

## 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)

## €3 billion Covered Bond Programme

Under this €3 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). However, unlisted Covered Bonds may be issued pursuant to the Programme. The applicable Final Terms (as defined hereinafter) in respect of the issue of any Covered Bonds will specify whether or not such Covered Bonds will be listed on the Official List and admitted to trading on the Luxembourg Stock Exchange (or any other stock exchange).

The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed €3 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](http://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**

**BNP Paribas  
BofA Merrill Lynch  
HSBC**

**J.P. Morgan  
Deutsche Bank**

The date of this Base Prospectus is 19 November 2015.

## 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**), with regard to the Issuer and its subsidiaries and affiliates taken as a whole (the “**Group**”).

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 €3 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 Issuer's audited consolidated financial statements as at and for the year ended 31 December 2013 (that includes comparative information for the year ended 31 December 2012) (the "**2013 Audited Financial Statements**") and the Issuer's audited consolidated financial statements as at and for the year ended 31 December 2014 (that includes comparative information for the year ended 31 December 2013 (the "**2014 Audited Financial Statements**") included in this Base Prospectus were prepared in accordance with International Financial Reporting Standards ("**IFRS**") as adopted by the EU and audited by the Issuer's independent auditor, Ernst & Young Cyprus Limited. The Issuer's unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2015 (which includes comparative information for the six months ended 30 June 2014 in respect of income statement and other comprehensive income items and 31 December 2014 in respect of balance sheet items) (the "**June 2015 Unaudited Financial Statements**") were prepared in accordance with International Accounting Standard ("**IAS**") 34 as adopted by the EU and the Group's external auditors have conducted a review in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity".

The auditor's audit opinion in relation to the 2013 Audited Financial Statements is qualified and contains an emphasis of matter with respect to going concern. The 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 audit opinion in relation to the 2014 Audited Financial Statements is qualified with respect to 2013 comparative information as a result of the above mentioned qualifications and contains an emphasis of matter with respect to going concern. The auditor's report in relation to the June 2015 Unaudited Financial Statements contains an emphasis of matter with respect to going concern. For more information, see "*Risk Factors—The independent auditor's reports in respect of the Issuer's consolidated financial statements for the year ended 31 December 2013 and 2014, respectively, are qualified and contain an emphasis of matter. The independent auditor's review conclusion in respect of the Issuer's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2015 contains an emphasis of matter.*".

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

The Group prepares its financial statements in euro. The euro is the common legal currency of the Member States participating in the third stage of the European Economic and Monetary Union, including Cyprus.

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

Certain monetary amounts and other figures included in this 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. Unless otherwise stated, financial amounts and ratios are disclosed or computed inclusive of relevant items classified as held for sale.

Certain information contained in this 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 Statistical Service

of the Republic of Cyprus, the Insurance Association of Cyprus, the Cooperative Central Bank, the European Commission and the International Monetary Fund. The 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 Statistical Service of the Republic of Cyprus, the Insurance Association of Cyprus, the Cooperative Central Bank, the European Commission and the International Monetary Fund, no facts have been omitted which would render the reproduced information inaccurate or misleading.

## **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.

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## **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 (in the case of listed Covered Bonds only), a supplement to the Base Prospectus or a new Base Prospectus, if appropriate, 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

<b>Issuer</b>	Bank of Cyprus Public Company Limited (the <b>Issuer</b> ).
<b>Competent Authority</b>	Central Bank of Cyprus as defined in the Central Bank of Cyprus Law, Law 138(I)/2002 (as amended) (the <b>Competent Authority</b> ).
<b>Arrangers</b>	BNP Paribas, London Branch and J.P. Morgan Securities plc (the <b>Arrangers</b> and each an <b>Arranger</b> ).
<b>Dealers</b>	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, Deutsche Bank Aktiengesellschaft, HSBC France and Merrill Lynch.
<b>Covered Bond Monitor</b>	<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 <b>Covered Bond Monitor</b>) 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 <b>Covered Bond Monitor Agreement</b>).</p> <p>For further information see "<i>Overview of the Covered Bond Legislation</i>" and "<i>Description of Principal Documents</i>" below.</p>
<b>Covered Bond Business Administrator</b>	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 <b>Covered Bond Business</b>

**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 €3 billion Covered Bond Programme.

**Programme Amount**

Up to €3 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

<b>Bonds</b>	<p>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.</p> <p>See further "<i>— Cross-collateralisation</i>" below.</p>
<b>Taxation</b>	<p>As set out in Condition 7 (<i>Taxation</i>) 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.</p>
<b>Status of the Covered Bonds</b>	<p>The Covered Bonds are issued on an unconditional basis and in accordance with the Covered Bond Law, Law 130/2010 (the <b>Cypriot Covered Bond Law</b>) and the Covered Bond Directive dated 23 December 2010, issued by the Competent Authority under the Cypriot Covered Bond Law (the <b>Cypriot Covered Bond Directive</b> and, together with the Cypriot Covered Bond Law, the <b>Covered Bond Legislation</b>).</p>
<b>Cover Pool Register</b>	<p>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 <b>Cover Pool Register</b>), 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 <b>Cypriot Statutory Charge</b>).</p> <p>See further "<i>Overview of the Covered Bond Legislation</i>" and "<i>Cross-collateralisation</i>" below.</p>
<b>Payments on the Covered Bonds</b>	<p>Payments on the Covered Bonds will be direct and unconditional obligations of the Issuer.</p> <p>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.</p> <p>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.</p> <p>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</p>

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 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. As specified in the applicable Final Terms, a Series of Covered Bonds may be unlisted.

#### **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*:
  - (i) prior to any Series of Covered Bonds becoming Pass Through Covered Bonds and 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.
  - (ii) at any time after any Series of Covered Bonds become Pass Through Covered Bonds, provided that the Portfolio Manager is not engaged in the process of the sale of the Selected Loans and provided that the Cover Pool Adequacy Criteria are satisfied, remove Selected Loans from the Cover Pool and pay an amount equal to the principal balance of such Selected Loans plus any Accrued Interest to the Transaction Account.

**Pass Through Covered Bonds** means on and following a failure of the Issuer to pay the Final Redemption Amount on the Covered Bonds of any Series on their Final Maturity Date:

- (a) prior to a breach of the Cover Pool Adequacy Criteria, such Series of Covered Bonds in respect of which the Final Redemption Amount has not been paid in full on their Final Maturity Date (taking into account any applicable grace periods); and
- (b) following a breach of the Cover Pool Adequacy Criteria, all outstanding Series of Covered Bonds.

**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.

#### **Required changes to the Cover Pool**

The Issuer shall, subject to first notifying the Competent Authority and with the consent of the Trustee, as soon as possible, following the occurrence of a failure by the Issuer to pay the Final Redemption Amount of a Series of Covered Bonds on the Final Maturity Date, use reasonable endeavours to appoint a portfolio manager to sell Selected Loans (as defined below) and their Related Security on behalf of the Issuer and the Trustee) (the **Portfolio Manager**) who shall try, subject to certain conditions, to sell Loans and their Related Security in the Cover Pool in respect of the relevant Series of Pass Through Covered

Bonds having the Required Outstanding Principal Balance Amount (the **Selected Loans**).

Prior to the Portfolio Manager making any offer to sell the Selected Loans and their Related Security, and provided that no Insolvency Event has occurred and is continuing, the Issuer shall have a right to prevent the sale by the Portfolio Manager of all or part of the Selected Loans to third parties by removing all or part of the Selected Loans made subject to the sale from the Cover Pool and transferring an amount equal to the outstanding principal balance of the relevant portion of the Selected Loans and the relevant portion of all arrears of interest and Accrued Interest relating thereto to the Transaction Account.

**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;
- (o) Each Cypriot Loan has been originated by the Issuer in compliance with the Lending Criteria applicable at the time of origination; and
- (p) Each Cypriot Loan has a maturity date which falls 54 years or less after the latest Final Maturity Date to occur in relation to

the Covered Bonds then in issue (the Covered Bonds in relation to which such Final Maturity Date applies being the **Latest Maturing Covered Bonds** ).

