 | 352 | 86 | 228 |
| Emoluments of a non-executive director who is also an employee of the Issuer..... | 151 | 100 | 82 | - |
| Total directors' emoluments | <u>2,131</u> | <u>1,046</u> | <u>552</u> | <u>728</u> |
| Other key management personnel emoluments | | | | |
| Salaries and other short-term benefits | 584 | 943 | 196 | 1,086 |
| Termination benefits..... | - | 667 | 216 | - |
| Employer's contributions | 44 | 84 | 18 | 80 |
| Retirement benefit plan costs | 65 | 117 | 19 | 105 |
| Total other key management personnel emoluments | <u>693</u> | <u>1,811</u> | <u>449</u> | <u>1,271</u> |
| Total..... | <u>2,824</u> | <u>2,857</u> | <u>1,001</u> | <u>1,999</u> |

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

| | Year ended 31 December | |
|--------------------------------------------------------------------------------------------|------------------------|------|
| | 2012 | 2013 |
| | (€'000) | |
| Andreas Eliades (resigned on 10 July 2012) | 315 | - |
| Yiannis Pehlivanidis (resigned on 29 March 2013) | 488 | 104 |
| Yiannis Kypri (resigned on 29 March 2013)..... | 388 | 127 |
| Dinos Christofides (Special Administrator — 25 March 2013 to 21 June 2013)..... | - | 20 |
| Christos Sorotos (Interim Chief Executive Officer — 29 May 2013 to 10 September 2013)..... | - | 60 |
| John Patrick Hourican (Chief Executive Officer — appointed on 1 | - | 141 |

November 2013).....

1,191

452

For the years 2012 and 2013, no bonus was recommended or paid to the executive directors.

The termination benefits of the executive directors relate to payment to an executive director who left the Group on 29 March 2013. The termination benefits include notice period paid in accordance with his employment contract.

The retirement benefit plan costs for 2013 amounting to €31 thousand relate to: Mr. John Patrick Hourican (€18 thousand) and Mr. Yiannis Kypri (€13 thousand). The retirement benefit plan costs for 2012 amounting to €134 thousand related to: Mr. Andreas Eliades (€51 thousand), Mr. Yiannis Pehlivanidis (€30 thousand) and Mr. Yiannis Kypri (€53 thousand).

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

| | Year ended 31 December | |
|----------------------------|-------------------------------|-------------|
| | 2012 | 2013 |
| | <i>(€'000)</i> | |
| Andreas Artemis | 75 | 20 |
| Evdokimos Xenophontos | 39 | 15 |
| Theodoros Aristodemou | 82 | - |
| Vassilis G. Rologis | 32 | 8 |
| Costas Z. Severis | 40 | 10 |
| Christakis G. Christofides | 20 | 5 |
| Anna Diogenous | 31 | 5 |
| George M. Georgiades | 42 | 2 |
| Andreas J. Jacovides | 20 | - |
| Christos Mouskis | 39 | - |
| Manthos Mavrommatis | 29 | - |
| Costas Hadjipapas | 26 | 12 |
| Nikolas P. Tsakos | 23 | 1 |
| Stavros J. Constantinides | 32 | 2 |
| Irene Karamanou | 25 | 6 |
| Elias Neocleous | 15 | 4 |
| Symeon Matsis | 8 | 4 |
| Sophocles Michaelides | - | 25 |
| Erol Riza | - | 19 |
| Constantinos Damtsas | - | 9 |
| Takis Taousianis | - | 11 |
| Lenia Georgiadou | - | 11 |
| Philippos Mannaris | - | 9 |
| Lambros Papadopoulos | - | 8 |
| Andreas Persianis | - | 6 |
| Andreas Poetis | - | 8 |
| Panikos Poulos | - | 15 |
| Savvakis Savvides | - | 8 |
| Georgios Theocharides | - | 9 |
| Michalis Zannetides | - | 7 |
| Takis Arapoglou | - | 6 |
| Christis Hassapis | - | 21 |
| Vladimir Strzhalkovskiy | - | 16 |
| Anjelica Anshakova | - | 6 |
| Dmitry Chichikashvili | - | 5 |

| | Year ended 31 December | |
|-------------------------|-------------------------------|-------------|
| | 2012 | 2013 |
| | <i>(€'000)</i> | |
| Marinos Gialeli | - | 6 |
| Marios Kalochoritis | - | 6 |
| Konstantinos Katsaros | - | 7 |
| Eriskhan Kurazov | - | 4 |
| Adonis Papaconstantinou | - | 6 |
| Anton Smetanin | - | 4 |
| Xanthos Vrachas | - | 6 |
| Marios Yiannas | - | 6 |
| Andreas Yiasemides | - | 7 |
| Ioannis Zographakis | - | 7 |
| | <u>578</u> | <u>352</u> |

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

Mr. Costas Hadjipapas, who is an employee of the Issuer and was also a non-executive director up until 10 October 2013, had emoluments for 2013 up to the date of resignation, amounting to €81 thousand (2012: €123 thousand). Employer's contributions amounted to €8 thousand (2012: €11 thousand) and retirement benefit plan costs amounted to €11 thousand (2012: €17 thousand).

The other key management personnel emoluments include the emoluments of the senior Group executive management up to 29 March 2013 and the remuneration of the members of the executive committee of the Group for the period that each employee served as member of the executive committee.

The termination benefits relate to payments to four key management personnel who left during 2013. The termination benefits include notice period paid in accordance with their employment contracts and voluntary retirement compensation.

For the years 2012 and 2013, no bonus was recommended or paid to other key management personnel.

Interest in ordinary shares of Directors

Set out below are the direct and indirect interests of the Directors in the issued share capital of the Issuer as at the date of this Base Prospectus:

| | Number of Shares | | | Percentage of Issued Share Capital (%) |
|-------------------------|----------------------------|------------------------------|--------------|-----------------------------------------------|
| | Direct Shareholding | Indirect Shareholding | Total | |
| Hassapis Christis | 455,583 | 0 | 455,583 | 0.005 |
| Strzhalkovskiy Vladimir | 0 | 224,982,745 | 224,982,745 | 2.522 |
| Vrachas Xanthos | 70 | 378 | 448 | 0.000 |
| Gialeli Marinos | 0 | 0 | 0 | 0.000 |
| Yiasemides Andreas | 0 | 2 | 2 | 0.000 |
| Zographakis Ioannis | 0 | 32 | 32 | 0.000 |
| Kalochoritis Marios | 0 | 0 | 0 | 0.000 |
| Papaconstantinou Adonis | 58 | 0 | 58 | 0.000 |
| Anshakova Anjelica | 0 | 0 | 0 | 0.000 |
| Chichikashvili Dmitry | 0 | 11,650,205 | 11,650,205 | 0.131 |
| Kurazov Eriskhan | 0 | 123,841 | 123,841 | 0.001 |

| | | | | |
|-----------------------|-------|--------|--------|-------|
| Smetanin Anton | 1,000 | 18,757 | 19,757 | 0.000 |
| Hourican John Patrick | 0 | 0 | 0 | 0.000 |

Employees

As of 30 June 2014, the Group had 6,747 employees, the majority of whom are employed by the Group in Cyprus and Russia.

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

| | 31 December | | 30 June | |
|-----------------------------|---------------|--------------|--------------|--------------|
| | 2012 | 2013 | 2013 | 2014 |
| Banking companies | 10,262 | 7,439 | 9,461 | 6,404 |
| Non-banking companies | 510 | 313 | 361 | 283 |
| Total | 10,772 | 7,752 | 9,822 | 6,747 |

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

| | 31 December | | 30 June | |
|----------------|---------------|--------------|--------------|--------------|
| | 2012 | 2013 | 2013 | 2014 |
| Cyprus | 3,498 | 4,262 | 5,669 | 4,249 |
| Greece | 2,891 | 36 | 84 | 13 |
| Russia | 3,485 | 2,706 | 3,285 | 2,223 |
| Ukraine | 563 | 504 | 528 | – |
| United Kingdom | 158 | 177 | 162 | 206 |
| Romania | 177 | 67 | 94 | 56 |
| Total | 10,772 | 7,752 | 9,822 | 6,747 |

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

The Cyprus Union of Bank Employees (the **Union**) is party to a collective agreement with the Cyprus Bankers Employers' Association (of which the Issuer was a member until 31 December 2013). The Issuer and the Union have entered into a bilateral agreement in 2013 and agreed on a package of salary reductions, which were implemented by the Issuer in June 2013. In January 2014 the Issuer exited the Cyprus Bankers Employers' Association and is currently in talks with the Union for a renewal of the collective agreement. The Issuer has good relations with its staff and has never suffered industrial action other than actions directed at the banking sector in general in Cyprus.

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

Cyprus

The main retirement plan for the Group's permanent employees in Cyprus (52% of total Group employees) is a defined contribution plan with effect from 1 January 2012. This plan provides for employer contributions of 14% and employee contributions of 3% to 10% of the employees' gross salaries. The defined contribution plan replaced the defined benefit plan which was in effect until 31 December 2011, which provided for a lump sum payment on retirement or death in service of up to 78 average monthly salaries depending on the length of service. This plan is managed by a committee appointed by the members.

A small number of employees who do not participate in the main retirement plan are members of a pension scheme that is closed to new entrants and may receive part or all of their retirement benefit entitlement by way of a pension for life. This plan is managed by an administrative committee composed of representatives of both the members and the employer. A small number of employees of Group subsidiaries in Cyprus are also members of defined benefit plans. These plans are funded, with assets backing the obligations held in separate legal vehicles.

Greece

As part of the disposal of the Greek operations, the staff and the related obligations under the defined benefit plan in Greece were transferred to Piraeus Bank. A small number of employees of Group Greek subsidiaries remain members of the defined benefit plans.

All employees were entitled by law to compensation in case of dismissal or a lump sum payment upon normal retirement, at rates specified in the Greek legislation. All the benefits payable under this defined benefit plan were out of the Group's assets because this plan was unfunded.

In addition, a number of employees recruited up to 31 December 2002 participated in a defined benefit plan which comprised of two schemes, A and B. Scheme A covered part of the difference between the salary and the retirement benefit and it was settled in full and terminated with the consent of the employees in October 2011. Scheme B provided for a lump sum payment on retirement of up to approximately 50 monthly salaries depending on the length of service.

The third plan applied to employees recruited after 31 December 2002 and was a defined contribution plan.

United Kingdom

The Group's employees in the United Kingdom (2% of total Group employees) are covered by a defined contribution plan for all current employees and certain employees are covered by a defined benefit plan which was closed in 2013 to new members and was closed in December 2008 to future accrual of benefits for active members.

Other countries

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

Share Option Plan

In 2008 the Issuer granted share options to Group employees and in 2009 it approved the granting of additional share options under the 2008 options scheme. The fair value of the 12.5 million share options 2008/2010 issued on 28 May 2008 was measured at the grant date using the trinomial valuation model and amounted to €1.17 per share option. The main variables taken into account by the model are the share price (€8.56 on 28 May 2008), the exercise price (€9.41), the dividend yield (8.1%), the risk free interest rate (4.2%), the duration of the share options and the expected volatility of the share price (31.3% on an annual basis calculated using the historic volatility of the share).

The fair value of the additional 2,362 thousand share options 2008/2010 issued on 9 July 2009 was measured at the grant date using the trinomial valuation model and amounted to €0.87 per share option. The main variables taken into account by the model are the share price (€4.10 on 9 July 2009), the exercise price (€5.50), the dividend yield (6.9%), the risk free interest rate (2.7%), the duration of the share options and the expected volatility of the share price (23.6% on an annual basis calculated using the historic volatility of the share).

The share options 2008/2010 were vested in full on 31 December 2010 and could be exercised by their holders from 1 January to 31 March of years 2011, 2012 and 2013 and from 1 November to 31 December of years 2012 and 2013. The share options 2008/2010 were not transferable and were unlisted.

In accordance with their issue terms, the exercise price of the share options was adjusted to reflect the sequence of corporate actions and changes pursuant to the relevant provisions of the Bail-in Decrees. The share options 2008/2010 lapsed on 31 December 2013.

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 European Union in 2004, Cyprus' entry into the Eurozone in 2008 and technological advances. The growth of the sector was the result of both organic expansion as well as mergers and acquisitions. Average annual credit growth in Cyprus, based on calculations using CBC data, was approximately 15.0% per year between 2005 and 2012 and the increase was particularly steep in 2007 and 2008 when annual credit growth averaged 31.6% per year. Cyprus' entry into the Eurozone in 2008 has led to significantly lower borrowing costs for borrowers in Cyprus.

The stability of the Cyprus banking sector, however, has been challenged as a result of a combination of factors including:

- the start of the international financial crisis in 2008, which adversely affected the country's economic growth potential and its fiscal health;
- the rise and subsequent decline of the Cypriot property market, which adversely affected lending because most loans in Cyprus are collateralised with property; and
- the rapidly deteriorating economic conditions in Greece from 2010 onwards, which adversely affected Cypriot banks, including the Issuer, because of significant exposures to Greek government bonds and loans extended to the private sector.

International credit rating agencies lowered Cyprus' sovereign credit ratings below investment grade through successive downgrades from early 2011 through to the beginning of 2014. This adversely affected the credit ratings of Cypriot banks. The key factors behind the downgrades were the severity of the sovereign debt crisis in Greece and its implications for the Cypriot banking system. Exposure to Greece was a significant vulnerability to Cyprus and its ratings, but a deteriorating fiscal position from 2009 onwards and an escalating current account imbalance in the period from 2006 to 2010 were additional vulnerabilities.

The liquidity positions of Cypriot banks have therefore been materially and adversely affected by:

- the successive downgrades of Cyprus' sovereign credit rating;
- the outflow of customer deposits from the middle of 2011 as a result of uncertainty in market conditions and because of the bail-in of uninsured depositors in the second quarter of 2013;
- uncertainty regarding Cyprus' continued participation in the Eurozone;
- the deterioration of the quality of the loan portfolios of Cypriot banks, including Greek government bonds; and
- the Cypriot banks' lack of access to international capital markets.

As a result of these factors, the Issuer has been forced to rely on external financial resources. The primary source of liquidity for the Issuer in recent years has been funding from central banks (comprising direct ECB funding from monetary operations and ELA through the CBC).

The CBC and the Government have adopted a series of actions pursuant to the EAP to protect and enhance the financial stability of the Cypriot banking system and the safety of customer deposits, including the recapitalisation and restructuring of commercial banks and the cooperative credit sector and significant

advancements in banking sector regulation and supervision, such as the Loan Origination Directive, the code of conduct for dealing with troubled borrowers and the Arrears Management Directive. For more information on the Cypriot economic crisis and the current macroeconomic environment in Cyprus, please see "*The Macroeconomic Environment in Cyprus*". For more information on the regulation of banks in Cyprus, please see "*Regulation and Supervision of Banks in Cyprus*".

Key Operational Features of the Banking Sector in Cyprus

In February 2013, PIMCO Europe Ltd published a publicly available study entitled "Independent Due Diligence of the Banking System of Cyprus" which examined the Cypriot banking sector. Among other things, the study identified a number of key operational features of the Cypriot banking sector which differ from other international banking systems. Following the Cypriot economic crisis, the CBC, through a number of recently enacted directives, has attempted to bring certain of these key operational features in line with international standards; however, structural differences remain. For further information on the CBC's recently enacted directives, please see "*Regulation and Supervision of Banks in Cyprus — CBC Credit Risk Directives*" and "*Risk Factors — Regulatory and Legal Risks — The Issuer is subject to certain regulatory and legal constraints in originating new loans, managing existing loans and foreclosing on collateral*".

Strict Classification of Non-Performing Loans

As a result of the recently adopted NPL Directive of the CBC, which is applicable to all credit institutions in Cyprus, Cyprus has one of the strictest definitions of non-performing loans (NPLs) of all EU Member States. For example, in Cyprus, restructured loans remain as NPLs for six months following the commencement of a new repayment schedule of principal and interest instalments or in the case of gradually increasing instalments, six months from the first month from which the higher instalment is due. In contrast, in other EU Member States, including Greece, Austria, Germany and the United Kingdom, reclassification from NPL to performing loan can follow from a repayment schedule consisting only of interest payments. In addition, Cyprus relies on a customer rather than facility-based approach to NPL assessment, which means that a customer with greater than 20% of aggregate loan exposure marked as non-performing will automatically have all of its exposure marked as non-performing. Finally, consistent with the majority of EU Member States, housing loans in Cyprus are reclassified as NPLs after the third delayed payment instalment whereas, in Greece, housing loans are reclassified as NPLs only after the sixth delayed payment instalment.

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

Cross-Collateralisation Across Loans

As a result of the prevalence of asset-based lending (see "*— Lending Based on Collateral Rather than Repayment Ability*") and the limited resolution framework (see "*— Limited Legal Resolution and Foreclosure*"), cross-collateralisation of loans is a common feature in Cypriot lending market. The cross-collateralisation of loans in Cyprus is complex: a single property can secure multiple loans, multiple properties can secure a single loan and multiple properties can secure multiple loans. As a result of this feature, lenders in Cyprus may extend additional loans against pledges of additional collateral rather than strictly assessing the ability of a borrower group to service additional loans.

Limited Legal Resolution and Foreclosure

Lengthy foreclosure and repossession timelines are a characteristic feature of the banking system in Cyprus. Under the CBC's Arrears Management Directive, credit institutions are required to apply efficient and effective strategies, policies, structures, procedures and mechanisms for the management of arrears and the attainment of fair and viable restructurings of credit facilities for borrowers in financial difficulties. The Arrears Management Directive favours a negotiated resolution with problem borrowers. In Cyprus, legal proceedings to enforce loan collateral have historically taken between five and 13 years, which is much longer than the international standard. As part of the MoU policy reforms prepared by the Troika, the Foreclosure Law was passed by the Cypriot parliament in September 2014. The Foreclosure Law is intended to amend the legal framework on foreclosures and the forced sales of mortgaged property, and is expected to improve banks' ability to negotiate with borrowers, as well as decreasing the time needed to repossess, in the event that negotiations fail. For more information, see "*Risk Factors – Risks Relating to the Economic Crisis in Cyprus – The implementation, conditions and requirements of the MoU entered into between Cyprus and the Troika, and any government actions aimed at alleviating the economic crisis, are uncertain and may create adverse results or have an adverse effect on the Issuer*" and "*Risk Factors – Regulatory and Legal Risks – The Issuer is subject to certain regulatory and legal constraints in originating new loans, managing existing loans and foreclosing on collateral*".

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

Lending Based on Collateral Rather than Repayment Ability

Credit institutions in Cyprus have historically placed more reliance on the collateral securing the loan than on the borrower's ability to service the loan repayments. Additionally, credit institutions in Cyprus often seek guarantees from both the borrower and third parties and the assets of the guarantor may be used as collateral in some circumstances. This cross-collateralisation distributes the debt burden across the borrower group (see "*– Cross-Collateralisation Across Loans*"). The CBC has recently considered this practice in its Loan Origination Directive and in its Arrears Management Directive, which require, among other things, that credit institutions evaluate the borrower's repayment ability, credit rating, loan contribution and collateral quality in deciding whether to extend credit.

Incomplete Information on Customer Financial Status

Currently the Cyprus credit bureau, Artemis, contains information only on problematic borrowers and their guarantors, specifically, borrowers who have had a lawsuit or a legal decision issued against them, borrowers who have filed for bankruptcy and borrowers listed in the CBC's register for issuing uncovered cheques. The information in the Artemis system is therefore incomplete and does not provide any information on a potential borrower's credit risk profile, its loans and deposit accounts with other credit institutions or whether the borrower is performing under its outstanding debt obligations. In connection with the Loan Origination Directive, which requires loan originators to collect a complete financial history from potential borrowers, and the Arrears Management Directive, it is expected that a central credit registry will be created (as required by the Troika), which will contain a broad range of data for both performing and non-performing borrowers, including information on loans and deposit accounts with other credit institutions.

Cyprus Banking System Structure

As of the date of this Base Prospectus, based on information publicly available from the CBC and the Cooperative Central Bank, there were 59 banks and financial institutions, including two representative offices, in Cyprus: six domestic banks, 18 domestic CCIs, excluding the Cooperative Central Bank, eight subsidiaries of foreign banks, three of which are from non-Member States, and 25 branches of foreign banks, 16 of which are from non-Member States. Each category of bank and financial institution is discussed in more detail, below.

Domestic banks

The first category comprises domestic banks, which can be considered as universal banks, catering for domestic retail, SME and corporate clients and the international business segment. In addition, they offer non-credit institution services, such as insurance, brokerage, asset management, leasing and factoring.

Traditionally, commercial banks have dominated the Cypriot financial services market. Domestic banks and subsidiaries or branches of foreign banks together controlled 78.4% of the banking system's total loans and 75.5% of the banking system's total NPLs as at 30 June 2014.

Domestic cooperative credit institutions

The second category comprises CCIs, a less sophisticated segment of the market offering basic banking products, usually geared towards retail and SME clients.

Following intense consolidation efforts due to EU harmonisation directives, the number of CCIs dropped to 18, based on information available from the Cooperative Central Bank, from around 93 in 2013. In accordance with the MoU, the CCIs were consolidated and recapitalised and now represent increasing competition to the Issuer in the retail, and small and SME markets. CCIs controlled 21.6% of the banking system's total loans and 24.5% of the banking system's total NPLs as at 30 June 2014.

Subsidiaries or branches of foreign banks

The third category comprises foreign banks' subsidiaries, or branches that cater for domestic retail, SME and corporate clients as well as for the international business segment. There are currently eight subsidiaries of foreign banks operating in Cyprus, three of which are from non-Member States, and 25 branches of foreign banks, 16 of which are from non-Member States. The largest entities in this category are subsidiaries of Greek banks.

Cyprus banking system by assets

The total credit outstanding and market shares of banks (including subsidiaries and branches of foreign banks) and CCIs as at 30 June 2014 is outlined below.

| | Total Credit Outstanding | | | Market Share | |
|-----------------------------------------------------------|---------------------------------|-----------------|-----------------|---------------------|-------------|
| | Banks | CCIs | Total | Banks | CCIs |
| | (€ in billions) | (€ in billions) | (€ in billions) | (%) | (%) |
| Credit facilities to private individuals | | | | | |
| Purchase of immovable property | 9.71 | 5.12 | 14.83 | 65.5 | 34.5 |
| Consumer loans | 3.10 | 4.30 | 7.40 | 41.9 | 58.1 |
| Credit cards..... | 0.33 | 0.04 | 0.37 | 89.9 | 10.1 |
| Current accounts..... | 0.54 | 0.46 | 0.99 | 54.1 | 45.9 |
| Credit facilities to sole traders..... | 1.07 | 0.44 | 1.51 | 70.8 | 29.2 |
| Total credit facilities to private individuals | 14.76 | 10.35 | 25.10 | 58.8 | 41.2 |
| Credit facilities to legal entities | | | | | |
| Agriculture, forestry and fishing | 0.30 | 0.05 | 0.35 | 84.3 | 15.7 |
| Mining and quarrying..... | 0.75 | 0.01 | 0.76 | 99.0 | 1.0 |
| Manufacturing | 1.68 | 0.24 | 1.91 | 87.7 | 12.3 |
| Electricity, gas, steam and air conditioning supply | 0.14 | 0.08 | 0.22 | 63.8 | 36.2 |

| | Total Credit Outstanding | | | Market Share | |
|------------------------------------------------------------|-----------------------------|----------------------------|-----------------------------|--------------|-------------|
| | Banks (€ in billions) | CCIs (€ in billions) | Total (€ in billions) | Banks (%) | CCIs (%) |
| Water supply and waste management | 0.10 | 0.09 | 0.19 | 51.7 | 48.4 |
| Construction | 7.29 | 0.38 | 7.67 | 95.0 | 5.0 |
| Wholesale and retail trade | 5.25 | 0.31 | 5.57 | 94.3 | 5.7 |
| Transportation and storage | 0.85 | 0.06 | 0.91 | 93.2 | 6.8 |
| Accommodation and food service activities | 2.39 | 0.15 | 2.54 | 94.2 | 5.8 |
| Information and communication | 0.39 | 0.01 | 0.40 | 98.0 | 2.0 |
| Financial and insurance activities..... | 4.10 | 0.00 | 4.10 | 99.9 | 0.1 |
| Real estate activities | 4.90 | 0.31 | 5.21 | 94.1 | 5.9 |
| Professional, scientific and technical activities | 0.94 | 0.14 | 1.08 | 87.0 | 13.0 |
| Administrative and support services..... | 0.37 | 0.01 | 0.39 | 96.1 | 3.9 |
| Public administration and defence..... | 0.40 | 0.81 | 1.21 | 33.3 | 66.7 |
| Education..... | 0.14 | 0.02 | 0.16 | 88.2 | 11.8 |
| Human health and social work | 0.24 | 0.03 | 0.27 | 87.6 | 12.4 |
| Arts, entertainment and recreation..... | 0.11 | 0.03 | 0.14 | 80.0 | 20.0 |
| Other service activities | 0.62 | 0.18 | 0.79 | 77.8 | 22.2 |
| Total credit facilities to legal entities | 30.96 | 2.91 | 33.87 | 91.4 | 8.6 |
| Total intragroup facilities | 2.52 | 0.00 | 2.52 | 100.0 | 0.0 |
| Total facilities | 48.24 | 13.26 | 61.49 | 78.4 | 21.6 |

Source: CBC

The total banking system NPLs held by banks (including subsidiaries and branches of foreign banks) and CCIs as at 30 June 2014 is outlined below.

| | Total NPLs | | | Market Share | |
|--------------------------------------------------------------|-----------------------------|----------------------------|-----------------------------|--------------|-------------|
| | Banks (€ in billions) | CCIs (€ in billions) | Total (€ in billions) | Banks (%) | CCIs (%) |
| Credit facility NPLs to private individuals | | | | | |
| Purchase of immovable property | 3.91 | 2.39 | 6.31 | 62.0 | 38.0 |
| Consumer loans | 1.63 | 2.70 | 4.34 | 37.7 | 62.3 |
| Credit cards..... | 0.11 | 0.01 | 0.12 | 90.9 | 9.1 |
| Current accounts..... | 0.26 | 0.25 | 0.51 | 50.6 | 49.4 |
| Credit facilities to sole traders..... | 0.61 | 0.34 | 0.95 | 64.0 | 36.0 |
| Total credit facility NPLs to private individuals | 6.52 | 5.70 | 12.22 | 53.3 | 46.7 |
| Credit facility NPLs to legal entities | | | | | |
| Agriculture, forestry and fishing | 0.18 | 0.04 | 0.21 | 83.0 | 17.0 |
| Mining and quarrying..... | 0.10 | 0.01 | 0.11 | 94.3 | 5.7 |
| Manufacturing | 0.81 | 0.17 | 0.98 | 82.9 | 17.1 |
| Electricity, gas, steam and air conditioning supply | 0.02 | 0.00 | 0.02 | 89.7 | 10.3 |

| | Total NPLs | | | Market Share | |
|------------------------------------------------------------|-----------------------------|----------------------------|-----------------------------|--------------|-------------|
| | Banks (€ in billions) | CCIs (€ in billions) | Total (€ in billions) | Banks (%) | CCIs (%) |
| Water supply and waste management | 0.01 | 0.01 | 0.02 | 37.8 | 62.2 |
| Construction | 5.20 | 0.29 | 5.49 | 94.7 | 5.3 |
| Wholesale and retail trade | 2.24 | 0.21 | 2.45 | 91.5 | 8.5 |
| Transportation and storage | 0.40 | 0.01 | 0.42 | 97.3 | 2.7 |
| Accommodation and food service activities | 1.42 | 0.09 | 1.51 | 94.1 | 5.9 |
| Information and communication | 0.14 | 0.01 | 0.15 | 95.6 | 4.4 |
| Financial and insurance activities..... | 0.68 | 0.00 | 0.68 | 99.8 | 0.2 |
| Real estate activities | 2.57 | 0.22 | 2.79 | 92.1 | 7.9 |
| Professional, scientific and technical activities | 0.58 | 0.08 | 0.66 | 87.9 | 12.1 |
| Administrative and support services..... | 0.23 | 0.01 | 0.23 | 96.1 | 3.9 |
| Public administration and defence..... | 0.03 | 0.05 | 0.08 | 35.6 | 64.4 |
| Education..... | 0.08 | 0.01 | 0.09 | 92.6 | 7.4 |
| Human health and social work | 0.11 | 0.01 | 0.12 | 93.5 | 6.5 |
| Arts, entertainment and recreation..... | 0.07 | 0.02 | 0.09 | 76.3 | 23.7 |
| Other service activities | 0.32 | 0.10 | 0.42 | 76.2 | 23.8 |
| Total credit facility NPLs to legal entities | 15.19 | 1.33 | 16.52 | 92.0 | 8.0 |
| Total intragroup facility NPLs | 0.00 | 0.00 | 0.00 | 100.0 | 0.0 |
| Total facility NPLs | 21.71 | 7.03 | 28.74 | 75.5 | 24.5 |

Source: CBC

Competition and the Issuer'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 Issuer is the single largest provider of credit in Cyprus with a market share (based on CBC data) of 39.5% of loans in Cyprus as at 30 June 2014. The Issuer's deposit market share (based on CBC data) in Cyprus was 25.5% at 30 June 2014, compared to 27.5% at 31 December 2013.

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 101.3% of GDP in real terms in 2013.

With respect to sector output in real terms, the tertiary sector (service sector) is the biggest contributor to GDP, accounting in 2013 for about 85.8% of GVA, which is the total value of all output before import duties and value-added tax. This development reflects the gradual evolution of the Cypriot economy from an exporter of minerals and agricultural products from 1961 to 1973 and an exporter of manufactured consumer goods in the latter part of the 1970s and the early 1980s into an international tourist centre and a regional services centre during the 1980s and the 1990s. From the 1990s and extending into the current decade, there was a significant expansion of transit trade, shipping, telecommunications, financial and business services and the activities of international companies in Cyprus.

The share of the primary sector, including agriculture, forestry, fishing and mining, in real GVA declined from 3.7% in 2000 to 2.3% in 2013. The share of the secondary sector, including manufacturing, basic utilities and construction, in real GVA also declined from 19.9% in 2000 to 11.8% in 2013, with a decline both in manufacturing and construction activity.

In contrast, the tertiary sector's share of real GVA increased from 76.4% in 2000 to 85.8% in 2013. In 2013, shares of real GVA in the tertiary sector included real estate activities (11.4%), wholesale and retail trade, including repair of motor vehicles (15.1%), public administration and defence (11.2%), financial and insurance activities (7.6%), tourism, including accommodation and food services activities (6.9%), education (6.4%), professional, scientific and technical activities (7.1%), information and communication (4.4%), and human health and social work (3.8%).