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/](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 will be responsible for overseeing the

## **the Covered Bond Monitor and CBM Report**

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.

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 other than amounts allocated to pay amounts due in respect of a Series of Covered Bonds on the immediately preceding Cover Pool Payment 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; and
- (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 other than (prior to the date on which any Series of Covered Bonds become Pass Through Covered Bonds), any proceeds to be applied to acquire new Complementary Assets.

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 Extended Final Maturity Date 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**

Pursuant to the Covered Bond Legislation, the Competent Authority has

**Bond Business Administrator**

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 Liquidity Test 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;
  - (A) first, *pari passu*, in respect of each Series of Covered Bonds which does not have an Extended Final Maturity Date, the Final Redemption Amount on the Final Maturity Date in respect of each such Series of Covered Bonds which has a Final Maturity Date on the Cover Pool Payment Date or to provide for all such Final Redemption Amounts that will become due and payable in respect of each such Series of Covered Bonds which has a Final Maturity Date occurring after the Cover Pool Payment Date and prior to the next following Cover Pool Payment Date;
  - (B) second, (I) *pari passu*, in respect of each Series of Pass Through Covered Bonds which has an Extended Final Maturity Date that falls within 6 months of the relevant Cover Pool Payment Date, principal in respect of each Series of Pass Through Covered Bonds then outstanding 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 Liquidity Test (if any) on any such Series of Pass Through Covered Bonds, and then to pay (II) *pari passu*, in respect of each Series of Covered Bonds which has an Extended Final Maturity Date and has not become Pass Through Covered Bonds, the Final Redemption Amount on the Final Maturity Date in respect of each such Series of Covered Bonds which has a Final Maturity Date on the Cover Pool Payment Date or to provide for all such Final Redemption Amounts that will become due and payable in respect of each such Series of Covered Bonds which has a Final Maturity Date occurring after the Cover Pool Payment Date and prior to the next following Cover Pool Payment Date;

- (v) then, to pay *pari passu* and *pro rata*, (in respect of each Series of Pass Through Covered Bonds which has an Extended Final Maturity Date that does not fall within 6 months of the relevant Cover Pool Payment Date) principal in respect of each Series of Pass Through Covered Bonds then outstanding 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 (if any) on any such Series of Pass Through Covered Bonds;
- (vi) 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;
- (vii) then, following the date on which any Series of Covered Bonds becomes Pass Through Covered Bonds, to pay all remaining amounts to the Transaction Account; and
- (viii) 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 (viii)(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, 11 November 2014, 29 September 2015 and 19 November 2015) 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, 11 November 2014, 29 September 2015 and 19 November 2015) 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 challenging economic conditions in Cyprus have had, and are likely to continue to have, a material adverse effect on the Issuer.***

As of 31 December 2014, 93.9% and 91.2% of the Issuer's total assets and total liabilities, respectively, and 96.5% of the Issuer's total income from continuing operations in 2014, were derived from its operations in Cyprus. As of 30 June 2015, 93.7% and 90.5% of the Issuer's total assets and total liabilities, respectively, and 97.4% of the Issuer's total income from continuing operations for the first half of 2015, were derived from its operations in Cyprus. Given its high credit exposure to Cypriot businesses and households, the 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 5.9% in 2013, with a decline in all components in domestic demand. The recession continued through 2014, with the decline in real GDP of 2.5%. The Cyprus economy has shown signs of stabilisation in the first half of 2015 with real GDP in the second quarter of 2015 increasing by 0.9% over the corresponding quarter of 2014 on a seasonally adjusted basis (Statistical Service of the Republic of Cyprus, 14 August 2015). In the labour market, unemployment remains high, with an average unemployment rate of 16.1% in 2014 and an average of 15.8% in the first half of 2015 on a seasonally adjusted basis according to Eurostat.

While the Cypriot economy has shown signs of stabilisation in the first half of 2015, the economic outlook remains challenging for Cyprus, particularly as a result of continuing high unemployment rates and high levels of indebtedness that will continue to constrain the supply of credit. Accordingly, GDP growth is expected to remain at around 2 per cent over the medium term which is below pre-economic crisis levels, reflecting subdued private consumption and investment growth as a result of these factors (IMF Country Report for Cyprus No. 15/271, September 2015).

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

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

Accordingly, should the recovery of the Cypriot economy falter or decline as a result of any of the above or other factors, this could have a material adverse effect on the 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 the EAP with Troika on 2 April 2013. The EAP covers the period from 2013 to 2016 and incorporates a financial assistance package for Cyprus of up to €10 billion. The Memorandum of Understanding (as amended, **MoU**) prepared by the Troika and approved by the European Stability Mechanism (**ESM**) on 24 April 2013, specifies the conditions to be met for the first and subsequent disbursements of ESM financial assistance, which include measures related to revenue, public expenditure, as well as pension and health care reform. The MoU has addressed, and continues to address, both short and medium term financial, fiscal and structural challenges facing Cyprus through, among other things, the restructuring of financial institutions in Cyprus, correcting the governmental deficit by reducing expenditure and enhancing revenue collection, and implementing structural reforms to support competitiveness and growth. For a further discussion of the MoU and EAP and the status of Cyprus' compliance with the requirements of the MoU, see "*The Macroeconomic Environment in Cyprus*".

The MoU sets a number of targets for the Government, including limits on governmental expenditures and debt which is periodically reassessed and amended by the Troika. Achieving these targets has required and will continue to require the government to implement a number of austerity measures. In addition, the MoU sets out an agenda for privatisation and reforms to the labour market and the pension and welfare systems which may prove unpopular and be difficult for the Government to implement. Many of these austerity measures and reforms involve changes to Cypriot legislation which require parliamentary approval and, accordingly, will be subject to debate and intense lobbying by trade unions and other vested interests opposed to these changes. For example, the adoption of insolvency and foreclosure law reforms was delayed until the beginning of 2015 as a result of opposition political parties passing a series of separate supplementary bills which conflicted with the main objectives of these reforms. In particular, as a result of the Cypriot parliament's decision to suspend, in September 2014, the entry into force of the foreclosure law reforms until 30 January 2015, the IMF decided to postpone its decision to release its contribution of funds under the EAP. Accordingly, any failure to comply with the conditions, requirements and timetable of the MoU could lead to the Troika withholding the release of funds by the ESM and IMF, which could have a material adverse effect on the Government's ability to meet its debt obligations, on the economy of Cyprus and, consequently, on the Issuer. Moreover, there can be no assurances that financial assistance to the Government from the Troika will continue in the future as a result of increasing public discontent regarding the support of Cyprus and other Eurozone countries.

While it is expected that the austerity measures and reforms promulgated under the MoU will ultimately restore the health of the Cypriot economy, in the short to medium term they (as with austerity measures adopted in other countries) may have an adverse impact on growth and public and private expenditure in Cyprus and the Government may engage in other measures aimed at alleviating the economic crisis in general. Accordingly, unless and until the expected macroeconomic benefits from the MoU appear on a sustained basis, the 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.

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.

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

The Group is one of the largest providers of loans in Cyprus and has a significant exposure to the financial performance and creditworthiness of companies and individuals in Cyprus. As of 30 June 2015, the Group accounted for 38.5% of gross loans in the Cypriot banking system (based on the Central Bank of Cyprus CBC data) and the Group's loans and advances to customers in Cyprus accounted for 88.6% 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. In addition, the Group's loans and advances to customers (net of provisions and fair value adjustment on initial recognition and excluding held for sale loans and advances)

declined from €21.8 billion as at 31 December 2013 to €18.2 billion as at 31 December 2014 and €18.1 billion as at 30 June 2015. The Group's loans that were 90+DPD increased from €5.0 billion as at 31 December 2011 to €13.0 billion as at 31 December 2013. It should be noted that 90+DPD loans decreased to €12.7 billion as at 31 December 2014 and then to €12.6 billion as at 30 June 2015. The ratio of loans that were 90+DPD to gross loans (the **90+DPD Ratio**) was 53.2% and 52.9% as at 31 December 2014 and 30 June 2015, respectively.