Recent Economic Trends

International Business Hub for Emerging Europe

Cyprus has been a member state of the European Union since 1 May 2004, a member of the European Monetary Union since 1 January 2008 and has one of the lowest corporate tax rates in the EU (see "*The Cypriot Economic Crisis — Tax and other fiscal measures*"). Its location in the eastern Mediterranean sea, together with its access to the EU single market and its developed legal, accounting and banking sectors, makes Cyprus a regional international business hub strategically positioned between Western Europe and the Mediterranean region and eastern Europe, including a number of emerging markets, such as Russia and Ukraine.

Additionally, because of its Mediterranean location, its membership in the EU and its developed infrastructure, Cyprus is a popular tourist destination for tourists from both within and outside the EU, with the majority of arrivals in 2013 from the United Kingdom (37.1%) and Russia (25.3%). In 2013, tourism receipts amounted to 11.5% of GDP in nominal terms.

Investment in Natural Resources

Reserves of oil and natural gas have recently been discovered off the coast of Cyprus in the Levant Basin, which is located along the shores of Syria, Lebanon, the Palestinian Territories, Israel and Cyprus. In 2010, the U.S. Geological Survey estimated that the Levant Basin has mean probable undiscovered oil resources of approximately 1.7 billion barrels and mean probable undiscovered natural gas resources of approximately 122 trillion cubic feet. In late 2013, appraisal drilling and flow test results at the Cyprus block 12 prospect (**Aphrodite**), which is within Cyprus's exclusive economic zone, has estimated the Aphrodite field to hold between 3.6 and 6 trillion cubic feet of natural gas, with estimated gross mean resources of 5 trillion cubic feet of natural gas (Ministry of Energy, Commerce, Industry and Tourism of Cyprus). The Aphrodite block structure is the third largest field discovered to date in the deepwater Levant Basin.

The Ministry of Finance of Cyprus estimates that a significant investment in gas exploration and exploitation for the period from 2013 to 2020 will be required to develop the Levant Basin, which will have a positive contribution on the economy of Cyprus. The Government has publicized plans to construct and operate a liquefied natural gas terminal in the Vasilikos Energy Centre and has signed memorandum of understanding agreements with several exploration and production companies for the development of these potential natural gas resources. Upstream infrastructure, including the installation of an upstream production platform, subsea pipelines from production blocks to the shore and an internal gas transmission network to supply power stations in Cyprus, is also being planned to support the extraction of resources in the Levant Basin. The Ministry of Finance of Cyprus expects that development of the natural resource sector in Cyprus will have positive effects on the services industry and will result in lower energy prices. (See "*Risk Factors — Risks Relating to the Economic Crisis in Cyprus — There can be no assurance that the development of Cyprus' oil and natural gas reserves in the Levant Basin will be successful*".)

Post-Crisis Economic Sentiment

The post-crisis economic sentiment for Cyprus has improved as a result of better than expected macroeconomic and fiscal performance to date and positive Troika reviews leading to upgrades of sovereign credit ratings. The fifth Troika review of the EAP was performed in July 2014 and the Troika noted that the Cypriot authorities continued to meet the fiscal targets with significant margin in the first half of the year, as a result of prudent budget execution. The conclusion of the review is subject to the approval process of both the EU and the IMF (see "*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 Issuer*" and "*Risk Factors — Regulatory and Legal Risks — The Issuer is subject to certain regulatory and legal constraints in originating new loans, managing existing loans and foreclosing on collateral*"). The recent performance of the Cypriot economy reflects a number of underlying factors. Some sectors, particularly tourism and business services, have demonstrated resilience. While private consumption actually declined by 6.0% in real terms in 2013, the decline nonetheless had been less steep than initially predicted, reflecting the drawing down of personal savings. In the foreign sector, although exports of goods and services declined, a sharp decline in the corresponding imports resulted in net exports having a significant positive contribution to real GDP growth. The improved economic sentiment for Cyprus is also partially due to the flexibility of the Cypriot economy. Wages and prices decreased during 2013. Real unit labour costs declined in 2012 and 2013 and are expected to decline further in 2014, 2015 and 2016 according to the European Commission (European Economic Forecast, Autumn 2014). Therefore, the economic contraction in 2013 was mitigated by a decrease in prices and quantities. Real GDP contracted by 5.4% and the GDP deflator dropped by 1.3%, resulting in a contraction of nominal GDP by 6.7%. For more information, see "*— The Cypriot Economic Crisis — The Cypriot Macroeconomic Adjustment Programme*".

The Republic of Cyprus has recently regained access to the international financing markets, having completed an offering of €750 million of 4.750% bonds due 2019 on 25 June 2014. The transaction was more than two times oversubscribed and indicates positive investor sentiment on the progress of Cyprus' economic recovery. In addition, on 30 April 2014, the Republic of Cyprus placed €100 million of bonds with

a private investor. On 1 July 2014, the Public Debt Management Office of the Republic of Cyprus repaid €950.0 million of an outstanding €1,987.0 million sovereign bond held by the Issuer. The bond was transferred to the Issuer 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 Issuer used the proceeds of repayment to reduce its ECB funding by €550 million and ELA by €400 million. As the bond was transferred to the Issuer at fair value and redeemed at nominal value, the Group recognised an accounting profit of €99.8 million for the second quarter of 2014, which had a positive impact of €99.8 million or 0.4 percentage points on the Group's CET1 ratio.

The Cypriot Economic Crisis

Before the emergence of the global economic crisis Cyprus had enjoyed a track record of satisfactory economic growth, low unemployment and relatively stable macroeconomic conditions.

Between 2003 and 2008, real GDP rose at an average annual rate of 4.0% as a result of increasing investment and growth of private consumption and exports. Consumption was supported by annual employment growth averaging 2.5% over this period, attributable mainly to large inflows of migrant labour, particularly from other EU countries. During this period, per capita income in Cyprus converged rapidly with other EU Member States, with GDP in euro per capita terms reaching €23,861 in 2008, corresponding to 99.2% of the EU average in purchasing power parity terms.

The average annual growth of real GDP in the period from 2009 to 2012 was -0.7%, which includes a 2% contraction in 2009 and a 2.4% contraction in 2012, while inflation averaged 2.6% during that same period. Unemployment (as a percentage of the economically active population) rose from 3.7% in 2008 to 7.9% in 2011 and to 11.9% in 2012. The international economic crisis affected Cyprus indirectly mainly through lower external demand in tourism, whilst investment was also affected by lower external demand for housing by foreigners.

However, the crisis highlighted large existing imbalances in the economy stemming from the banking sector's large exposure to Greece, its overall size relative to the economy and domestic overexpansion in the property market. At the same time persistent "twin deficits" in the fiscal and current accounts elevated the Cypriot economy's vulnerability.

Following a series of adverse economic developments in the Eurozone, including the restructuring of Greek government debt and the downgrading of Cyprus' credit rating by several credit rating agencies, the ability of the Government to borrow from international markets was significantly affected. In June 2012, the Government filed an application to the Eurozone for financial assistance through the ESM. The ESM is the crisis resolution mechanism for the Eurozone which issues debt instruments in order to finance loans and other forms of financial assistance to Eurozone members. The Government also applied at the same time to the IMF for external financial assistance to contain the risks to the Cyprus economy. These applications led to negotiations with the Troika on a comprehensive programme of financial assistance.

The key elements and principles of the **Eurogroup Statement on Cyprus** include the following:

- An appropriate downsizing of the financial sector.
- A restructuring of the banking sector through:
 - the immediate resolution of Laiki Bank, with the full contribution of shareholders, bondholders and uninsured depositors, by the CBC using the newly adopted bank resolution regime in Cyprus;

- the split of Laiki Bank into a "good" bank and a "bad" bank with the "bad" bank being run down over time and the "good" bank (including the full amount of the ELA that had been provided by the CBC to Laiki Bank) being absorbed by the Issuer; and
- the recapitalisation of the Issuer 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 Issuer.
- All insured depositors in all banks would be fully protected in accordance with the relevant EU legislation.
- The increase of the withholding tax on capital income and the statutory corporate income tax rate.
- An independent evaluation of the anti-money laundering framework in Cypriot financial institutions.

The financial assistance provided by the Eurogroup was conditional upon implementation of the extensive policy reforms agreed between the Troika and the Government in the MoU. The MoU policy reforms include financial sector reform, fiscal policy and fiscal structural measures, labour market reforms and improvements in goods and services markets.

The Cypriot Macroeconomic Adjustment Programme

The Troika agreed an EAP with the Government on 2 April 2013. The EAP was agreed by the Eurozone Member States on 24 April 2013 and by the IMF Board on 15 May 2013. The EAP covers the period from 2013 to 2016 and incorporates a financial assistance package for Cyprus of up to €10 billion. The ESM will provide up to €9 billion and the IMF will contribute up to €1 billion. The MoU specifies the conditions to be met for the first and subsequent disbursements of ESM financial assistance. Amendments to the MoU as agreed between the Troika and the Government were made in November 2013, July 2013, February 2014, May 2014 and August 2014. To date, the ESM and the IMF have disbursed €4.5 billion and €337 million, respectively, totalling about 48.4% of available programme financing. The fifth review mission of the Troika took place from 14 to 25 July 2014 and the conclusion of the review is subject to the approval process of both the EU and the IMF. Their approval would permit the disbursement of €350 million from the ESM and approximately €86 million from the IMF (see "*Risk Factors – Risks Relating to the Economic Crisis in Cyprus – The implementation, conditions and requirements of the MoU entered into between Cyprus and the Troika, and any government actions aimed at alleviating the economic crisis, are uncertain and may create adverse results or have an adverse effect on the Issuer*" and "*Risk Factors – Regulatory and Legal Risks – The Issuer is subject to certain regulatory and legal constraints in originating new loans, managing existing loans and foreclosing on collateral*").

The EAP's key objectives are:

- to restore the soundness of the Cypriot banking sector and rebuild depositors' and market confidence by thoroughly restructuring and downsizing financial institutions, strengthening supervision and addressing expected capital shortfalls, in line with the political agreement of the Eurogroup of 25 March 2013;
- to continue the on-going process of fiscal consolidation in order to correct the excessive general government deficit by 2016, in particular through measures to reduce current primary expenditure, and maintain fiscal consolidation in the medium-term, in particular through measures to increase the efficiency of public spending within a medium-term budgetary framework, enhance revenue collection and improve the functioning of the public sector; and

- to implement structural reforms to support competitiveness and sustainable and balanced growth, allowing for the unwinding of macroeconomic imbalances, in particular by reforming the wage indexation system and removing obstacles to the smooth functioning of services markets.

The implementation of the EAP commenced in April 2013 and, to date, has been the subject of five review missions by the Troika. The latest review mission took place from 14 to 25 July 2014, and, according to a joint statement by the Troika:

- The Cypriot authorities have continued to meet the fiscal targets with a significant margin in the first half of the year, primarily as a result of prudent budget execution.
- Cypriot banks are advancing their restructuring plans and capital raising while supervisory monitoring of their actions and operational capacity to address non-performing loans has been enhanced. Structural reforms are proceeding and the Government has implemented welfare reform, has commenced the integration of the revenue administration and has strengthened the revenue administration's powers to fight tax evasion. See *"Risk Factors – Risks Relating to the Group's Business – There can be no assurance that the Restructuring Plan will be successfully implemented or, even if implemented successfully, that the Issuer will not be required to raise additional capital"*.
- While the recession for 2014 is expected to be less severe than anticipated, the outlook remains challenging. Real GDP in 2014 is expected to contract by 4.2% compared to an initial expectation of a 4.8% contraction, with growth in the tourism sector cushioning weak activity in other sectors (the IMF's Article IV Consultation Country Report for Cyprus, October 2014 currently projects the decline in real GDP at 3.2% and the European Commission's European Economic Forecast Autumn 2014 projects the decline in real GDP at 2.8%). While unemployment remains high, signs of stabilisation are emerging. Real GDP growth in 2015 is projected at 0.4%, with the recovery constrained by the high level of private sector debt. Significant risks remain, primarily related to constraints to the supply of credit as well as to the ongoing crisis in Ukraine.
- Reversing the rising trend of non-performing loans is critical to restoring credit, economic growth, and the creation of jobs and an effective legal framework for foreclosure and insolvency is essential to ensuring adequate incentives to borrowers and lenders to collaborate to reduce the level of non-performing loans. The debt-restructuring supervisory framework must be further strengthened. See *"Risk Factors – Regulatory and Legal Risks – The Issuer is subject to certain regulatory and legal constraints in originating new loans, managing existing loans and foreclosing on collateral"*.
- Ongoing efforts by financial institutions to proactively raise capital in the private markets are welcome and such efforts will also be conducive to a smooth transition to the Single Supervisory Mechanism for Eurozone banks following the completion of the pan-European comprehensive assessment and are expected to help strengthen the financial sector's resilience to shocks and revive lending.
- In addition, financial institutions should continue to implement their restructuring plans to further reduce operational costs, ensure stable funding, strengthen arrears management capacity and processes and improve governance, which are key elements to a healthy banking sector that can support the Cypriot economy and allow for the gradual relaxation of capital controls according to a revised milestone-based roadmap (see *"Regulation and Supervision of Banks in Cyprus – Capital Control Measures"*). To prevent vulnerabilities from re-emerging and preserve the integrity of the financial sector, the Cypriot authorities should further strengthen supervision and regulation and step up the implementation of the AML framework, in particular with respect to AML supervision of banks. See *"Regulation and Supervision of Banks in Cyprus – Money Laundering and Terrorist Financing"*.

- In the first half of 2014, the Government has pursued a cautious fiscal policy, which allowed it to meet its fiscal targets with a significant margin. Such prudence should continue, in light of lingering risks. In particular, the 2015 budget should be based on conservative assumptions, ensure the fiscal neutrality of the new welfare reform and help achieve a smooth path towards the medium-term primary fiscal surplus target of 4% of nominal GDP by 2018.
- Cypriot authorities should maintain the structural reform momentum. Cypriot authorities should also advance the implementation of the revenue administration reform by taking further steps toward the integration of the two tax departments under a unified and more effective revenue administration. This should be complemented by continued efforts to combat tax evasion and non-compliance and strengthen the management of public debt and of fiscal risks. Timely implementation of the privatisation plan is necessary to increase economic efficiency, attract investment, and reduce public debt.

Risks related to the implementation of the EAP remain significant. For a discussion of the risks, see "*Risk Factors — Risks Relating to the Economic Crisis in Cyprus — The implementation, conditions and requirements of the MoU entered into between Cyprus and the Troika, and any government actions aimed at alleviating the economic crisis, are uncertain and may create adverse results or have an adverse effect on the Issuer*".

Tax and other fiscal measures

The House of Representatives of Cyprus approved a number of legislative bills which amended Cyprus' tax legislation in line with the MoU. These amendments include:

- an increase of the corporate tax rate from 10% to 12.5% as of 1 January 2013;
- from 25 March 2013, in case of transfer of operations, assets, rights or obligations from one credit institution to another, under the Resolution of Credit and Other Institutions Law of 2013 (the **Resolution Law**), any accumulated tax losses of the transferring credit institution at the time of the transfer, are transferred to the acquiring credit institution and may be used by it for a period of up to fifteen years from the end of the year during which the transfer took place;
- the special defence contribution rate on interest was increased from 15% to 30% as of 29 April 2013. The special defence contribution on interest is payable only by tax residents of Cyprus and applies to physical persons as well as legal persons who receive interest that is not associated with the ordinary activities of the Issuer;
- the Assessment and Collection of Taxes Law of 1978 has been amended in order to define the books and records which need to be maintained by a taxable person to enable him to prepare and file tax returns. In addition, supporting documentation should be maintained. Similar amendments were introduced into the Cyprus Companies Law, Cap.113;
- the immovable property tax rates have been increased as of 1 January 2013 at rates which range from 0.6% to 1.9% of the value of the property as of 1 January 1980. The Department of Lands and Surveys has proceeded with new valuations with prices as at 1 January 2013. The Government has indicated an intention to impose immovable property tax from the year 2015 and future period on the basis of the new general price valuation as of 1 January 2013. For the year 2014, the immovable property tax will be on the basis of the valuation price as of 1 January 1980; and
- the special levy paid by banking institutions on deposits was increased from 0.11% to 0.15% as of 1 January 2013. In accordance with the existing legislation, the levy is imposed on deposits as of the end of the previous year and is payable in equal quarterly instalments. In order to take into account the significant drop in bank deposits, specifically for the year 2013, the levy is imposed on deposits

as of the end of the previous quarter at the rate of 0.0375%. For the year 2014 onwards, the levy is imposed on deposits as at the end of the previous year.

In addition, the Tax Collection Law of 1962 was amended in June 2014 to provide the Cypriot tax authorities with wider powers to seize assets, including deposits in a financial institution.

Employment

Employment figures in this section are calculated based on publicly available information from Eurostat and the Cyprus Statistical Service.

The rapid growth of the Cypriot economy during the period 2003-2008 led to strong employment conditions. Consequently, unemployment remained below 5% during most of the period. The employment of foreign workers considerably increased the flexibility in labour markets and helped to moderate wage growth in the economy. The economic deceleration that started in 2009 gradually affected the labour market with some time lag, causing significant employment losses and a higher unemployment rate. In particular, the average unemployment rate increased from 5.4% in 2009 to 15.9% in 2013, with the new entrants, mainly young persons and persons employed in the construction and tourism sectors, being severely affected. Youth unemployment (persons aged less than 25 years) rose to 38.9% in 2013, which is the highest in the Eurozone after Greece, Spain and Italy. In the first half of 2014, the average unemployment rate dropped marginally to 15.4%.

The employment rate in Cyprus, the proportion of employed people to the economically active population, dropped to 61.7% in 2013 from 64.6% in 2012, but remains close to the Eurozone average and is higher than in other distressed countries, such as Greece, Spain and Portugal. Cyprus has favourable demographics: the old age dependency ratio in 2013 was 18.8% compared with 28.9% in the Eurozone and 27.5% in the European Union as a whole. The composition of the labour force in Cyprus provides additional cushioning against further steep increases in the unemployment rate: total employment in 2013 was comprised of 78.9% Cypriot nationals and 21.1% non-Cypriot nationals of whom 9.2% were non-EU nationals and 11.9% were non-Cypriot EU nationals. The drop in total employment in the year was 3.5% of which the drop in the employment of Cypriot nationals was 1.5% and that of non-Cypriot nationals was 10.2%. As a percentage of the total unemployed in 2013, Cypriot nationals were 78.8% of the total and non-Cypriot nationals were 21.2% of the total. Finally, while total employment decreased in 2013, wages have exhibited relative flexibility with a decreasing trend, adjusting to the overall economic situation. More specifically, real unit labour costs decreased by 4.6% in 2013 and are expected to decrease by a further 2.0% in 2014 according to the European Commission (European Economic Forecast, Autumn 2014), thus improving the overall cost competitiveness of the economy.

Ratings

As of the date of this Base Prospectus, the Republic of Cyprus has been rated by Standard & Poor's, Moody's, Fitch and DBRS. In October 2014, Standard & Poor's raised its long-term foreign and local currency sovereign ratings on the Republic of Cyprus to B+ from B with a stable outlook. Moody's Investors Service in March 2014 affirmed Cyprus' Caa3 government bond rating and changed the outlook to positive from negative. Fitch in October 2014 revised the outlook on long-term foreign currency to positive from stable, affirming its long-term foreign and local currency issuer default ratings at B-. DBRS in June 2014 upgraded the long-term foreign and local currency issuer ratings from CCC to B (low) with stable trends.

Main Economic Indicators

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

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---------------------------------------------|------|------|------|------|------|
| GDP at current market prices (€billion) ... | 19.1 | 19.5 | 19.4 | 18.1 | |

| | | | | | |
|--------------------------------------------------------|-------|-------|-------|-------|----------------------|
| GDP per capita (€thousand) | 23.0 | 22.9 | 22.5 | 21.0 | |
| GDP in constant prices (% change)..... | 1.4 | 0.3 | -2.4 | -5.4 | -2.9 ⁽¹⁾ |
| Employment (% change) | 3.2 | 0.8 | -3.3 | -5.2 | -1.2 ⁽²⁾ |
| Unemployment rate (%) | 6.3 | 7.9 | 11.8 | 15.9 | 16.2 ⁽³⁾ |
| Harmonised index of consumer prices (% change)..... | 2.6 | 3.5 | 3.1 | 0.4 | -0.3 ⁽⁴⁾ |
| Fiscal balance (€billion) | -0.9 | -1.1 | -1.1 | -0.9 | 0.2 ⁽⁵⁾ |
| Fiscal balance (in% of GDP)..... | -4.7 | -5.8 | -5.8 | -4.9 | |
| Public debt (€billion)..... | 10.7 | 12.8 | 15.3 | 18.4 | 19.1 ⁽⁶⁾ |
| Public debt (% of GDP)..... | 56.0 | 66.0 | 79.5 | 102.2 | 106.0 ⁽⁷⁾ |
| Exports of goods and services (% change) | 4.3 | 6.1 | 0.0 | -4.6 | |
| Imports of goods and services (% change) | 6.4 | 1.6 | -2.8 | -12.6 | |
| Trade balance (€billion) | -4.7 | -4.5 | -4.0 | -3.2 | -2.3 ⁽⁸⁾ |
| Trade balance (% of GDP) | -24.5 | -23.2 | -20.8 | -17.7 | |
| Current account balance (€billion) | -1.7 | 0.6 | -1.1 | -0.2 | -0.8 ⁽⁹⁾ |
| Current account balance (% of GDP)..... | -9.0 | -3.0 | -5.5 | -1.3 | |

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

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

THE MORTGAGE AND HOUSING MARKET IN CYPRUS

The housing market

The housing market in Cyprus has an important role in the Cyprus economy and the ownership of primary residence is an important value for the Cypriot family.

A number of key factors positively influenced the demand for housing over the years. One of the most important that played a significant part in the evolution of housing demand over the years was the Turkish invasion of 1974 and the resulting Turkish occupation of part of the island. Demand for housing increased significantly as a direct result of the Turkish invasion and occupation of approximately 38% of the island. As a consequence of these events approximately 165,000 refugees (and in later years their dependants) were required to seek housing in other areas of the island.

A further important change that had a considerable impact to the demand for housing was the movement of younger people from rural areas to urban areas.

Further support for household formation is being provided from the change in the traditional family structure with younger members studying at tertiary level and preferring to live on their own. As a result of this change, the average household size has decreased to 2.8 persons in 2012, compared to 3.2 in 1992 (still above the EU average of 2.4 persons).

Moreover, significant infrastructure projects, in conjunction with increasingly sophisticated housing needs emerged also as additional determinants of strong housing demand sustaining real estate prices in recent years.

Also, the entry of Cyprus in the EU and the euro zone lead to an increase in demand for retirement homes and second residences due to the attractive weather conditions, low tax regime, high standard of living, and the low cost of living.

During more recent years, the liberalisation of interest rates in 2001 by the Central Bank of Cyprus, the downward convergence of the interest rates of the CY£ to the EUR, and more importantly the entry of Cyprus in the European Union and its accession to the euro zone in 2008 were the main driving factors in the acceleration for housing demand. These developments contributed to an environment of lower interest rates, and combined with the availability of longer term mortgage products, assisted the increased demand for housing.

The current economic downturn has had its impact on the demand for housing, and this has been reflected on the reduced number of new building permits being issued by the Land Registry and also in the reduction of transactions in 2013 and 2014. The residential property price index maintained by the CBC recorded a 6.8% annual decrease from 2012 to 2013, which was the largest decrease since the CBC's first publication of this index in 2006. In the first half of 2014, the residential property price index recorded a decrease of 9.4%, compared with a decrease of 5.7% in the first half of 2013 (on a year-on-year basis).

Mortgage Market

Co-operative Credit Institutions were historically the major providers of residential mortgage loans and the availability of mortgage products was limited. Gradually, Banking Institutions were also allowed to enter the mortgage market which contributed positively to the demand for housing.

As at 30 June 2014, the Issuer is the leading bank in Cyprus with an estimated market share in housing loans of 41.1%.

As at 30 June 2014 residential mortgage loans in Cyprus amounted to €13,761 billion, which represented 85.6% of the country's GDP. This represented a decrease in mortgage lending from recent years (from €14,180 billion as at 30 June 2013).

Security

In Cyprus, security for housing loans is created by establishing a mortgage. The mortgage is registered at the Land Registry Department. The customer incurs expenses in relation to this process equal to approximately 1% of the mortgage amount.

For the transfer of a mortgage loan from one credit institution to the other, the Land Registry Fee is the lesser of:

- (a) 1% on the amount advanced under the mortgage; and
- (b) €200, plus 1% for any additional amount advanced under the new mortgage.

Prior to the disbursement of any loan, Bank of Cyprus officers check with the Land Registry Department to confirm the uncontested ownership of the borrower and the priority nature of the mortgage.

Enforcing security

The enforcement of security of mortgaged property has historically been conducted through the Land Registry Department. The procedures described below summarise three of the existing procedures available to lenders to enforce security. For a description of the new procedure for the enforcement of security established by the Foreclosure Law, see "*Foreclosure Law – New enforcement procedure*" below.

Court and Land Registry Department Procedures

Once a loan is in default and terminated, a notice is served on the borrower and on the guarantors, if any, informing them of this fact and requesting the persons indebted to make a payment of all amounts due within a limited period of time.

Following notification and in the case of continued non-payment, the Issuer (as the mortgagee) can either: (a) proceed by filing a lawsuit to the competent court under which, inter alia, shall request the issue of a court order for the sale of the mortgaged property; or (b) proceed with the filing of a forced sale request to the Land Registry Department. Additionally, the Issuer may, following the issue of a judicial decision confirming the debt, register a Memorandum (**MEMO**) to any non-mortgaged immovable property owned by the borrower (or guarantor(s)).

- (a) Filing a lawsuit to the competent court requesting an order for the sale of the mortgaged property:

The request to obtain a sale order on the mortgaged property forms part of the statement of claim filed by the Issuer. Upon the issue of a court decision, which includes, inter alia, the sale order for the mortgaged property for the settlement of the defaulted loan, the Recoveries Department of the Issuer dispatches written instructions to the Issuer's external lawyers in order to register an application for sale of the mortgaged property to the relevant District Land Registry Department. Once all the relevant documents have been submitted to the Land Registry Department, the Sale of Mortgaged Property (**SMP**) number is obtained and the Land Registry Officer (**LRO**) notifies the Issuer of the SMP registration.

- (b) Directly filing the forced sale request of a mortgaged property to the Land Registry Department:

This process is initiated by the delivery of a written notification (document N275) from the Issuer to the borrower in which the borrower is requested to clear all debts within the space of 1 month. The notification states that if the borrower's debt is not settled during this period, the Issuer will request the forced sale of the mortgaged property from the Land Registry Department.

In the case the debt is not settled within the 1-month period, the Issuer submits the application for the forced sale to the Land Registry Department (document N276), the contents of which must be verified by an affidavit. The application must be submitted to the Land Registry within seven days of the affidavit. Upon submission of the N276, the SMP number is provided by the Land Registry.

- (c) Registering a MEMO on the borrowers' non-mortgaged property:

A lawsuit is filed with the competent Courts in order to register a MEMO (encumbrance) on the borrowers' and guarantors' non-mortgaged immovable property. Once a judicial decision is obtained confirming the amount of debt, the Issuer maintains the right to register a MEMO on any property (mortgaged or not) of the borrower or any other defendants to the lawsuit (guarantors). A search is carried out by the Recoveries Department of the Issuer in the Land Registry's database in order to determine the existence, if any, of immovable property owned by the borrower or any other defendants (guarantors) to the lawsuit. Written instructions are provided to the Issuer's external lawyers to register a MEMO to the identified properties.

Once a MEMO is registered, it is enforceable within 10 years. At the expiration of the 10-year period, the MEMO has to be renewed every 10 years.

Following the registration of the MEMO, an application may be filed to the Land Registry Department in which the forced sale of the property is requested. The application to the Land Registry can be submitted 1 year after the court decision registering the MEMO to the property. Following the application and submission of all relevant documents to the Land Registry, the SMP number is obtained.

Procedure following the receipt of the SMP number

The Issuer's Recoveries Department is responsible for monitoring the case and following up if necessary with the Land Registry Department.

Due to delays in the procedures for the forced sale of immovable property through the Land Registry, determining the auction date in Cyprus would normally take up to 10 years.

Auction process

Once an auction date has been set, a publication of the sale is made through media sources determined by the LRO.

The auction process can be interrupted by the customer as well as any creditor with a legal interest if they raise an objection with respect to:

- The validity of the property title.
- The validity of the procedure
- The bank's claim against the customer.

After an application to the Court by the entity interrupting the procedure, and provided that the evidence presented is acceptable in Court, the auction process is arrested until a Court Decision is issued.

Auction sale Proceeds

According to Cypriot law, the order in which the auction proceeds are distributed is as follows:

- Auction expenses (the full amount)
- Any other working expenses (the full amount).

The residual proceeds are then used to repay:

- Any fees, taxes or rights owed to the state
- Preferential creditors (including chargeholders)
- Other creditors, including MEMO holders (paid out on a pro rata basis).

Foreclosure Law – New enforcement procedure

The Foreclosure Law 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 troubled loans. The new procedure is intended to take no more than two years to complete. The Foreclosure Law has been in effect from the date of its publication (9 September 2014), however, provisions relating to mortgaged property which is a primary residence will come into effect from 1 January 2015.

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:** 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 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 30 days, the lender is required to serve a second notice stating that steps will be taken to sell the mortgaged property.

- **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.
- **Private sale:** the initial attempt to sell the mortgaged property is conducted by the lender. A sale cannot take place within 30 days from the date of receipt of the second notice. The reserve price must correspond to at least 80% of the purchase value of the property and the property may not be sold below this reserve price. If three months have passed and the lender is unable to sell the

property, 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.

- Public auction: the lender may also choose to conduct the sale via a public auction. This involves the lender providing details of the auction to the borrower 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 2 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 a representative or relative of such persons.

- 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; fourthly, any other secured creditors; and fifthly, any other expenses related to the property. Any residual amount is required to be paid to the mortgagor. 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.

RESIDENTIAL MORTGAGE BUSINESS OF BANK OF CYPRUS

Bank of Cyprus Mortgage Business

Origination

Loan applications are received by the Issuer exclusively through its network of 130 branches located all over Cyprus. These branches are organised in four different groups according to their geographical location, with each group reporting to a different District Manager.