Similarly, the Issuer's Non Performing Exposures (calculated on the basis of the definition contained in the Commission Implementing Regulation (EU) 2015/227 of 9 January 2015, NPEs) show a decrease from €15.0 billion as at 31 December 2014 to €14.8 billion as at 30 June 2015. For an explanation of the definition of NPEs, see "*Regulation and Supervision of Bank in Cyprus— CBC Credit Risk Directives—Directive on Loan Impairment and Provisioning Procedures of 2014 and 2015*". As the decrease in both 90+DPD loans and NPEs from 31 December 2014 is relatively small and mostly a result of the Issuer's disposal of non-core assets, there can be no assurance that the Group will be able to maintain a decrease in the Group's delinquent loans. If the financial performance and creditworthiness of the Group's borrowers in Cyprus worsen or do not improve, the quality of the Group's domestic loan portfolio will deteriorate further and, consequently, this would have a material adverse impact on the Group's financial condition and results of operations.

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

In the years prior to 2009, population increase, economic growth, declines in unemployment rates and increases in levels of household disposable income, together with low interest rates within the EU and increased foreign demand, led to an increase in the demand for mortgage loans in Cyprus. This increased demand and the widespread availability of mortgage loans affected housing prices, which rose significantly. After this buoyant period, Cyprus' real estate market began to decline mainly as a result of the global financial crisis from late 2008 onwards. As a result of the Cypriot economic crisis, Cyprus suffered its largest declines in real estate prices in 2013 and 2014 on an annual basis. The residential property price index maintained by the CBC recorded an 8.8% annual average decrease in 2014 following an annual average decrease of 6.5% in 2013. In the first half of 2015, the residential property price index recorded a further average decrease of 5.8% (on a year-on-year basis).

The Group has substantial exposure to the Cypriot real estate market and the continuing deterioration of Cypriot real estate prices could materially and adversely affect its business, financial condition and results of operations. The Group is exposed to the Cypriot real estate market due to a significant portfolio of own use and investment properties in Cyprus with a total book value of €580.4 million as of 30 June 2015 and due to the fact that Cypriot real estate assets secure a substantive proportion of its outstanding loans. Furthermore, the Group has restructured certain of the loans it has made relating to real estate and the capacity of the borrowers to repay those restructured loans may be materially adversely affected by declining real estate prices. Further, the Group's ability to sell real estate (in case of foreclosure) is limited by the continuing depression in the Cypriot real estate market both in terms of price and demand. In particular, the depression in real estate prices could be exacerbated if a significant proportion of the real estate for sale in Cyprus is comprised of foreclosed real estate. If Cypriot real estate prices continue to decline over a prolonged period, the Group's business may be materially adversely affected, which could materially and adversely affect its financial condition and results of operations.

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

In 2010, the U.S. Geological Survey estimated that the Levant Basin, which is located along the shores of Syria, Lebanon, the Palestinian Territories, Israel and Cyprus, has mean probable undiscovered oil resources of approximately 1.7 billion barrels and mean probable undiscovered natural gas resources of approximately 122 trillion cubic feet. The MoU provides for the development of these domestic oil and natural gas reserves as a medium to long term prospect for the reduction of Cyprus' energy import dependency and energy prices

which, in turn, would have a positive impact on the Cypriot economy. However, all estimates of energy reserves involve a measure of geologic and engineering uncertainty which could result in lower production and reserves than anticipated and, accordingly, the energy reserves in the Levant Basin may not be as large, or recoverable, as initially estimated. In addition, the successful development of these energy reserves involve significant challenges in terms of financing and planning the infrastructure required to exploit these energy reserves, designing efficient energy markets and implementing an adequate regulatory regime. Accordingly, there can be no assurance that the development of the Cyprus' domestic oil and natural gas reserves will be successful or result in a positive impact on the Cypriot economy.

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

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

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

- changes in the level of interest rates imposed by the ECB;
- fluctuations in consumer confidence and the level of consumer spending;
- EU regulations and directives relating to the banking and other sectors;
- political instability or military conflict that impact Europe and/or on other regions (see "*—The Group is exposed to, and may be adversely affected by, economic and political events in Russia, Ukraine and Romania.*"); and
- taxation and other political, economic or social developments affecting Cyprus, Russia, the United Kingdom or the EU. For example, on 1 January 2015, a new law in Russia came into force which proposes to impose tax on the income of companies that are registered in offshore jurisdictions (such as Cyprus) and are owned by Russian ultimate beneficiaries. This new law may have a material adverse impact on the 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. In particular, there could be a material negative impact on the financial and political resources of Cyprus and the European Union as a result of the recent Syrian war and the related refugee crisis, the resolution of which remains subject to divergent political debate between the member states of the European Union and, consequently, uncertain.

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

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

Since the second half of 2007, disruption in the global credit markets has created increasingly difficult conditions in the financial markets. These conditions have resulted in decreased liquidity and greater volatility in global financial markets, and continue to affect the functioning of financial markets and the global economy.

Although some countries have begun to recover, this recovery may not be sustainable and could be impacted by deteriorations in emerging market economies which have been particularly affected by a combination of economic events in 2015, including a significant drop in oil and other commodity prices, tighter external financial conditions, China's economic slowdown and other economic distress related to geopolitical factors. In its World Economic Outlook October 2015 update, the IMF reduced the global growth projections for 2015 to 3.1% which was mainly due to a further slowdown in emerging markets and a weaker recovery in advanced economies. The growth in the United States was weaker than expected in the first half of the year. The economic activity in some advanced emerging markets, such as Korea, was also weaker than expected. The economic recovery in the Eurozone appears broadly on track, with a recovery in domestic demand and inflation beginning to increase. However, this recovery is still substantially dependent on the continuing adoption by the ECB and the national banks of monetary easing policies and, consequently, the availability of monetary policy tools such as targeted longer-term refinancing operations (TLTROs), a third covered bond purchase programme (CBPP3) and an asset-backed securities purchase programme (ABSPP). In January 2015, an expanded asset purchase programme (APP) was launched. Accordingly, the continuing recovery of the global economy remains subject to the continued employment of accommodative and expansionary monetary policies by major economies and there can be no assurance that the governments of these economies will continue to do so or that the employment of these policies will be sufficient to address the fiscal risks which remain. In particular, in Europe, despite measures taken by several governments, international and supranational organisations and monetary authorities to provide financial assistance to Eurozone countries in economic difficulty and to mitigate the possibility of default by such countries on their sovereign debt obligations, concerns persist regarding the debt and/or deficit burden of certain Eurozone countries, including Cyprus, and their ability to meet future financial obligations, given the diverse economic and political circumstances in individual member states of the Eurozone. The economic events in Greece during the first half of 2015 highlighted the weaknesses and deficiencies of the Eurozone's economic and monetary union in preventing the build-up of fiscal, financial and other macroeconomic risks in its member states.

As a result of the foregoing risks concerning the continued recovery of the global economy, the Group's ability to access the international capital and financial markets to meet the financial requirements of the Group may be adversely impacted and costs of financing may significantly increase. This could materially and adversely affect the business, financial condition and results of operations of the Group.]

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

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

Both Romania and Russia have been adversely affected by the global economic crisis and continue to face economic conditions which are challenging and volatile. According to the IMF World Economic Outlook October 2015 update, Russia's real GDP growth slowed to 1.3% in 2013 and to 0.6% in 2014. As a result of recent declines in oil and commodity prices, the devaluation of the Russian rouble and the imposition of economic sanctions against Russia in connection with the continuing unrest in Ukraine, Russia's real GDP is expected to contract by 3.8% in 2015. While Romania's GDP growth was 3.4% in 2013, this was preceded by GDP growth of 0.6% in 2012 according to the IMF and GDP growth slowed down to 2.8% in 2014. In addition, Romania has suffered several waves of social unrest from 2012 to 2013 and benefited from EU financial assistance three times, the latest having been agreed in October 2013.