Mortgage products

Bank of Cyprus offers a wide range of mortgage products. The basic products fall into two groups: a range of pure floating rate mortgages, and a range of fixed rate mortgages converting into floating rate mortgages. Floating rate mortgages may be set according to either the Bank of Cyprus Housing Base Rate, EURIBOR or the London inter-bank offered rate (**LIBOR**), while fixed rate mortgages are offered for periods of three or five years before converting to the Bank of Cyprus Housing Base Rate or EURIBOR Rate, or to any of the available fixed rate options.

Floating rate mortgages set according to three or six month EURIBOR and six month LIBOR have a rate resetting frequency of three months, in the case of three month EURIBOR, or six months, in the case of six month EURIBOR and six month LIBOR. The rate resetting frequency of Bank of Cyprus Housing Base Rate mortgages is determined by the Bank of Cyprus Assets and Liabilities Committee.

The majority of mortgage loans granted by the Issuer follow a monthly instalment frequency but in rare cases, such as for borrowers in seasonal industries such as tourism, the payment frequency can vary depending on the borrower's profile and needs.

Customers who are in good standing and satisfy certain underwriting criteria are also offered an option to make flexible payments according to their individual circumstances. Customers may defer up to two monthly instalments in a calendar year, with a maximum of 24 deferrals over the life of the loan.

Additionally, the originator may also offer a Borrower a grace period permitting the suspension of payments of principal by a Borrower or of both principal and interest for a period of up to two calendar years.

In both cases mentioned above regarding flexible payments, the originator has no contractual obligation to grant the flexible payment option to the Borrower and such flexibility is fully discretionary.

LENDING CRITERIA

The issuer tests mortgage loan applications against certain basic lending indices (the **Lending Criteria**). The principal Lending Criteria are set out below:

(a) Security

A loan must be secured by a first ranking mortgage over a property in Cyprus. A lower ranking mortgage may also be allowed, provided that the originator additionally benefits from all higher ranking mortgages over the same property. Each borrower must take out and maintain fire and earthquake insurance in an amount sufficient to cover the reinstatement value of the property. The originator is the primary beneficiary of such insurance policies. Life insurance may be required as part of the credit decision process.

(b) Loan-to-Value Ratio (LTV)

The LTV of each loan, calculated by dividing (x) the total loan amount (including all other loans secured by the same properties) by (y) the sum of the market values of all properties securing such loan(s), does not exceed:

- 80% for primary housing purposes
- 70% for second housing / holiday home purposes
- 60% for investment purposes.

Limits on the LTV ratio might be imposed on the basis of factors such as the profile of the applicant and his country of residence, the loan purpose and the location of the property.

(c) Debt service-to-Income Ratio (**DTI Ratio**)

The DTI Ratio is calculated by dividing (x) the total monthly obligations owed by the borrower by (y) the borrower's net monthly income.

Note that:

- total monthly obligations include:
 - obligations regarding loan payments that will arise should the current application be approved
 - any other obligations arising from existing loans with the Originator
 - obligations arising from existing loans with other banks
 - any other standard monthly expenditure
- The Debt servicing amount is the instalment amount of the loan to be granted plus all other instalments (loan instalment, overdraft and credit card instalment) of existing facilities with all banks. Where loan instalments are gradually increasing then the highest instalment should be taken into account.

The Debt servicing amount should be the minimum of:

1. monthly income; or

2. the difference between the total monthly income and the total monthly obligations.

- the income of next-of-kin relatives involved in the loan application as co-borrowers or guarantors may, under specific conditions, be included in the determination of gross monthly income. For mortgage loans this applies only in cases where there is a guarantee from the spouse.
- for certain professional categories, the Issuer also considers the potential for additional income on the basis of:
 - the existing banking relationship with the borrower (payroll, deposits, repayment of other loans);
 - the borrower's profession;
 - the number of years the borrower has been employed in the same job; and
 - any other existing assets like bank deposits or real estate property.
- In the case of loans that are subject to a discounted fixed rate for a set period, the DTI Ratio is calculated on the basis of the interest rate (including margin) applicable after the end of the discounted fixed rate period.
- Income is certified against third party independent evidence. No self certified or limited income verification loans are accepted.

(d) Term

In the cases that the owner will reside in the property, the term of a loan cannot exceed 30 years, and if the loan is granted for investment purposes, the term cannot exceed 15 years.

(e) Borrower's Age

The maximum age of the borrower or guarantor at the expiry of the loan should not exceed 65 years. For restructurings, the maximum age of the borrower or guarantor at the expiry of the loan must not exceed 70 years. For multiple borrowers, for the purpose of determining the duration of the repayment, the age of the younger applicant should be taken into account, provided that his/her economic standing allows the repayment of the Credit Facility.

(f) Loan purpose

Mortgage loans are primarily granted for the following purposes:

- house purchase in Cyprus;
- house construction/completion in Cyprus;
- house improvement in Cyprus;
- land purchase in Cyprus;
- equity release; or
- transfer of a loan granted by another recognised credit institution for one of the purposes above.

(g) Property Characteristics

Acceptable property types include the following:

- residential property;
- plots of land with a construction permit; and
- commercial property.

DESCRIPTION OF PRINCIPAL DOCUMENTS

Covered Bond Monitor Agreement

The Covered Bond Monitor has agreed, inter alia, subject to due receipt of the information to be provided by the Issuer to the Covered Bond Monitor, to undertake certain monitoring activities as required by the terms of the Covered Bond Legislation including (i) verification of the accuracy and completeness of information related to Cover Pool Assets included in the Cover Pool Register; (ii) examination of the valuation process in relation to cover assets; (iii) compliance by the Issuer with respect to the Cover Pool Adequacy Criteria; and (iv) examination of the entries into and removals from the Cover Pool Register.

Pursuant to the terms of the Covered Bond Monitor Agreement, the Covered Bond Monitor has represented and warranted that (i) it possesses the necessary knowledge, experience and ability for the effective performance of the duties which are stated to be performed by it in the Covered Bond Monitor Agreement and the Covered Bond Legislation (including, for the avoidance of doubt, those set out in Article 44 of the Cypriot Covered Bond Directive); and (ii) it has obtained all necessary consents, licences, approvals and authorisations in order to enter into the Covered Bond Monitor Agreement and to perform its duties thereunder; and (iii) it is impartial and does not have any conflicts of interest that could affect its ability to discharge its duties under the Covered Bond Legislation.

The Issuer will pay to the Covered Bond Monitor a fee for the role to be performed by the Covered Bond Monitor.

The Issuer may, (A) at any time without the prior consent of the Competent Authority, terminate the appointment of the Covered Bond Monitor where it has no covered bond obligations outstanding (and therefore is not under an obligation to appoint a Covered Bond Monitor under section 49 of the Cypriot Covered Bond Law) or (B) at any time without the prior consent of the Competent Authority, terminate the appointment of the Covered Bond Monitor where no agreement can be reached with respect to the fees payable by the Issuer to the Covered Bond Monitor or (C) at any time on the basis of reasons determined by the Competent Authority, terminate the appointment of the Covered Bond Monitor hereunder where (i) an insolvency event occurs with respect to the Covered Bond Monitor; or (ii) the Covered Bond Monitor does not remove from their appointment any director or manager thereof who has been convicted of an offence involving dishonesty, fraud or breach of duty; or (iii) the Covered Bond Monitor infringes or discharges its duties under the provisions of the Covered Bond Monitor Agreement or the Covered Bond Legislation negligently.

In addition, the Competent Authority may, at any time, demand that the Issuer immediately terminates the appointment of the Covered Bond Monitor by notice to the Issuer. Following the receipt of such notice the Issuer shall terminate the appointment of the Covered Bond Monitor.

The Covered Bond Monitor may, at any time, resign by giving at least 30 days' prior written notice to the Issuer and the Competent Authority (with such notice stating the reasons for its resignation).

Following the termination of the appointment of the Covered Bond Monitor, the Issuer shall use all reasonable endeavours to find a suitable replacement Covered Bond Monitor acceptable to the Competent Authority.

The Trustee will not be obliged to act as Covered Bond Monitor in any circumstances.

Law and Jurisdiction

The Covered Bond Monitor Agreement will be governed by English law.

Trust Deed

The Trust Deed, made between the Issuer and the Trustee on 18 July 2011 (as the same may be amended, restated, varied, replaced, novated and/or supplemented from time to time including on 17 January 2012, 6 June 2014 and 11 November 2014) appoints the Trustee to act as the bondholders representative and contains certain covenants given by the Issuer in favour of the Trustee (on behalf of the Covered Bondholders).

Covenants

Pursuant to the terms of the Trust Deed the Issuer will covenant that it shall at all times comply with the provisions of the Cypriot Covered Bond Law and the Cypriot Covered Bond Directive.

The Trust Deed contains provisions relating to, inter alia:

- (a) the constitution of the Covered Bonds and the terms and conditions of the Covered Bonds (as more fully set out under Terms and Conditions of the Covered Bonds above);
- (b) the covenants of the Issuer;
- (c) the enforcement procedures relating to the Covered Bonds; and
- (d) the appointment powers and responsibilities of the Trustee and the circumstances in which the Trustee may resign or be removed.

Servicing

The Issuer will be required to administer the Loan Assets and their Related Security in accordance with the Issuer's administration, arrears and enforcement policies and procedures forming part of the Issuer's policy from time to time as they apply to those Loan Assets.

Pursuant to the terms of the Trust Deed the Issuer has agreed to carry out the following activities with respect to the servicing of the Cover Pool:

- (a) collection and recovery in respect of each Cover Pool Asset;
- (b) administration and management of the Cover Pool;
- (c) management of any judicial or extra judicial proceeding connected to the Cover Pool;
- (d) keeping accounting records of the amounts due and collected under the Loan Assets and the Hedging Agreements;
- (e) preparation of statutory reports (to be submitted to the Trustee, the Competent Authority, the Covered Bond Monitor and the Rating Agencies) on the amounts due by debtors, and on the collections and recoveries made in respect of the Loan Assets and Hedging Agreements; and
- (f) carrying out the reconciliation of the amounts due and the amounts effectively paid by the debtors under the Loans on the relevant Cover Pool Payment Date.

Following the appointment of a CBBA, the CBBA may, in accordance with the Covered Bond Legislation, appoint a suitable entity to carry out the servicing activities in respect of the Cover Pool or otherwise monitor the Issuer in doing so.

The Trust Deed will provide that the definitions of the Issuer Eligibility Criteria and the Cover Pool Adequacy Criteria may be amended by the Issuer from time to time as a consequence of, inter alia, including in the Cover Pool, New Asset Types and/or changes to the hedging policies or servicing and collection procedures of the Issuer without the consent of the Trustee provided that:

- (a) the Rating Agencies then rating the Covered Bonds, the Competent Authority, the Covered Bond Monitor and, if applicable, the CBBA are notified of such amendments; and
- (b) the Competent Authority consents to such amendments.

New Asset Type means a new type of asset, which the Issuer intends to assign to the Cover Pool as an Additional Cover Pool Asset, the terms and conditions of which are materially different (in the opinion of the Issuer acting reasonably) from any of the Cover Pool Assets in the Cover Pool, including for the avoidance of doubt non-Euro denominated assets and/or assets which have characteristics other than those of the assets comprising the Cover Pool Assets on the First Issue Date. For the avoidance of doubt, a mortgage loan will not constitute a New Asset Type if it differs from any of the Cover Pool Assets in the Cover Pool solely due to it having different interest rates and/or interest periods and/or time periods for which it is subject to a fixed rate, capped rate or any other interest rate or the benefit of any discounts, cash-backs and/or rate guarantees.

First Issue Date means the date on which the Issuer issues a Series of Covered Bonds for the first time pursuant to the Programme

Reporting

Pursuant to the terms of the Trust Deed the Issuer will agree on a monthly basis to produce and publish a duly and accurately completed Monthly Report (which is made available to the Covered Bond Monitor) (the **Monthly Report**) and Monthly Investor Report in accordance with Article 31 of the Cypriot Covered Bond Directive. The Monthly Investor Report shall detail items with respect to the performance and adequacy of the Cover Pool and the results of the then applicable Cover Pool Adequacy Criteria in respect of the Cover Pool (including details of any Contractual Over-collateralisation and the OC Percentage applicable to the Cover Pool).

Governing Law

The Trust Deed is governed by English law.

Agency Agreement

Under the terms of the Agency Agreement entered into on 18 July 2011 (as the same may be amended, restated, varied, replaced, novated and/or supplemented from time to time including on 17 January 2012 and 11 November 2014) between the Issuer, the Trustee, the Principal Paying Agent (together with any paying agent appointed from time to time under the Agency Agreement, the **Paying Agents**) (the **Agency Agreement**), the Paying Agents have agreed to provide the Issuer with certain agency services and have agreed, inter alia, to make available for inspection such documents as may be required from time to time by the rules of the Luxembourg Stock Exchange and to arrange for the publication of any notice to be given to the Covered Bondholders.

For the purposes of Condition 4 (Interest), the Agency Agreement provides that if the Relevant Screen Page is not available or if, no offered quotation appears or if fewer than three offered quotations appear, in each case as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR (the **Specified Time**)), the Principal Paying Agent shall request each of the reference banks to provide the Principal Paying Agent with its offered quotation (expressed as a percentage rate per annum) for the reference rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the reference banks provide the Principal Paying Agent with offered quotations, the Rate of Interest

for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Principal Paying Agent.

For the purposes of Condition 4 (Interest) the Agency Agreement also provides that if on any Interest Determination Date one only or none of the reference banks provides the Principal Paying Agent with an offered quotation, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Principal Paying Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Principal Paying Agent by the reference banks or any two or more of them, at which such banks were offered, at approximately the Specified 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 the London interbank market (if the reference rate is LIBOR) or the Euro-zone interbank market (if the reference rate is EURIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the reference banks provide the Principal Paying Agent with 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 (rounded as provided above) 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, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Principal Paying Agent it is quoting to leading banks in the London interbank market (if the reference rate is LIBOR) or the Euro-zone interbank market (if the reference rate is EURIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this Clause, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

Governing Law

The Agency Agreement is governed by English law.

For the purposes of this section "Agency Agreement" any capitalised terms have the meanings given to them in the Conditions above.

Interest Rate Swap Agreement

Some of the Loan Assets in the Cover Pool will pay from time to time a variable rate of interest for a period of time that may either be linked to the standard variable rate of the Issuer (the **Issuer Standard Variable Rate**) or linked to an interest rate other than the Issuer Standard Variable Rate, such as EURIBOR or a rate that tracks the ECB base rate. Other Loan Assets will pay a fixed rate of interest for a period of time. However, the Euro payments to be made by the Issuer under each of the Covered Bond Swaps may vary. To provide a hedge against the possible variance between:

- (a) the rates of interest payable on the Loan Assets in the Cover Pool; and
- (b) the payments to be made by the Issuer under the Covered Bond Swaps,

the Issuer, the provider of the Interest Rate Swaps (each such provider, an **Interest Rate Swap Provider**) and the Trustee may enter into one or more an interest rate swap transactions in respect of each Series of Covered Bonds under the Interest Rate Swap Agreement (the **Interest Rate Swap Agreement**) (each such transaction an **Interest Rate Swap**).