The adverse economic situation in Russia was exacerbated by events related to the accession of Crimea to the Russian Federation in March 2014 and subsequent unrest by Russian separatists in Eastern Ukraine following the presidential elections in Ukraine in May 2014. Following these events, both the European Union (the **EU**) and the United States have imposed and maintained economic sanctions against Russia and certain Russian citizens and entities. This unrest in Ukraine has had a significant negative impact on Ukraine's economy which contracted by 6.8% in 2014 and is expected to contract further by 9% in 2015 according to the IMF World Economic Outlook October 2015 update. As mentioned above, the imposition of economic sanctions against Russia is one of the significant factors behind the current adverse economic situation in Russia. While Romania has not been directly involved or affected by the recent events in Ukraine, it shares a border with Ukraine and its economy could be indirectly affected by any negative impact that these events have on Ukraine's or Russia's economy.

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

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

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

The political, economic and budgetary challenges faced by Greece with respect to the public debt burden and weakening economic prospects have led to sequential ratings downgrades during 2010, 2011 and 2012 by international rating agencies. In February 2015, uncertainty over Greece's prolonged negotiations with its creditors and increasing fears of a sovereign debt default by the Greek government caused further ratings downgrades. In late June 2015, the Greek government announced that a referendum would be held on 5 July 2015 to approve or reject the latest economic programme proposals from the Troika and its creditors. The rejection of these proposals in the referendum precipitated a fall in stock exchange indices worldwide as investors' fears of Greece's exit from the European Union and the potential contagion resulting from the collapse of the Greek financial sector and economy increased. On 13 July 2015, Greece reached an agreement with its creditors to begin negotiations for a third bailout programme. On 11 August 2015, Greece

and its creditors reached an agreement on the terms of a third three year programme, which was worth €86 billion, including €25 billion for bank recapitalisation. Greece's third bail-out programme was approved by Eurozone finance ministers on 14 August 2015 and was further ratified by the German parliament on 19 August 2015. Greek Prime Minister Alexis Tsipras resigned soon after and called an early election for 20 September 2015. The election returned the Syriza party, a left wing coalition with a small right wing party, the Independent Greeks.

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

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

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

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

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

Moreover, from November 2014, the Issuer came under the supervision of the ECB following the latter's assumption of its supervisory responsibilities under Regulation (EU) No 1024/2013 (the **ECB Regulation**), adopted on 15 October 2013 with the goal of establishing a single supervisory mechanism to oversee and unify credit institutions in the Eurozone. Accordingly, the Group's compliance with the prudential

requirements of CRD IV/CRR is significantly dependent on the ECB's interpretation and decisions in relation to these requirements following its periodic inspections of the Group within the scope of the ECB Regulation. In particular, the ECB is currently in the process of conducting the Supervisory Review and Evaluation Process (**SREP**) and onsite inspections on the Group. SREP is a holistic assessment of, amongst other things: the Group's business model, internal governance and institution-wide control arrangements, risks to capital and adequacy of capital to cover these risks and risks to liquidity and adequacy of liquidity resources to cover these risks. The onsite inspections focused on an assessment of the Group's liquidity coverage, risk management and credit and counterparty risks. The final outcomes of the SREP and the onsite inspections are expected to be communicated to the Issuer before the end of 2015.

The ECB, as the Issuer's competent authority, has power, among others, to apply a specific provisioning policy or treatment of assets in terms of own funds requirements for the purposes of CRD IV as well as requirements in relation to capital and liquidity. Accordingly, additional capital and other requirements could be imposed on the Group as a result of these supervisory processes, including a revision of the level of Pillar II add-ons as the Pillar II add-on capital requirements are a point-in-time assessment and therefore subject to change over time. Additional capital and/or liquidity requirements could lead to increased costs for the Issuer, limitations on the Issuer's capacity to lend and further restructuring of the Group which could have a material adverse effect on the business, financial condition and results of operations of the Group. In addition, there can be no assurance that the Issuer will be able to raise the additional capital required or expected by the market and any failure to do so could have a material adverse effect on its reputation, financial condition and results of operation.

Furthermore, the assumption by the ECB of its supervisory responsibilities under the ECB Regulation and implementation of a more demanding and restrictive regulatory framework, with respect to, amongst other things, capital ratios, leverage, liquidity and disclosure requirements, notwithstanding the benefit to the financial system, will imply additional costs for banks. Compliance with new regulations might also restrict certain types of transactions, affect the 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 Investors Service (**Moody's**) of Caa3 with a stable outlook, and a long-term issuer default rating from Fitch Ratings Ltd. (**Fitch**) of CCC. These ratings reflect in part the sovereign ratings of Cyprus (B1 from Moody's, BB- from Standard & Poor's and B+ from Fitch). 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*"), a downgrade of Cyprus' rating may occur in the event of a failure to implement the requirements of the MoU or if the structural reforms implemented under the MoU do not produce the economic results expected. Accordingly, the cost of funding for Cyprus would increase, with negative effects on the cost of funding and credit ratings for Cypriot banks. A downgrade of the Issuer's credit rating (including as a result of any 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. 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. 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 ELA funding at the acquisition date to be transferred to the Issuer. As of 31 December 2014 and 30 June 2015, 37.3% and 30.7%, respectively, of the Group's funding was comprised of funding from central banks, of which, €7.4 billion and €5.9 billion, respectively, was ELA funding.

Central bank funding that the 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, own issued Government guaranteed securities and retained covered bonds as well as the value of its loan portfolio, which may also decline in value. If the value of the 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 (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. Moreover, the EAP will expire in March 2016. If no backstop facility or other arrangement is put in place it is likely that the Cypriot government bonds will cease to be eligible collateral for Eurosystem monetary operations as of that date, and they will only be eligible as collateral for ELA funding. For a discussion of the Issuer's liquidity risk management, funding and liquidity sources and liquidity reserves, see "*Risk Management—Liquidity and Funding Risk*" and "*Risk Management – Funding and Liquidity Sources*".

In the case of a loss of deposits and/or a need for additional central bank funding, there may be an exhaustion of collateral eligible for funding through these facilities.

***A material decrease in funds available from customer deposits, particularly retail deposits, could impact the Group's funding.***

One of the Issuer's principal sources of funds is customer deposits. As of 31 December 2014 and 30 June 2015, customer deposits accounted for 59.2% and 65.4%, 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, any significant deterioration in economic conditions in Cyprus and the availability and extent of deposit guarantees. Any of these factors separately or in combination could lead to a sustained reduction in the Issuer's ability to access customer deposit funding on appropriate terms in the future. By way of example, the uncertain state of the Cyprus economy and the bail-in of depositors of the Issuer pursuant to the recapitalisation of the Issuer effected by the Resolution Authority through the issue of the Bail-in Decrees (**Recapitalisation**) in 2013 resulted in losses suffered by depositors which would have likely resulted in significant deposit outflows from Cyprus if the Government had not imposed capital controls on the withdrawal of funds. Although all capital control measures in Cyprus were fully lifted in April 2015, any future deterioration in the Cypriot economy or resolution of the Issuer could precipitate another loss of confidence by depositors in the Issuer, 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, which it may be unable to secure.

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

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

The ECB's governing council has declared that it will continue with the main refinancing operations by means of fixed-rate tenders fulfilling all requests of the demand for as long as this is necessary and at least until December 2016. The ECB has also stated that it will accept all requests for 3-month operations carried out by that date and at a rate equal to the average of the main refinancing operations (**MRO**) during the applicable 3-month period. On 9 March 2015, the ECB commenced its public sector purchase programme (**PSPP**) of marketable debt instruments issued by euro area central governments, certain agencies located in the euro area or certain international or supranational institutions located in the euro area. Countries under the financial assistance programme are eligible for the PSPP subject to certain conditions. The minimum rating condition of the PSPP is suspended as long as the country remains on track with the financial assistance programme (see "*—Risks Relating to the Economic Crisis in Cyprus—The implementation, conditions and requirements of the MoU entered into between Cyprus and the Troika, and any government*").

*actions aimed at alleviating the economic crisis, are uncertain and may create adverse results or have an adverse effect on the Issuer”). The window of purchases opens only when a positive review is granted and approved by the boards of the ruling bodies (i.e. the ECB, IMF and ESM) and closes when the next review on the ground commences.*

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

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

Deferred tax assets are recognised by the Group in respect of tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies. These variables have been established on the basis of significant management judgment and are subject to uncertainty. As of 30 June 2015, the Group had recognised deferred tax assets of €449.0 million, mainly as a result of Laiki Bank's tax losses transferred to the Issuer in accordance with the Laiki Transfer Decrees (as defined in “*Restructuring of the Issuer and Laiki Bank*”). The deferred tax asset recognised on the transfer of these tax losses from Laiki Bank amounted to €417.0 million and can be set off against the taxable future profits of the 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 independent auditor's report in respect of the Issuer's 2013 Audited Financial Statements and 2014 Audited Financial Statements, respectively, are qualified and contain an emphasis of matter. The independent auditor's review conclusion in respect of the Issuer's June 2015 Unaudited Financial Statements contains an emphasis of matter.***

The independent auditor's report in respect of the Issuer's 2013 Audited Financial Statements is qualified with respect to (a) the inability of the Issuer to apply the requirements of IFRS for the bail-in of uninsured deposits and debt securities pursuant to the Recapitalisation due to the specific conditions and uncertainties that existed at the time of the transaction and (b) any adjustments that could have been determined to be necessary to the consolidated income statement had the auditors been able to satisfy themselves as to the fair value of the ordinary shares issued for the Group's Recapitalisation through the bail-in of uninsured deposits and debt securities and for the consideration transferred for the acquisition of certain assets and liabilities of Laiki Bank. The Group's equity and financial position were not affected by the accounting of these transactions giving rise to these qualifications. For a discussion of the resolution of Laiki Bank and the Recapitalisation, see “*Restructuring of the 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 fair value of 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 as compensation for its assets and liabilities acquired by 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 treatments, no profit or loss arises from these transactions.

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

In addition, the independent auditor’s report in respect of the Issuer’s 2013 Audited Financial Statements contains an emphasis of matter in relation to the material uncertainties that may cast significant doubt on the ability of the Group to continue as a going concern. These uncertainties are set out and discussed in detail in the notes to these financial statements. The independent auditor’s report in respect of the Issuer’s 2014 Audited Financial Statements contains an emphasis of matter in relation to the significant judgments, estimates and assumptions used in the preparation of these financial statements on a going concern basis. The independent auditor’s review conclusion in respect of the Issuer’s June 2015 Unaudited Financial Statements contains an emphasis of matter in relation to the significant judgments, estimates and assumptions used in the preparation of these financial statements on a going concern basis and the ongoing regulatory reviews of the ECB which could affect the future capital requirements of the Group.

The emphasis of matter is not a qualification to the audit opinions contained in the independent auditor’s reports for the 2013 Audited Financial Statements and 2014 Audited Financial Statements or the review conclusion contained in the independent auditor’s review report for the June 2015 Unaudited Financial Statements.

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

As of 31 December 2014 and 30 June 2015, 53.2% and 52.9% of the Group’s gross loan portfolio, respectively, was 90+DPD. In particular, a significant proportion of its non-performing loans are comprised of loans to large corporates which are in the real estate and construction sector (including loans and advances classified as held for sale) of the Cypriot economy. As of 30 June 2015, the Group’s loan and advances to corporate borrowers and borrowers in the real estate and construction sectors (including loans and advances classified as held for sale) comprised 47.7% and 30.9% 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 overall increase in past due loans and significant changes in the fair values of the Issuer's financial assets. The increase in unemployment during the economic crisis, which in the first half of 2015 averaged 16.2% on a seasonally adjusted basis according to Eurostat, aggravated the situation, with mortgage delinquencies increasing further.

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

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

A 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 year 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 that event, the Issuer's credit rating and risk profile may lead to the Issuer having to provide higher amounts of collateral, particularly cash collateral, to secure its transactions with international counterparties. This may have, a negative impact on the 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 credit risk in the event of default by one of its significant counterparties. A default by a significant financial counterparty, or liquidity problems in the financial services industry in general, could have a material adverse effect on the Group's business, financial condition and results of operations.

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

The risk of fluctuations in the market price of shares and other traded securities arises from adverse changes in the prices of securities (mainly equity and bond securities) held by the Group. Changes in the prices of equity securities that are classified as investments at fair value through profit and loss, affect the profit of the Group, whereas changes in the value of equity securities classified as "available for sale" affect the equity of the Group. Debt securities price risk is the risk of loss as a result of adverse changes in the prices of debt securities held by the Group. The Group invests a significant part of its liquid assets in debt securities issued mostly by governments, particularly the debt securities issued by the Government. As of 30 June 2015, the Group had a €0.9 billion portfolio of Cyprus government bonds. Changes in the prices of debt securities classified as investments at fair value through profit and loss, affect the profit of the Group, whereas changes in the value of debt securities classified as 'available for sale' affect the equity of the Group (assuming no impairment).

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

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

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

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

Changes in market interest rates may affect the interest rates the 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 lending rates in the event of an increase in interest rates. From the funding perspective, even in the event of decreasing interest rates, competitive pressures may still restrict the Group's ability to decrease its deposit interest rates.

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

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

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

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

The general scarcity of wholesale funding since the onset of the economic crisis has led to a significant increase in competition for retail deposits in Cyprus. In particular, the 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 and, in recent years, have refocused their operations to cater for domestic retail, SME and corporate clients as well as international clients. In addition, with respect to international clients, Cyprus as a country competes with other tax-friendly jurisdictions focused on the provision of financial services. Further, as the 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.

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

Most of the 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 .

***The Group is exposed to conduct risk.***

Conduct risk corresponds to risks arising from the way in which the Group and its employees conduct themselves and includes matters such as how customers are treated, organisational culture (in particular, the way in which the Group's senior management affects the ethical conduct of employees), corporate governance, employee remuneration and conflicts of interest. The Group is also required to comply with certain conduct-of-business rules and the Cyprus Stock Exchange (CSE)'s Fourth Edition (Amended) Code of Corporate Governance issued in April 2014 (the **Corporate Governance Code**) and any failure to comply with these rules and the Corporate Governance Code could result in significant penalties. For example, following its investigations into the 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 anti-money laundering and counter-terrorism financing (AML/CTF) policies and procedures which aim to ensure compliance with applicable legislation, it may not be able to comply at all times with all rules applicable to money laundering and terrorism financing as extended to the whole Group and applied to its workers in all circumstances. As a general statement, a violation, or even any suspicion of a violation, of these rules may have serious legal and financial consequences, which could have a material adverse effect on a financial institution's business, reputation, financial condition, results of operations and prospects.

The 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

As of 30 June 2015, the Issuer's total net exposure (net of the fair value adjustment on initial recognition and of impairments) to subsidiaries of Laiki Bank was €226.7 million. Any inability of these subsidiaries to repay the Issuer could have a significant negative effect on the Group's liquidity, capital and funding positions.

***The Group is exposed to insurance and reinsurance risks.***

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

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

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

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

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

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

## Regulatory and Legal Risks

*The Group is exposed to various forms of legal risk, particularly in relation to the mis-selling of Euro Capital Securities issued by the 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 the 2007 Capital Securities, the 2008 Convertible Bonds, the 2009 Convertible Capital Securities and the 2011 EUR CECS (together the **Euro Capital Securities**) issued by the Issuer and the bail-in of shareholders, uninsured depositors and other creditors of the Issuer pursuant to the Recapitalisation from March to July 2013. The Issuer is also 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. In addition, CNP Cyprus Insurance Holdings Ltd (**CNP**) has instituted arbitration proceedings in London against the Issuer for claims amounting to approximately €240 million. Some actions have also been instituted against the Issuer by borrowers who obtained loans in a foreign currency (mainly Swiss Francs) alleging that the Issuer misled these borrowers and/or misrepresented matters, in violation of applicable law. If the Group is unsuccessful in defending itself against these claims or appealing against the fines and penalties being imposed on it, these claims could have a material adverse impact on its financial condition and reputation. Furthermore, Parliament is currently considering the provision of loans by banks in foreign currencies, mostly Swiss Francs, and discussing the possibility to enact legislation in this respect. Under the Constitution of Cyprus, the State has no power to interfere with freedom of contract nor can it enact retrospective legislation (with a few very limited exceptions). Should such retrospective legislation be enacted, it may have a material adverse impact on the Issuer's financial condition. For a discussion of these mis-selling and bail-in proceedings, the CySEC and HCMC investigations and certain other legal proceedings and related matters to which the Group is a party, see "*Business Description of the Group — Litigation and Related Matters, including Regulatory Proceedings*".