Under the terms of each Interest Rate Swap, in the event that the relevant rating of the Interest Rate Swap Provider or any guarantor of the Interest Rate Swap Provider's obligations is downgraded by a Rating Agency below the rating specified in the Interest Rate Swap Agreement (in accordance with the requirements of that Rating Agency), the Interest Rate Swap Provider will, in accordance with the Interest Rate Swap Agreement, be required to take certain remedial measures which may include providing collateral for its obligations under the Interest Rate Swaps, arranging for its obligations under the Interest Rate Swaps to be transferred to an entity with ratings expected by the Rating Agencies, procuring another entity with the ratings expected by the Rating Agencies to become co-obligor or guarantor in respect of its obligations under the Interest Rate Swaps (such guarantee to be provided in accordance with the then-current guarantee criteria of the Rating Agencies), or taking such other action as it may agree with that Rating Agency. A failure to take such steps within the periods set out in the Interest Rate Swap Agreement will, subject to certain conditions, allow the Issuer to terminate the Interest Rate Swap Agreement.

The Interest Rate Swap Agreement may also be terminated in certain other circumstances, together with any other events of default and termination events set out in the Interest Rate Swap Agreement (each referred to as an **Interest Rate Swap Early Termination Event**), which may include:

- at the option of any party to the Interest Rate Swap Agreement, if there is a failure by the other party to make timely payments of any amounts due under the Interest Rate Swap Agreement; and
- upon the occurrence of the insolvency of the Interest Rate Swap Provider or any guarantor of the Interest Rate Swap Provider's obligations, or the merger of the Interest Rate Swap Provider without an assumption of its obligations under the Interest Rate Swap Agreement.

Upon the termination of an Interest Rate Swap pursuant to an Interest Rate Swap Early Termination Event, the Issuer or the Interest Rate Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the Interest Rate Swap Agreement. The amount of this termination payment will be calculated and made in Euro. Any termination payment made by the Interest Rate Swap Provider to the Issuer in respect of an Interest Rate Swap will first be used (prior to the occurrence of an Issuer Event) to pay a replacement Interest Rate Swap Provider to enter into a replacement Interest Rate Swap with the Issuer, unless a replacement Interest Rate Swap has already been entered into on behalf of the Issuer. Any premium received by the Issuer from a replacement Interest Rate Swap Provider in respect of a replacement Interest Rate Swap will first be used to make any termination payment due and payable by the Issuer with respect to the previous Interest Rate Swap, unless such termination payment has already been made on behalf of the Issuer. Any tax credits received by the Issuer in respect of an Interest Rate Swap will first be used to reimburse the relevant Interest Rate Swap Provider for any gross-up in respect of any withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature (and wherever imposed) made under the relevant Interest Rate Swap.

If a withholding or deduction for or on account of taxes is imposed on payments made by the Interest Rate Swap Provider to the Issuer under the Interest Rate Swaps, the Interest Rate Swap Provider shall always be obliged to gross up those payments so that the amount received by the Issuer is equal to the amount which would have been received in the absence of such withholding or deduction. If a withholding or deduction for or on account of taxes is imposed on payments made by the Issuer to the Interest Rate Swap Provider under the Interest Rate Swaps, the Issuer shall not be obliged to gross up those payments.

The Interest Rate Swap Provider may transfer all its interest and obligations in and under the relevant Interest Rate Swap Agreement to a transferee with minimum ratings in line with the criteria of the Rating Agencies, without any prior written consent of the Trustee, subject to certain conditions.

Any tax credits or Swap Collateral Excluded Amounts will be paid to the Interest Rate Swap Provider directly and not via the Priorities of Payments.

The Interest Rate Swap Provider may transfer all its interest and obligations in and under the relevant Interest Rate Swap Agreement to a transferee with minimum ratings in line with the criteria of by the Rating Agencies, without any prior written consent of the Trustee, subject to certain conditions. If the Issuer is required to sell Selected Loans in the Cover Pool following the occurrence of an Issuer Event then, to the extent that such Selected Loans include Fixed Rate Loans, the Issuer may either:

- (a) require that the Interest Rate Swaps in connection with such Selected Loans partially terminate to the extent that such Selected Loans include Fixed Rate Loans and any breakage costs payable by or to the Issuer in connection with such termination will, following the occurrence of an Issuer Event, be taken into account in calculating the Adjusted Required Redemption Amount (as defined in the Interest Rate Swap Agreement) for the sale of the Selected Loans; or
- (b) request that the Interest Rate Swaps in connection with such Selected Loans be partially novated to the purchaser of such Fixed Rate Loans to the extent that such Selected Loans include Fixed Rate Loans, such that each purchaser of Selected Loans will thereby become party to a separate interest rate swap transaction with the Interest Rate Swap Provider.

Governing Law

The Interest Rate Swap Agreement (and each Interest Rate Swap thereunder) will be governed by English law.

Covered Bond Swap Agreements

The Issuer may enter into one or more covered bond swap transactions with one or more Covered Bond Swap Providers, as specified in the applicable Final Terms, and the Trustee in respect of each Series of Covered Bonds (each such transaction a **Covered Bond Swap**). Each Covered Bond Swap may be either a Forward Starting Covered Bond Swap or a Non-Forward Starting Covered Bond Swap and each will constitute the sole Transaction under a single **Covered Bond Swap Agreement** (such Covered Bond Swap Agreements, together, the **Covered Bond Swap Agreements**).

Each Forward Starting Covered Bond Swap will provide a hedge (after the occurrence of certain predetermined events, including, for example, the removal of the Issuer from the Register of Approved Institutions or an Event of Default) against certain interest rate, currency and/or other risks in respect of amounts received by the Issuer under the Loans and the Interest Rate Swaps (if any) and amounts payable by the Issuer under the Covered Bonds (**Forward Starting Covered Bond Swap**).

Each Non-Forward Starting Covered Bond Swap will provide a hedge against certain interest rate, currency and/or other risks in respect of amounts received by the Issuer under the Loans and the Interest Rate Swaps (if any) and amounts payable by the Issuer under the Covered Bonds (**Non-Forward Starting Covered Bond Swap**).

Where required to hedge such risks, there will be one (or more) Covered Bond Swap Agreement(s) and Covered Bond Swap(s) in relation to each Series, as applicable, of Covered Bonds.

Under the Forward Starting Covered Bond Swaps, the Covered Bond Swap Provider will pay to the Issuer on each Interest Payment Date, after the occurrence of an Issuer Event, an amount equal to the relevant portion of the amounts that are payable by the Issuer in respect of interest and principal payable under the relevant Series of Covered Bonds. In return, the Issuer will periodically pay to the Covered Bond Swap Provider an amount in Euro calculated by reference to Euro EURIBOR plus a spread and, where relevant, the Euro Equivalent of the relevant portion of any principal due to be repaid in respect of the relevant Series of Covered Bonds.

Under the Non-Forward Starting Covered Bond Swaps on the relevant Issue Date, the Issuer will, if the relevant Series of Covered Bonds are denominated in a currency other than Euro, pay to the Covered Bond Swap Provider an amount equal to the relevant portion of the amount received by the Issuer in respect of the aggregate nominal amount of such Series, as applicable, of Covered Bonds and in return the Covered Bond Swap Provider will pay to the Issuer the Euro Equivalent of the first-mentioned amount. Thereafter, and where the relevant Series of Covered Bonds are denominated in Euro, the Covered Bond Swap Provider will pay to the Issuer on each Interest Payment Date an amount equal to the relevant portion of the amounts that are payable by the Issuer in respect of interest and principal payable under the relevant Series of Covered Bonds. In return, the Issuer will periodically pay to the Covered Bond Swap Provider an amount in euros calculated by reference to EURIBOR plus a spread and, where relevant, the Euro Equivalent of the relevant portion of any principal due to be repaid in respect of the relevant Series of Covered Bonds.

Under the terms of each Forward Starting Covered Bond Swap and each Non-Forward Starting Covered Bond Swap, in the event that the relevant rating of the Covered Bond Swap Provider or any guarantor of the Covered Bond Swap Provider's obligations is downgraded by a Rating Agency below the rating specified in the relevant Covered Bond Swap Agreement (in accordance with the expectations of that Rating Agency), the Covered Bond Swap Provider will, in accordance with the relevant Covered Bond Swap Agreement, be required to take certain remedial measures which may include providing collateral for its obligations under the Covered Bond Swap, arranging for its obligations under the Covered Bond Swap to be transferred to an entity with the ratings expected by the Rating Agencies, procuring another entity with the ratings expected by the Rating Agencies to become co-obligor or guarantor in respect of its obligations under the Covered Bond Swap Agreement (such guarantee to be provided in accordance with the then-current guarantee criteria of the Rating Agencies), or taking such other action as it may agree with that Rating Agency. In addition, if the net exposure of the Issuer against the Covered Bond Swap Provider under the relevant Covered Bond Swap exceeds the threshold specified in the relevant Covered Bond Swap Agreement, the Covered Bond Swap Provider may be required to provide collateral for its obligations. A failure to take such steps within the time periods set out in the Covered Bond Swap Agreement will, subject to certain conditions, allow the Issuer to terminate the Covered Bond Swap.

A Covered Bond Swap Agreement may also be terminated in certain other circumstances, together with any other events of default and termination events set out in the relevant Covered Bond Swap Agreement (each referred to as a **Covered Bond Swap Early Termination Event**), which may include:

- (a) at the option of any party to the Covered Bond Swap Agreement, if there is a failure by the other party to make timely payments of any amounts due under such Covered Bond Swap Agreement; and
- (b) upon the occurrence of an insolvency of the Covered Bond Swap Provider or any guarantor of the Covered Bond Swap Provider's obligations, or the merger of the Covered Bond Swap Provider without an assumption of its obligations under the relevant Covered Bond Swap Agreement.

Upon the termination of a Covered Bond Swap, the Issuer or the Covered Bond Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the relevant Covered Bond Swap Agreement. The amount of this termination payment will be calculated and made in Euro. Any termination payment made by the Covered Bond Swap Provider to the Issuer in respect of a Covered Bond Swap will first be used (prior to the occurrence of an Issuer Event) to pay a replacement Covered Bond Swap Provider to enter into a replacement Covered Bond Swap with the Issuer, unless a replacement Covered Bond Swap has already been entered into on behalf of the Issuer. Any premium received by the Issuer from a replacement Covered Bond Swap Provider in respect of a replacement Covered Bond Swap will first be used to make any termination payment due and payable by the Issuer with respect to the previous Covered Bond Swap, unless such termination payment has already been made on behalf of the Issuer. Any tax credits received by the Issuer in respect of a Covered Bond Swap will first be used to reimburse the relevant Covered Bond Swap Provider for any gross-up in respect of any withholding or deduction for or on account of any present or future taxes. Duties, assessments or governmental charges of whatever nature (and wherever imposed) made under the relevant Covered Bond Swap.

Any tax credits or Swap Collateral Excluded Amounts will be paid to the Covered Bond Swap Provider directly and not via the Priorities of Payments.

If withholding or deduction for or on account of taxes is imposed on payments made by the Covered Bond Swap Provider to the Issuer under a Covered Bond Swap, the Covered Bond Swap Provider shall always be obliged to gross up those payments so that the amount received by the Issuer is equal to the amount which would have been received in the absence of such withholding or deduction. If withholding or deduction for or on account of taxes is imposed on payments made by the Issuer to the Covered Bond Swap Provider under a Covered Bond Swap, the Issuer shall not be obliged to gross up those payments.

The Covered Bond Swap Provider may transfer all its interest and obligations in and under the relevant Covered Bond Swap Agreement to a transferee with minimum ratings in line with the criteria of the Rating Agencies, without any prior written consent of the Trustee, subject to certain conditions.

In the event that the Covered Bonds are redeemed and/or cancelled in accordance with the Terms and Conditions, the Covered Bond Swap(s) in connection with such Covered Bonds will terminate or partially terminate, as the case may be. Any breakage costs payable by or to the Issuer in connection with such termination will be taken into account in calculating:

- (a) the Cover Pool Payment Date for the sale of Selected Loans; and
- (b) the purchase price to be paid for any Covered Bonds purchased by the Issuer in accordance with Condition 6.6 (Purchases).

Governing Law

The Covered Bond Swap Agreement (and each Covered Bond Swap thereunder) will be governed by English law.

Bank Account Agreement

Pursuant to the terms of the Bank Account Agreement entered into on 18 July 2011 (as the same may be amended, restated, varied, replaced, novated and/or supplemented from time to time including on 17 January 2012 and 11 November 2014) between the Account Bank, the Issuer and the Trustee, the Issuer will maintain with the Account Bank the Bank Account, which will be operated in accordance with the Covered Bond Legislation and the terms of the Trust Deed.

If the "Issuer Default Ratings" of the Account Bank falls below F1 short-term (which, for the avoidance of doubt, shall be the case if such bank's "Issuer Default Ratings" are at F1 short-term and such bank is on "rating watch negative") or A long-term (which, for the avoidance of doubt, shall be the case if such bank's "Issuer Default Ratings" are at A long-term and such bank is on "rating watch negative") by Fitch and if the short term, unsecured, unsubordinated and unguaranteed debt obligations of the Account Bank falls below P-1 by Moody's (or such other ratings that may be agreed between the parties to the Bank Account Agreement and Moody's and notified to Fitch from time to time), then unless the Account Bank within 30 calendar days of such occurrence obtains an unconditional and unlimited guarantee (in a form acceptable to Moody's and notified to Fitch) of its obligations under the Bank Account Agreement from a financial institution having "Issuer Default Ratings" that are at least F1 short-term (but not, for the avoidance of doubt, if such bank's "Issuer Default Ratings" are F1 short-term and such bank is on "rating watch negative") and A long-term (but not, for the avoidance of doubt, if such bank's "Issuer Default Ratings" are A long-term and such bank is on "rating watch negative") by Fitch and a short term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least P-1 by Moody's (or such other ratings that may be agreed between the parties to the Bank Account Agreement and Moody's and notified to Fitch from time to time) and provided that such guarantee is to be provided in accordance with the relevant Rating Agency's guarantee criteria (provided that

Moody's confirms that the Covered Bonds would not be adversely affected thereby (and in the case of Fitch and any other Rating Agency, such Rating Agency has been notified), then:

- the Bank Account Agreement will be terminated in respect of the Account Bank; and
- the Bank Account will be closed and all amounts standing to the credit thereof shall be transferred to accounts held with an Eligible Institution.

The costs of the Account Bank arising from any remedial action taken by the Account Bank, following such bank's "Issuer Default Ratings" falling below F1 short-term (which, for the avoidance of doubt, shall be the case if such bank's "Issuer Default Ratings" are at F1 short-term and such bank is on "rating watch negative") or A long-term (which, for the avoidance of doubt, shall be the case if such bank's "Issuer Default Ratings" are at A long-term and such bank is on "rating watch negative") by Fitch and its short term, unsecured, unsubordinated and unguaranteed debt obligations ceasing to be rated at least P-1 by Moody's (or such other ratings that may be agreed between the parties to the Bank Account Agreement and Moody's and notified to Fitch from time to time) shall be borne by the Account Bank.

The Bank Account Agreement is governed by English law.

Custody Agreement

The Issuer entered into a custody agreement on 18 July 2011 (as the same may be amended, restated, varied, replaced, novated and/or supplemented from time to time), between, *inter alios*, the Custodian and the Issuer.

TAXATION

CYPRUS TAXATION

The following is a general description of certain tax aspects of the Covered Bonds as at the date of this Base Prospectus and does not purport to be a comprehensive description of all tax aspects relating to the Covered Bonds. Prospective investors should consult their tax and other professional advisers as to the specific tax consequences of acquiring, holding and disposing of the Covered Bonds.