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

*Legislative action and regulatory measures in response to the global financial crisis may materially impact the 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**). From November 2014, the ECB has assumed the supervision of the Issuer as a significant credit institution for the purposes of the ECB Regulation. Some of the new measures are proposals that are under discussion and that are subject to revision and interpretation, and need adapting to each country's framework by national regulators. For example, changes in law to address tax compliance issues such as compliance with the Common Reporting Standard (see "*Regulation and Supervision of banks in Cyprus – Common Reporting Standard*"), formally referred to as the Standard for Automatic Exchange of Financial Account Information, released by the Organisation for Economic Co-operation and Development (the **OECD**) may have a significant impact on the Group's compliance costs. The 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 (the **Resolution Law**) was enacted to provide a regime to allow the resolution authority (currently comprised of the Governor of the CBC, together with the appointed executive directors of the CBC, the **Resolution Authority**), to resolve failing banks in Cyprus.

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

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

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

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

the EU (each a **Member State**) which has nationally implemented the Directive 2001/24/EC on the reorganisation and winding up of credit institutions (the **CIWUD**) is likely to recognise resolution measures taken by the Resolution Authority under the Resolution Law with respect to any credit institution for which Cyprus is its home Member State.

The Resolution Law has implemented some of the main provisions of the Directive 2014/59/EU of the European Parliament of 15 May 2014 and of the Council of the EU (the “**Council**”) establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012 (the **BRRD**) including, in particular, the power to bail-in creditors. While the Resolution Law is compatible in many respects with the BRRD, as at the date of this Base Prospectus, the BRRD has not been fully implemented in Cyprus. It is expected that the Resolution Law will be further amended towards the end of 2015 to reflect the provisions of the BRRD.

In March 2013, both the 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. 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 issued and/or amended a number of directives which have negatively impacted the Issuer’s ability to originate new loans and imposed stringent requirements and processes in terms of its management of non-performing loans, see “*Regulation and Supervision of Banks in Cyprus — CBC Credit Risk Directives*”. See also “*The Issuer is subject to certain regulatory and legal constraints in originating new loans and managing existing loans*” below.

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

In addition, during the first quarter of 2013, a comprehensive review was commissioned by the Government and the Troika of the effectiveness of Cyprus’s anti-money laundering regime (the **AML Review**). Further, in December 2014, the CBC concluded its audit with regards to the Issuer's compliance with the Directive on the Prevention of Money Laundering and Terrorism Financing for the period commencing January 2012 until September 2014. The CBC has not yet released the report in connection with the audit. There is a risk that financial or other penalties could be imposed on, and/or published in relation to, the 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 ECB and the CBC regarding, among other things, capital adequacy, liquidity and solvency. Certain of the Group's subsidiaries and operations are subject to the supervision of other local supervisory authorities. Increased regulatory intervention may lead to requests from regulators to carry out wide-ranging reviews of past sales and/or sales practices. The Group is unable to predict what regulatory changes may be imposed in the future as a result of regulatory initiatives in the EU and elsewhere or by the ECB, the CBC and other supervisory authorities. If the Group is required to make additional provisions or to increase its reserves as a result of potential regulatory changes, this could adversely affect the results of operations of the Group. In addition, failure by the Group to comply with regulatory requirements could result in significant penalties. For example, the Issuer is currently not in compliance with its regulatory liquidity requirements.

The Group is also subject to EU regulations with direct applicability and to EU directives which are adopted by the European Economic Area Member States and implemented through local laws. For example, on 16 August 2012, the European Market Infrastructure Regulation (Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012) (**EMIR**) came into force. EMIR introduces certain requirements in respect of derivative contracts, which apply primarily to financial counterparties, such as the Issuer and other credit institutions, investment firms and insurance companies. Broadly, EMIR's requirements in respect of derivative contracts, as they apply to financial counterparties, are (i) mandatory clearing of over-the-counter (**OTC**) derivative contracts declared subject to the clearing obligation through an authorised or recognised central counterparty; (ii) risk mitigation techniques in respect of uncleared OTC derivative contracts; and (iii) reporting and record-keeping requirements in respect of all derivative contracts. Accordingly, the introduction of EMIR is likely to increase the costs of transacting OTC derivative contracts for the Group. In addition, MiFID II and MiFIR could also require the implementation of additional compliance and other processes which could result in increased costs for the Group. MiFID II and MiFIR (each as defined in “*Regulation and Supervision of banks in Cyprus-MiFID (the Markets in Financial Instruments Directive (Directive 2004/39/EC))*” below) will also need to be supplemented by delegated acts and technical standards and, therefore, the scope of the final regulations and their impact on the Group remains unclear.

In addition, the BRRD entered into force on 2 July 2014. The stated aim of the BRRD is to provide supervisory authorities, including the relevant Cypriot resolution authority, with common tools and powers to address banking crises pre-emptively in order to ensure the continuity of the institution's critical financial and economic functions whilst safeguarding financial stability and minimising taxpayers' exposure to losses.

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

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

The powers granted to supervisory authorities under the BRRD include (but are not limited to) the introduction of a statutory "write-down and conversion power" and a "bail-in" tool, most of which have already been implemented into Cypriot law by way of the Resolution Law. It is expected that the Resolution Law will be further amended in due course to reflect other provisions of the BRRD (see "*Regulation and Supervision of Banks in Cyprus – Resolution Law*"). Among the broader powers granted to the Resolution Authority under the Resolution Law is the power to amend the maturity date and/or the amount of interest payable under debt instruments or other eligible liabilities of the relevant financial institution and/or impose a temporary suspension of payments.

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.

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

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

- the Directive on Loan Origination Processes and Processes of Reviewing Existing Loans of 2013 (the **Loan Origination Directive**) which, amongst other things, has significantly increased the amount of data required from both borrowers and guarantors in relation to their financial history regardless of loan amount.
- the Arrears Management Directive of 2015 (the **Arrears Management Directive**).
- Directive on Loan Impairment and Provisioning Procedures of 2014 and 2015 issued by the CBC (the **Loan Provisioning Directive**).

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

These directives impose significant constraints on the 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.

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

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

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

For example, an amendment to the Liberalisation of Interest Rate and Related Matters Law of 1999 (the **Interest Rate Law**), passed by the Cypriot parliament in September 2014, renders void and unenforceable certain terms in agreements relating to the payment of interest in credit facilities and prohibits default interest being charged in such agreements above 2%. On 7 May 2015, a further amendment to the Interest Rate Law entered into force imposing a burden on credit institutions to prove that, in connection with all credit facility agreements in force or terminated on or before 7 May 2015, the default interest levied on a borrower represents the actual amount of damages suffered by them and an obligation on credit institutions to pay compensation to borrowers in the event that they are unable to provide such proof. For more detail on this law, see "*Regulation and Supervision of Banks in Cyprus — Interest Rates*". If additional legislation is introduced, such laws could reduce the Group's profit for the period, although the amount of any such reduction cannot be estimated with any accuracy at this time. In addition, Regulation (EC) No 2560/2001 on cross-border payments in euro laid the foundations of the SEPA policy by establishing the principle that banks are not permitted to impose different charges for domestic and cross-border payments or automated teller machine withdrawals within the EU. Accordingly, the Group's ability to increase its fees and charges with respect to the products and services concerned is limited and this could have an adverse effect on the Group's business, results of operations and financial condition.

Generally, see "*Regulation and Supervision of Banks in Cyprus — Consumer Protection*".

***The results of litigation in which the 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.

***There are risks in relation to the ordinary shares of the Issuer.***

The ordinary shares of the Issuer were suspended from trading on the Cyprus Stock Exchange (CSE) and the Athens Exchange (ATHEX) from 19 March 2013 to 16 December 2014, mainly as a result of the economic crisis in Cyprus and the subsequent Recapitalisation. Even though trading has resumed, liquidity in the ordinary shares of the Issuer remains limited and is subject to significant volatility. In particular, as a result of the emergency measures implemented by the Greek government as a result of its recent economic crisis, the Issuer's ordinary share price was negatively impacted and the ordinary shares listed on ATHEX were suspended from trading from 29 June to 3 August 2015. Any adverse impact on the Issuer's ordinary share price could make it difficult for the Issuer to raise equity capital should it need to do so to meet regulatory requirements.

In addition, pursuant to the provisions of the Laiki Transfer Decrees, Laiki Bank was granted ordinary shares representing 18.1% 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. The Resolution Authority has appointed the Investment Bank of Greece, a Greek subsidiary of Laiki Bank, to evaluate and assist with the potential sale of Laiki Bank's assets. It is expected that these ordinary shares will be sold with a view to maximising returns for Laiki Bank's creditors. The 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, 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.

### *Timing of repayment following any Series or all Series of Covered Bonds becoming Pass Through Covered Bonds*

If, prior to a breach of the Cover Pool Adequacy Criteria, there is a failure by the Issuer to pay the Final Redemption Amount on any Series of Covered Bonds, such Series of Covered Bonds will become Pass Through Covered Bonds. Under the provisions of the Trust Deed, the Issuer will, on each Cover Pool Payment Date, be required to utilise all amounts available for such purpose to redeem Pass Through Covered Bonds in accordance with, and subject to, the Pre-Event of Default Priority of Payments.

If, following a failure by the Issuer to pay the Final Redemption Amount on any Series of Covered Bonds, there is a breach of the Cover Pool Adequacy Criteria, all outstanding Series of Covered Bonds will become Pass Through Covered Bonds. If, as a result of the occurrence of such event, all Covered Bonds become Pass Through Covered Bonds, there is a risk that holders of Covered Bonds with a Final Maturity Date after such date will receive principal repayments prior to the Final Maturity Date specified in the applicable Final Terms for such Series and, therefore, earlier than expected, which may result in a lower yield on such Covered Bondholders' investment than expected.

If all Covered Bonds become Pass Through Covered Bonds, there is a risk that, as a consequence of all Covered Bonds becoming Pass Through Covered Bonds, the speed of repayment for Pass Through Covered Bonds which have passed the Final Maturity Date specified in the applicable Final Terms will be reduced because the available funds for repayment will be divided pro-rata with respect to all Series of Covered Bonds and not only those that have passed their applicable Final Maturity Date. In such case, there is a risk that the repayment of Covered Bonds which have passed the Final Maturity Date specified in the applicable Final Terms will take longer.

#### *Sale of Loans and their Related Security following a failure to pay by the Issuer*

Following the failure by the Issuer to pay the Final Redemption Amount of a Series of Covered Bonds on the Final Maturity Date, the Issuer with the consent of the Trustee shall, as soon as possible, use reasonable endeavours to appoint a Portfolio Manager to sell Loans and their Related Security in the Cover Pool in respect of the relevant Series of Pass Through Covered Bonds having the required outstanding principal balance, as calculated in accordance with the provisions of the Trust Deed (the **Selected Loans**), in accordance with the Trust Deed. 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 Portfolio Manager will be able to sell in whole or in part the Loans and their Related Security as the Portfolio Manager may not be able to find a buyer at the time it is obliged to sell.

The Issuer will have the right to prevent the sale of a Selected Loan by removing such Selected Loan from the Cover Pool and transferring within ten Business Days from the receipt of the offer letter, to the Transaction Account, an amount equal to the price set forth in such offer letter (being the outstanding principal balance of the Selected Loans and the relevant portion of all arrears of interest and accrued interest relating thereto), subject to the provision of a solvency certificate.

*No representations, warranties or indemnities to be given by the Portfolio Manager or Trustee if the Loans are to be sold*

In respect of any sale of the Selected Loans to third parties, neither the Portfolio Manager nor the Trustee will be required to give representations and warranties or indemnities in respect of the Loans in the Cover Pool. Any representations and warranties previously given by the Issuer in respect of the Selected Loans may not have value for a third party purchaser if the Issuer is then insolvent. Accordingly, there is a risk that the realisable value of the Selected Loans could be adversely affected by the lack of representations and warranties or indemnities. See "*Description of Principal Documents – Trust Deed*".

#### *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 in the form of interest payments (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.

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

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

If a payment were to be made or collected through 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 would not be able to sell the remainder of such holding without first purchasing a principal amount of Covered Bonds at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, a Covered Bondholder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Covered Bond in respect of such holding (should definitive Covered Bonds be printed) and would need to purchase a principal amount of

Covered Bonds at or in excess of the minimum Specified Denomination 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 applicable 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 2013 (the **2013 Audited Financial Statements**) and as at and for the financial year ended 31 December 2014 (that includes comparative information for the financial year ended 31 December 2013) (the **2014 Audited Financial Statements**), together, in each case, with the audit report thereon, including the information set out at the following pages in particular:

<i><b>Audited consolidated annual financial statements of the Issuer</b></i>	2014	2013
Consolidated Income Statement	17	19
Consolidated Statement of Comprehensive Income	18	20
Consolidated Balance Sheet	19	21
Consolidated Statement of Changes in Equity	20-21	22-23
Consolidated Statement of Cash Flows	22	24
Notes to the Consolidated Financial Statements	23-204	25-190
Independent Auditor's Report to the Members of the Issuer on the Consolidated Financial Statements	205-207	191-193

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 2015 (that includes comparative information for the six month period ended 30 June 2014 in respect of income statement and other comprehensive income items and at 31 December 2014 in respect of balance sheet items) (the **June 2015 Unaudited Financial Statements**) together with the review report thereon, including the information set out at the following pages in particular:

<i><b>Unaudited interim condensed consolidated financial statements of the Issuer</b></i>	30 June 2015
Consolidated Income Statement	14
Consolidated Statement of Comprehensive Income	15
Consolidated Balance Sheet	16
Consolidated Statement of Changes in Equity	17-18
Consolidated Statement of Cash Flows	19

***Unaudited interim condensed consolidated financial statements of the Issuer***

30 June 2015

Notes to the Consolidated Financial Statements	20-96
Independent Auditor's Report to the Board of Directors of the Issuer on the Review of the Interim Condensed Consolidated Financial Statements	97-98

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.

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](http://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 an amended and restated trust deed dated 19 November 2015 (such trust deed as further 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 amended and restated agency agreement dated 19 November 2015 (such agency agreement as further amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) 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](http://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 19 November 2015 (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, as at the date of the Issuance the Covered Bond Monitor has verified (i) that the Issuer satisfies all requirements for registration as an approved institution pursuant to Part II of the Cypriot Covered Bond Law; (ii) the Issuer complies with all provisions of the Covered Bond Legislation with respect to any outstanding Series of Covered Bonds (iii) the Issuer complies with the requirements of Article 11 of the Cypriot Covered Bond Directive; (iv) the Issuer complies with the provisions of Sections 14(1)(d) and (e) of the Cypriot Covered Bond Law; and (v) the Issuer shall have notified the Rating Agencies then rating the outstanding Series of Covered Bonds of the proposed issuance and such Rating Agencies shall have confirmed that such issuance will not negatively impact the then current rating of any Series of Covered Bonds then outstanding; 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 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 Liquidity Test 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:
  - (A) *first, pari passu*, in respect of each Series of Covered Bonds which does not have an Extended Final Maturity Date, the Final Redemption Amount on the Final Maturity Date in respect of each such Series of Covered Bonds which has a Final Maturity

Date on the Cover Pool Payment Date or to provide for all such Final Redemption Amounts that will become due and payable in respect of each such Series of Covered Bonds which has a Final Maturity Date occurring after the Cover Pool Payment Date and prior to the next following Cover Pool Payment Date;