Income Tax

With effect from 1 January 2003, amendments were introduced to the tax system in Cyprus pursuant to which the basis of the taxation is now one of tax on worldwide income on the basis of residency. For the purposes of establishing residency under the provisions of the Income Tax Law, Law 118(I) of 2002 (as amended) (the **Income Tax Law**) a person is resident for tax purposes in Cyprus where in the case of a natural person that person is present in Cyprus for at least 183 days in the tax year and in the case of a company its management and control is exercised in Cyprus. The tax year for the purpose of the Income Tax Law coincides with the calendar year.

Under the provisions of the Income Tax 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 he is subject to 30% withholding pursuant to the provisions of the Special Contribution for the Defence Fund of the Republic Laws, Law 117(I) of 2002 (as amended) (the **Special Contribution for the Defence Fund of the Republic Laws**).

A resident company which receives or is credited with interest which derives from the ordinary carrying on of its business or receives interest closely connected with the carrying on of its business is subject to corporation tax at the rate of 12.5% on the interest received and not subject to the special contribution for the defence fund. A resident company, which receives or is credited with interest and the interest is not considered to derive from the ordinary carrying on of its business or is not closely connected with the carrying on of its business, is exempt from corporation tax and subject to 30% withholding pursuant to the provisions of the Special Contribution for the Defence Fund of the Republic Laws.

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 the defence of the Republic.

Cyprus has enacted into Cyprus law EU Directive 2003/48/EC relating to the taxation of savings by virtue of the provisions of the Assessment and Collection of Taxes (Amendment) Law 146(I) of 2004. Pursuant to this law, the Cypriot Council of Ministers issued the Assessment and Collection of Tax (Provision of Information Regarding Interest Payments) Regulations of 2005. These regulations impose Savings Directive standards on Cypriot financial institutions making EU cross-border savings interest payments to individuals resident in other Member States, such as automatic reporting to the tax authorities of the other Member State of (a) an individual's identity and permanent address, (b) the name and address of the paying agent and (c) the bank account details.

Stamp Duty

The Stamp Duty Law of 1963 (as amended) (the **Stamp Duty Law**) provides that:

"(1) every instrument specified in the First Schedule shall be chargeable with duty of the amount specified in the said Schedule as the proper duty therefor respectively if it relates to any asset situated in the Republic or

to matters or things which shall be performed or done in the Republic irrespective of the place where the document is made".

Furthermore, pursuant to the Stamp Duty Law, the First Schedule thereto provides a stamp duty of 0.15% for amounts from €5,001 up to €170,000 and 0.2% for amounts above €170,000 with a maximum flat stamp duty of €20,000.00.

The issue of the Covered Bonds may be liable to stamp duty. If so chargeable, stamp duty of €20,000.00 will be payable by the Issuer.

So long as the Covered Bonds are cleared through Euroclear and Clearstream, Luxembourg, sales or transfers of the Covered Bonds (whether effected by residents or non-residents of Cyprus) will not attract stamp duty in Cyprus.

Profit from the Disposal of the Covered Bonds

Any gains derived from the disposal of the Covered Bonds by a Cyprus resident individual or company is exempt from income tax in Cyprus.

Any gains from the disposal of the Covered Bonds is not subject to Cyprus income tax, irrespective of trading nature of the gain, the number of Covered Bonds held or the period for which the Covered Bonds were held. Any gain is also outside the scope of application of the Capital Gains Tax Law 1980-2002 (as amended).

EU SAVINGS DIRECTIVE

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

On 24 March 2014, the Council of the European Union adopted a Council Directive (the **EU Savings Amending Directive**) amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the EU Savings Directive, in particular to include additional types of income payable on securities. The EU Savings Amending Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented. In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the EU Savings Directive.

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).

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 Covered Bonds 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

(a) Non-resident holders of Covered Bonds

Under Luxembourg general tax laws currently in force and subject to the laws of 21 June 2005 as amended (the **Laws**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Covered Bonds, nor on accrued but unpaid interest in respect of the Covered Bonds, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Covered Bonds held by non-resident holders of Covered Bonds.

Under the Laws implementing EC 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**), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, (within the meaning of the Laws) resident in, or established in, an EU Member State (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the competent Luxembourg fiscal authority in order for such information to be communicated to the competent tax authorities of the beneficiary's country of residence or establishment or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Covered Bonds coming within the scope of the Laws will be subject to a withholding tax at a rate of 35%.

In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

(b) Resident holders of Covered Bonds

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

Under the 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) 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%. 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 Covered Bonds coming within the scope of the Law will be subject to a withholding tax at a rate of 10%.

FOREIGN ACCOUNT TAX COMPLIANCE ACT

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) impose a new reporting regime and potentially a 30% withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a "foreign financial institution", or **FFI** (as defined by FATCA)) that does not become a **Participating FFI** by entering into an agreement with the U.S. Internal Revenue Service (**IRS**) to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States account" of the Issuer (a **Recalcitrant Holder**). The Issuer is classified as an FFI.

The new withholding regime will be phased in beginning 1 July 2014 for payments from sources within the United States and will apply to "foreign passthru payments" (a term not yet defined) no earlier than 1 January 2017. This withholding would potentially apply to payments in respect of Covered Bonds that are issued after the "grandfathering date", which is the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified after the grandfathering date. If Covered Bonds are issued on or before the grandfathering date, and additional Covered Bonds of the same series are issued after that date, the additional Covered Bonds may not be treated as grandfathered, which may have negative consequences for the existing Covered Bonds, including a negative impact on market price.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an **IGA**). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a "Reporting FI" not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction generally would not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being **FATCA Withholding**) from payments it makes. The Model 2 IGA leaves open the possibility that a Reporting FI might in the future be required to withhold as a Participating FFI on foreign passthru payments and payments that it makes to Recalcitrant Holders. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS.

The U.S. Treasury and IRS recently announced that Cyprus and the United States have reached an agreement in substance in relation to the terms of a Model 1 IGA. However, the precise details of the Cyprus IGA are still unknown at this time and the impact of FATCA will depend upon the terms of the Cyprus IGA and the relevant Cyprus implementing legislation. Pursuant to recent IRS guidance, the United States and Cyprus will be treated as having a Model 1 IGA in effect until 31 December 2014, the date by which the Cyprus IGA must be signed in order for this status to continue without interruption. A Cyprus financial institution which has registered with the U.S. Treasury and otherwise complies with applicable legal requirements will be treated as a Reporting FI (e.g. generally not subject to withholding under FATCA on payments it receives and not required to withhold under FATCA from payments it makes) until the end of 2014. Provided that the Cyprus IGA is signed, then it is expected that a Cyprus financial institution that has registered as a Reporting FI and that complies with the IGA's requirements would continue to be treated as a Reporting FI. However, if the Cyprus IGA is not signed, then such an entity would likely be required to register as a Participating FFI.

The Issuer has registered with the U.S. Treasury as a Reporting FI. However, there can be no assurance that the Issuer will be treated as a Reporting FI in the future, or that it would not be required to withhold FATCA Withholding pursuant to the Cyprus IGA or under future guidance with respect to foreign passthru payments. If the Issuer becomes a Participating FFI under FATCA, the Issuer and financial institutions through which payments on the Covered Bonds are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Covered Bonds is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

Whilst the Covered Bonds are in global form and held within the clearing systems, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Covered Bonds by the Issuer and any paying agent to the clearing systems, given that each of the entities in the payment chain between the Issuer and the participants in the clearing systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Covered Bonds. 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 from FATCA Withholding. The documentation expressly contemplates the possibility that the Covered Bonds may go into definitive form and therefore that they may be taken out of the clearing systems. If this were to happen, then a non-FATCA compliant holder may also be subject to FATCA Withholding. However, definitive Covered Bonds will only be printed in remote circumstances.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Covered Bonds.

PROPOSED FINANCIAL TRANSACTIONS TAX FOR PARTICIPATING MEMBER STATES

The European Commission has published a proposal for a Directive for a FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**).

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in the Covered Bonds (including secondary market transactions) in certain circumstances. The issuance and subscription of Covered Bonds 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 Covered Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

A joint statement issued in May 2014 by ten of the participating Member States indicated an intention to implement the FTT progressively such that the initial stage would be implemented by 1 January 2016 in relation to shares and certain derivatives only.

The FTT, as initially implemented on this basis, may not apply to dealings in the Covered Bonds.

The FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation.

Additional EU Member States may decide to participate.

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

SUBSCRIPTION AND SALE

Covered Bonds may be issued from time to time by the Issuer to any one or more of the Dealers. The arrangements under which Covered Bonds may from time to time be agreed to be issued by the Issuer to, and subscribed by, Dealers are set out in a Programme Agreement dated on or about the date of this Base Prospectus (the **Programme Agreement**) and made between the Issuer and the Dealers. Any such agreement will, inter alia, make provision for the form and terms and conditions of the relevant Covered Bonds, the price at which such Covered Bonds will be subscribed by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such subscription. The Programme Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Series of Covered Bonds. The Programme Agreement will be supplemented on or around the date of each issuance by a Subscription Agreement, which will set out, inter alia, the relevant underwriting commitments. The date of the relevant Subscription Agreement will be set in the applicable Final Terms.

United States

The Covered Bonds have not been and will not be registered under the Securities Act or any state securities law 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 under the Securities Act.

The Covered Bonds 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. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder. The applicable Final Terms will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Covered Bonds (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Covered Bonds on a syndicated basis, the relevant lead manager, of all Covered Bonds of the Series of which such Covered Bonds are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Covered Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Covered Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Covered Bonds, an offer or sale of such Covered Bonds within the United States by any dealer (whether or not participating in the offering of such Covered Bonds) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an applicable exemption from registration under the Securities Act.

Public Offer Selling Restrictions 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 Covered Bonds which are the subject of the offering contemplated by this Base 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 Covered Bonds to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 100 or, if the relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Covered Bonds referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision:

- the expression an **offer of Covered Bonds to the public** in relation to any Covered Bonds 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 Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State;
- the expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State; and
- the expression **2010 PD Amending Directive** means Directive 2010/73/EU

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Covered Bonds which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Covered Bonds other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Covered Bonds would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) 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 Covered Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the United Kingdom.

The Hellenic Republic

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not publicly offered or sold and will not publicly offer or sell any Covered Bonds, 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 Covered Bonds. All applicable provisions of law 3401/2005 must be complied with in respect of anything done with regard to the public offering of Covered Bonds in, from or otherwise involving the Hellenic Republic.

Cyprus

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has not made and will not make an offer for sale or sell any Covered Bonds 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 Covered Bonds 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 Covered Bonds in Cyprus.

Japan

The Covered Bonds 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 **FIEA**) and each Dealer represents and agrees, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Covered Bonds, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

General

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Covered Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer, the Trustee nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer, the Trustee and the Dealers represents that Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

GENERAL INFORMATION

Approval, 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 the Luxembourg Stock Exchange for the Covered Bonds issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

Authorisations

The update of the Programme was authorised pursuant to a resolution of the Board of Directors of the Issuer passed on 30 May 2014. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of its obligations under the Covered Bonds.

Additional information about the Cover Pool

The Issuer will provide Monthly Investor Reports detailing, among other things, compliance with the Statutory Tests. This information will be available at the offices of 51 Stassinou Street, Ayia Paraskevi, Strovolos, 2002 Nicosia, Cyprus and on the website http://www.bankofcyprus.com/en-GB/Start/Investors-Relations/Debt_Securities/Covered-Bond-Cyprus/. The Issuer's website and the contents thereof do not form any part of this Base Prospectus.

Litigation

Save as disclosed in "*Business Description of the Group — Litigation and Related Matters, including Regulatory Proceedings*" on page 244 there are no legal, governmental or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), during the 12 months preceding the date of this Base Prospectus which may have, or have had in the recent past, significant effects on the Issuer's financial position or profitability.

No significant or material adverse change

There has been no material adverse change, or any development reasonably likely to involve material adverse change, in the prospects of the Issuer since 31 December 2013. Save as disclosed on pages 149 and 216, there has been no significant change in the financial or trading position of the Issuer since 30 June 2014.

Documents available for inspection

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available for inspection from the registered office of the Issuer and from the specified offices of the Paying Agents or the Listing Agent:

- (a) the constitutional documents (with an English translation thereof) of the Issuer;
- (b) the consolidated audited financial statements of the Issuer in respect of the financial years ended 31 December 2012 and 31 December 2013 (with an English translation thereof), in each case together with the audit reports prepared in connection therewith;
- (c) unaudited interim condensed consolidated financial statements of the Issuer as at and for the six month period ended 30 June 2014 (with an English translation thereof);

- (d) the most recently published audited annual financial statements of the Issuer and the most recently published unaudited interim condensed consolidated financial statements (if any) of the Issuer (with an English translation thereof), together with any audit or review reports prepared in connection therewith;
- (e) the Programme Agreement, the Trust Deed, the Agency Agreement, and the forms of the Global Covered Bonds, the Covered Bonds in definitive form, the Coupons and the Talons;
- (f) a copy of this Base Prospectus; and
- (g) any future supplements including Final Terms to this Base Prospectus and any other documents incorporated herein or therein by reference.

In addition, copies of this Base Prospectus, any supplement to the Base Prospectus, any documents incorporated by reference and each Final Terms relating to Covered Bonds which are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the regulated market of the Luxembourg Stock Exchange will also be available for inspection free of charge from the website of the Luxembourg Stock Exchange, at www.bourse.lu.

Clearing systems

The Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Series of Covered Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Covered Bonds are to be cleared through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Conditions for determining price

The price and amount of Covered Bonds to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.

Yield

In relation to any Series of Fixed Rate Covered Bonds, an indication of the yield in respect of such Covered Bonds will be specified in the applicable Final Terms. The yield is calculated at the Issue Date of the Covered Bonds on the basis of the relevant Issue Price. The yield indicated will be calculated as the yield to maturity as at the Issue Date of the Covered Bonds and will not be an indication of future yield.

Independent Auditors

The Consolidated Financial Statements of Bank of Cyprus Public Company Limited prepared in accordance with International Financial Reporting Standards as adopted by the EU as of and for the years ended 31 December 2012 and 31 December 2013, incorporated by reference in this Base Prospectus have been audited by the Company's independent auditors, Ernst & Young Cyprus Limited. Ernst & Young Cyprus Limited is a practicing member of the Institute of Certified Public Accountants of Cyprus and are licensed as certified public accountants and registered auditors.

INDEX OF TERMS

| | | | |
|------------------------------------------|-------------|------------------------------------------|-------------|
| 2007 Capital Securities..... | 280 | Basel Committee..... | 258 |
| 2008 Convertible Bonds..... | 280 | Basel II..... | 258 |
| 2009 Convertible Capital Securities..... | 280 | Basel III..... | 258 |
| 2010 PD Amending Directive..... | 84, 353 | Basic Collateralisation..... | 27, 136 |
| 2011 EUR CECS..... | 280 | Board of Directors..... | 50 |
| 2011 USD CECS..... | 280 | BOC CI..... | 242 |
| 30/360..... | 95 | BOC UK..... | 217 |
| 30E/360..... | 95 | Bond Basis..... | 95 |
| 30E/360 (ISDA)..... | 96 | Borrower..... | 70 |
| 360/360..... | 95 | Broken Amount..... | 89 |
| 90+DPD..... | 43 | BRRD..... | 65, 255 |
| 90+DPD Ratio..... | 43 | Business Day..... | 93 |
| Account Bank..... | 11 | Business Day Convention..... | 94 |
| Bank Account Agreement..... | 11 | Calculation Agent..... | 90 |
| Accrual Period..... | 94 | Calculation Amount..... | 101 |
| Accrual Yield..... | 101 | Calculation Date..... | 135 |
| Actual/360..... | 95 | Capital Controls Decree..... | 264 |
| Actual/365 (Fixed)..... | 95 | Capital Raising..... | 219 |
| Actual/365 (Sterling)..... | 95 | Capital Requirements Directive..... | 24 |
| Actual/Actual..... | 95 | Capital Securities..... | 280 |
| Actual/Actual (ICMA)..... | 94 | CBBA..... | 10 |
| Actual/Actual (ISDA)..... | 95 | CBC..... | 4 |
| Additional Cover Pool Assets..... | 20 | CBC Directives..... | 258 |
| Affected Deposits..... | 282 | CBM Report..... | 26 |
| Agency Agreement..... | 40, 84, 339 | CBR..... | 46 |
| AGM..... | 58, 217 | CCIs..... | 57 |
| AGM Notice..... | 217 | CCP..... | 276 |
| Agreements..... | 250 | CCPs..... | 259 |
| ALCO..... | 155 | CECS..... | 280 |
| Allocated Parties..... | 219 | CET1..... | 48, 151 |
| AML..... | 232 | Charged Property..... | 16 |
| AML Review..... | 64 | CISCO..... | 236 |
| AML/CTF..... | 59 | CIWUD..... | 63 |
| Amortised Face Amount..... | 104 | Clearstream, Luxembourg..... | 18, 86, 115 |
| Aphrodite..... | 322 | CNP..... | 160 |
| applicable Final Terms..... | 84 | CNP Cyprus..... | 250 |
| Appointee..... | 37 | CNP France..... | 239 |
| Approved Institution..... | 130 | Collection Account..... | 31 |
| AQR..... | 218 | Common Depository..... | 115 |
| Arranger..... | 10 | Common Safekeeper..... | 115 |
| Arrangers..... | 10 | Competent Authority..... | 10 |
| Arrears Management Directive..... | 64 | Complementary Assets..... | 24, 134 |
| Asset Adequacy Test..... | 29 | Complementary Assets Minimum Rating..... | 24 |
| ATHEX..... | 69 | Conditions..... | 2, 84 |
| ATM..... | 264 | Contractual Over-collateralisation..... | 28 |
| Bail-in Decrees..... | 280 | Corporate Governance Code..... | 59 |
| Bail-in Shares..... | 284 | Council..... | 65 |
| Bank Account..... | 40 | Couponholders..... | 85 |
| Bank Account Agreement..... | 40 | Coupons..... | 85 |
| Banking Law..... | 187, 292 | Cover Assets..... | 28 |
| Base Prospectus..... | 1, 118 | Cover Pool..... | 1, 19 |

| | | | |
|---------------------------------------------------|---------|--------------------------------------|--------------|
| Cover Pool Adequacy Criteria..... | 26 | Diluted Shares..... | 285 |
| Cover Pool Asset..... | 19 | Dispute..... | 114 |
| Cover Pool Creditors..... | 16, 101 | Distribution Agreement..... | 250 |
| Cover Pool Disposal Priority of Payments...39, 89 | | District Courts..... | 248 |
| Cover Pool Disposal Proceeds..... | 39, 89 | Documents..... | 112 |
| Cover Pool Payment Date..... | 17 | dollar..... | 4 |
| Cover Pool Register..... | 15 | DTI Ratio..... | 335 |
| Covered Bond Business Administrator..... | 10 | EAP..... | 42 |
| Covered Bond Legislation..... | 15 | Earliest Maturing Covered Bonds..... | 101 |
| Covered Bond Monitor..... | 10 | Early Redemption Amount..... | 101 |
| Covered Bond Monitor Agreement..... | 10 | EBA..... | 247, 253 |
| Covered Bond Swap..... | 342 | EBRD..... | 220 |
| Covered Bond Swap Agreement..... | 342 | ECB..... | 42, 135, 138 |
| Covered Bond Swap Agreements..... | 342 | ECB Regulation..... | 252 |
| Covered Bond Swap Early Termination | | ECP..... | 180 |
| Event..... | 343 | EGM..... | 219 |
| Covered Bond Swap Provider..... | 11 | EIB..... | 228 |
| Covered Bondholder..... | 86 | EIF..... | 228 |
| Covered Bondholders..... | 2, 85 | ELA..... | 49 |
| Covered Bonds..... | 1 | Eligibility Criteria..... | 23 |
| Covered Bonds Available Funds..... | 32 | Eligible Institution..... | 11 |
| Covered Pool Creditor..... | 84 | EMIR..... | 65 |
| CPC..... | 249 | EMTN..... | 179 |
| CRA..... | 287 | ESM..... | 42 |
| CRA Regulation..... | 1, 126 | Established Rate..... | 101 |
| CRD..... | 24 | EU..... | 4 |
| CRD I..... | 258 | EU Savings Amending Directive..... | 74, 347 |
| CRD IV..... | 254 | EU Savings Directive..... | 74, 347 |
| CRD IV/CRR..... | 254 | EURIBOR..... | 71 |
| CRP..... | 287 | euro..... | 4, 85 |
| CRR..... | 254 | Euro..... | 4 |
| CRR&C..... | 287 | Euro Capital Securities..... | 280 |
| CRSA..... | 288 | Euro Equivalent..... | 138 |
| CSE..... | 69 | Eurobond Basis..... | 95 |
| CSSF..... | 1 | Euroclear..... | 18, 86, 115 |
| Custodian..... | 11 | Eurogroup..... | 43 |
| Custody Agreement..... | 40 | Eurogroup Statement on Cyprus..... | 279, 323 |
| CYPEF..... | 228 | EuroLife..... | 214 |
| Cypriot Covered Bond Directive..... | 15 | Eurosystem..... | 253 |
| Cypriot Covered Bond Law..... | 15 | Eurozone..... | 43 |
| Cypriot Loan..... | 19 | Event of Default..... | 33 |
| Cypriot Statutory Charge..... | 15 | Excess Swap Collateral..... | 33 |
| CySEC..... | 59 | Exchange Date..... | 115 |
| Day Count Fraction..... | 94 | Exchange Event..... | 116 |
| DBRS..... | 212 | Existing Shares..... | 281 |
| Dealer..... | 1 | Extended Final Maturity Date..... | 18, 78 |
| Dealers..... | 1 | Extraordinary Resolution..... | 101 |
| Decrees..... | 246 | FATCA..... | 62, 349 |
| Definitive Covered Bond..... | 84 | FATCA Withholding..... | 349 |
| Deposit A..... | 282 | FATF..... | 269 |
| Deposit B..... | 282 | FCs..... | 276 |
| Deposit Protection Scheme..... | 262 | FFI..... | 349 |
| Designated Maturity..... | 90, 92 | FFIs..... | 275 |
| Determination Date..... | 96 | FIEA..... | 354 |
| Determination Period..... | 96 | Final Maturity Date..... | 17 |

| | | | |
|----------------------------------------------------|-------------|------------------------------------------------------|-----------|
| Final Redemption Amount | 18, 78, 100 | Interest Rate Swap Provider | 11, 340 |
| Final Terms..... | 1, 12 | Introducers | 231 |
| First Issue Date | 339 | Investor Put | 103 |
| Fitch..... | 1 | Investor's Currency | 72 |
| Fixed Coupon Amount | 89 | IO | 239 |
| Fixed Interest Period..... | 89, 97 | IRS | 275, 349 |
| Fixed Rate Covered Bonds | 14 | ISDA Definitions | 90 |
| Floating Rate | 90 | ISDA Determination..... | 90 |
| Floating Rate Convention..... | 94 | ISDA Rate..... | 90 |
| Floating Rate Covered Bonds..... | 14 | Issue Date | 13 |
| Floating Rate Option | 90 | Issue Price..... | 17 |
| Following Business Day Convention | 94 | Issuer..... | 1, 10, 84 |
| Foreclosure Law | 67 | Issuer Call | 103 |
| Former Residence | 113 | Issuer Eligibility Criteria | 23, 133 |
| Forward Starting Covered Bond Swap)..... | 342 | Issuer Standard Variable Rate | 340 |
| FSMA | 13 | JCC | 249 |
| Fund..... | 261 | Kermia | 244 |
| GCD..... | 244 | KPI..... | 244 |
| GCEO | 287 | Laiki Bank | 4 |
| GCRO | 287 | Laiki Shares | 285 |
| GDP | 41 | Laiki Transfer Decrees | 279 |
| GHES..... | 149, 223 | Late Payment | 105 |
| GIC | 261 | Late Payment Date..... | 105 |
| GIIN..... | 275 | Law | 348 |
| Global Covered Bond | 84, 115 | Laws..... | 348 |
| Global Covered Bonds | 115 | LCR | 295 |
| Governance Directive..... | 64 | Lending Criteria..... | 335 |
| Government | 41 | LFS | 237 |
| Greek Operations Decree | 286 | Liabilities | 108 |
| Group..... | 4 | Liability | 108 |
| GVA | 321 | LIBOR | 334 |
| HCMC | 62, 247 | Liquidity Test | 27 |
| Hedging Agreements | 33 | listed..... | 1 |
| Hedging Counterparties..... | 11 | Listing Agent | 12 |
| Hedging Counterparty | 11 | Loan | 19 |
| holder of Covered Bonds..... | 86 | Loan Asset..... | 19 |
| holders | 85 | Loan Origination Directive..... | 266 |
| IAS..... | 4, 53 | Loan Provisioning Directive..... | 268 |
| IBS..... | 51 | Loan to Value Test | 22 |
| ICB | 240 | Long Maturity Covered Bond..... | 98 |
| ICSD..... | 86 | LRO | 330 |
| IFRS..... | 4 | LTV | 22 |
| IGA | 349 | Luxembourg Act..... | 1 |
| IGAs | 275 | Marfin Bank Romania | 46 |
| Income Tax Law | 346 | Margin | 14 |
| Information Memorandum | 218 | Master Definitions and Construction Schedule..... | 85 |
| Interest Amount | 91 | Member State..... | 63 |
| Interest Commencement Date | 97 | MEMO..... | 330 |
| Interest Payment Date..... | 90, 97 | MiFID | 261 |
| Interest Payment Dates | 97 | MiFID II | 261 |
| Interest Period..... | 90, 97 | MiFIR | 261 |
| Interest Rate Swap..... | 340 | Minimum Rate of Interest..... | 101 |
| Interest Rate Swap Agreement | 340 | Modified Following Business Day Convention..... | 94 |
| Interest Rate Swap Early Termination Event..... | 341 | | |

| | | | |
|-----------------------------------------------------|----------------|-------------------------------------------------------------------------|---------|
| Mokas | 270 | PSD | 264 |
| Money Laundering Activities Laws | 269 | PSD2 | 264 |
| Monthly Investor Report | 25 | Put Notice | 103 |
| Monthly Report | 339 | Rate(s) of Interest | 101 |
| Moody's | 1 | Rating Agencies | 12 |
| MoU | 42 | Rating Agency | 12 |
| MR | 293 | RBS | 212 |
| NCA | 252 | Recalcitrant Holder | 349 |
| NCAs | 253 | Recapitalisation | 280 |
| New Asset Type | 339 | Receiptholders | 102 |
| New Company | 112 | Redeemed Covered Bonds | 103 |
| New Deposits | 283 | Reference Price | 102 |
| New Residence | 113 | Register of Approved Institutions | 130 |
| NGCB | 99, 115 | Regulation S | 3 |
| Nominal Value Reduction | 219 | Related Security | 19 |
| Non-Forward Starting Covered Bond Swap | 342 | Relevant Date | 108 |
| Notice of Default | 34, 101, 107 | relevant Dealer | 1 |
| NPL Directive | 268 | Relevant Implementation Date | 352 |
| NPLs | 316 | Relevant Member State | 6, 352 |
| OC Percentage | 28, 138 | Rescheduled Loan | 22, 133 |
| OC Percentage Notice | 28, 138 | Reset Date | 90 |
| offer of Covered Bonds to the public | 353 | Resolution Authority | 62 |
| Official List | 1 | Resolution Law | 62, 326 |
| Open Offer | 218 | Restructuring Plan | 48 |
| Open Offer Shares | 219 | RMD | 287 |
| Optional Redemption Amount(s) | 101, 103 | Romanian Operations Decree | 46, 286 |
| Optional Redemption Date | 103 | RRD | 195 |
| OTC | 65 | RUB | 178 |
| Participating FFI | 349 | Russian Rouble | 178 |
| participating Member States | 252, 350 | RWA | 48 |
| Paying Agents | 11, 84, 339 | RWAs | 288 |
| Payment Day | 100 | Scheme | 35 |
| Permanent Global Covered Bond | 115 | Screen Rate Determination | 90, 102 |
| Piraeus Bank | 279 | Securities Act | 3 |
| Placing | 218 | SEK | 282 |
| Placing Price | 218 | SEPA | 264 |
| Placing Shares | 218 | SEPA Regulation | 264 |
| Post-Dissolution Stress Tests | 29 | Series | 85 |
| Post-Event of Default Priority of Payments | 38, 39, 88, 89 | Series Reserved Matter | 111 |
| Potential Event of Default | 101 | Set-off Reserve | 30 |
| Preceding Business Day Convention | 94 | Shareholding Agreement | 250 |
| Pre-Event of Default Priority of Payments | 36, 87 | SME | 57 |
| Present Value Test | 27 | SMP | 330 |
| Principal Amount Outstanding | 97 | Solvency II | 261 |
| Principal Paying Agent | 11, 84 | Special Contribution for the Defence Fund of the Republic Laws | 346 |
| Priorities of Payments | 39, 89 | Specified Currency | 84, 85 |
| Priority of Payments | 39, 89 | Specified Denomination | 84 |
| Programme | 1 | Specified Denomination(s) | 85 |
| Programme Agreement | 352 | Specified Period | 90 |
| Programme Resolution | 110 | Specified Time | 339 |
| Prospectus Directive | 2, 84, 353 | SRB | 256 |
| Prospectus Law | 354 | SRF | 256 |
| Prospectus Regulation | 10 | SRM | 256 |
| | | SRM Regulation | 256 |

| | | | |
|------------------------------------------|---------|---------------------------------|--------|
| SSM | 62 | Territories | 348 |
| Stabilisation Manager | 9 | Nominal Value Test | 27 |
| Stamp Duty Law | 346 | Themis | 250 |
| Standard & Poor's | 212 | Title A | 282 |
| Statutory Eligibility Criteria | 20, 131 | Title B | 282 |
| Statutory Tests | 26 | TLTROs | 46 |
| Statutory Value | 22 | Transaction Account | 31 |
| Subordinated Termination Payment | 38, 88 | Transaction Documents | 40 |
| Subscription Agreement | 40 | Treaty | 102 |
| Supervisory Over-collateralisation | 27, 137 | Troika | 42 |
| Supreme Court | 67 | Trust Deed | 84 |
| Swap Collateral | 33 | Trustee | 11, 84 |
| Swap Collateral Excluded Amounts | 32 | UK Loan Portfolio | 217 |
| Talons | 85 | Uniastrum | 46 |
| TARGET2 | 94 | Union | 312 |
| TARGET2 Business Day | 134 | United States | 98 |
| TARGET2 System | 94 | VAT | 38 |
| Tax Deduction | 106 | VRS | 60 |
| Temporary Global Covered Bond | 115 | Weighted Maturity Test | 27 |
| Terms and Conditions | 118 | Zero Coupon Covered Bonds | 14 |

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