- (B) second, (I) *pari passu*, in respect of each Series of Pass Through Covered Bonds which has an Extended Final Maturity Date that falls within 6 months of the relevant Cover Pool Payment Date, principal in respect of each Series of Pass Through Covered Bonds then outstanding 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 Liquidity Test (if any) on any such Series of Pass Through Covered Bonds, and then to pay (II) *pari passu*, in respect of each Series of Covered Bonds which has an Extended Final Maturity Date and has not become Pass Through Covered Bonds, the Final Redemption Amount on the Final Maturity Date in respect of each such Series of Covered Bonds which has a Final Maturity Date on the Cover Pool Payment Date or to provide for all such Final Redemption Amounts that will become due and payable in respect of each such Series of Covered Bonds which has a Final Maturity Date occurring after the Cover Pool Payment Date and prior to the next following Cover Pool Payment Date;
- (v) *then*, to pay *pari passu* and *pro rata*, (in respect of each Series of Pass Through Covered Bonds which has an Extended Final Maturity Date that does not fall within 6 months of the relevant Cover Pool Payment Date) principal in respect of each Series of Pass Through Covered Bonds then outstanding 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 (if any) on any such Series of Pass Through Covered Bonds;
- (vi) *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;
- (vii) *then*, following the date on which any Series of Covered Bonds becomes Pass Through Covered Bonds, to pay all remaining amounts to the Transaction Account; and
- (viii) *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 (viii)(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.

Unless otherwise stated in the Final Terms, the Minimum Rate of Interest shall be deemed to be zero.

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.

Unless otherwise stated in the Final Terms, the Minimum Rate of Interest shall be deemed to be zero.

(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 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*)) 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 6.6 (Early Redemption Amounts). In the case of late payment the amount due and repayable shall be calculated in accordance with Condition 6.9 (*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 6.9 (*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) (*Interest on Payment Dates*), 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) (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*)) 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:

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

where:

"Y<sup>1</sup>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sup>2</sup>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sup>1</sup>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sup>2</sup>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sup>1</sup>" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D<sup>1</sup> will be 30; and

"D<sup>2</sup>" 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 D<sup>1</sup> is greater than 29, in which case D<sup>2</sup> 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:

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

where:

"Y<sup>1</sup>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sup>2</sup>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sup>1</sup>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sup>2</sup>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

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

"D<sup>2</sup>" 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 D<sup>2</sup> 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:

"Y<sup>1</sup>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sup>2</sup>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sup>1</sup>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sup>2</sup>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sup>1</sup>" 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 D<sup>1</sup> will be 30; and

"D<sup>2</sup>" 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 D<sup>2</sup> 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 (*Floating Rate Covered Bond Provisions*), 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 6.6(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 service of a Notice of Default).

**Early Redemption Amount** means the amount calculated in accordance with Condition 6.6 (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) (*Screen Rate Determination for Floating Rate Covered Bonds*).

**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 any unpaid Final Redemption 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 shall be paid by the Issuer on any Interest Payment Date occurring thereafter up to (and including) the relevant Extended Final Maturity Date, subject to (in respect of the period up to (but excluding) the relevant Extended Final Maturity Date) the Issuer having funds available for such purpose in accordance with and subject to the Priority of Payments and Condition 6.6 (*Early Redemption Amounts*). If payment of the Final Redemption Amount for any Series of Covered Bonds is deferred until the Extended Final Maturity Date for such Series of Covered Bonds, the Principal Amount Outstanding with respect to such Series of Covered Bonds shall fall due for repayment in full on the Extended Final Maturity Date and, accordingly, the Extended Final Maturity Date shall be the “repayment date” for such Series of Covered Bonds for the purposes of assessing compliance with the Cover Pool Adequacy Criteria .
- (iii) Following the occurrence of the failure of the Issuer to pay any principal due and payable on the Covered Bond of any Series (which shall for these purposes be deemed to include a failure by the Issuer to pay any amount representing the Final Redemption Amount of the Covered Bonds of that Series notwithstanding that the relevant Series of Covered Bonds has an Extended Final Maturity Date) and breach of the Cover Pool Adequacy Criteria, all Series of Covered Bonds become Pass Through Covered Bonds and the Issuer shall redeem all Series of Covered Bonds on each Interest Payment Date, in accordance with and subject to the relevant Priority of Payments.
- (iv) 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.
- (v) 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 6.6 (*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 6.6 (*Early Redemption Amounts*) 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 (to the extent funds are available for such purpose), 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 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*)) 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 Repurchase by the Issuer at the option of the Covered Bondholders (**Investor Repurchase Put**)

- (a) If an Investor Repurchase Put is specified in the Final Terms (the **Investor Repurchase Put**), then if and to the extent that the Issuer does not redeem the Covered Bonds in full on the Final Maturity Date (taking into account any applicable grace periods), upon the holder of such Covered Bonds 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, be required to purchase such Covered Bonds on the date specified on such notice (the **Repurchase Date**) and at the relevant Optional Redemption Amount as specified in, or determined in the manner specified in, the applicable Final Terms, together, if applicable, with interest accrued to (but excluding) the relevant Repurchase Date.
- (b) 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 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*)) 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 6.5.
- (c) Any notice given by a Covered Bondholder of any Covered Bond pursuant to this Condition shall be irrevocable.

Any failure by the Issuer to repurchase Covered Bonds pursuant to this Condition shall not constitute an Event of Default.

## 6.6 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).

#### 6.7 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.

#### 6.8 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 6.7 (*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.

#### 6.9 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 6.9, 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 Condition 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 Extended Final Maturity Date 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, (ii) the Competent Authority consents to such amendments and (iii) the Rating Agencies then rating the outstanding Series of Covered Bonds shall provide a Rating Agency Confirmation (if applicable).

- (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 and, in relation to modifications to the Programme, the Issuer shall have notified the Rating Agencies then rating the outstanding Series of Covered Bonds of the proposed modifications.

#### **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, as at the date of the issuance, the Covered Bond Monitor has verified that (i) the Issuer satisfies all requirements for registration as an approved institution pursuant to Part II of the Cypriot Covered Bond Law; (ii) the Issuer complies with all provision of the Covered Bond Legislation with respect to any outstanding Series of Covered Bonds; (iii) the Issuer complies with the requirements of Article 11 of the Cypriot Covered Bond Directive; (iv) the Issuer complies with the provisions of Sections 14(1)(d) and (e) of the Cypriot Covered Bond Law; and (v) no Series of Covered Bonds have become Pass Through Covered Bonds; and (B) the Rating Agencies have been notified of such issuance and such Rating Agencies have confirmed that such issuance will not negatively impact the then current rating of any Series of Covered Bonds then outstanding. 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](http://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](http://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 depositary (the **Common Depositary**) 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

**€3 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 19 November 2015 [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).]

*(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 Condition 14 (*Further Issues*) apply: [Not Applicable]  
[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 [54] years 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 shall 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 shall be paid by the Issuer on any Interest Payment Date occurring thereafter up to (and including) the relevant Extended Final Maturity Date in accordance with and subject to the relevant Priority of Payments. 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]
- [From and including the date on which the Covered Bonds become Pass Through Covered Bonds, ☐ month [LIBOR/EURIBOR] +/- ☐% Floating Rate]
- (see paragraph [13]/[14]/[15] 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]/[Following the Final Maturity Date or, if earlier, the date on which the Covered Bonds become Pass Through Covered Bonds, paragraph [13] [14] applies - *amend as applicable*]
10. Put/Call Options: [Investor Put]  
[Investor Repurchase Put]  
[Issuer Call]  
[(see paragraph [17]/[18]/[19]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.	<b>Zero Coupon Covered Bond Provisions</b>	[Applicable/Not Applicable]  <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
	(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 <i>(Redemption for taxation reasons):</i>	Minimum period: [30] days  Maximum period: [60] days
17.	<b>Issuer Call</b>	[Applicable/Not Applicable]  <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
	(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) 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. Investor Repurchase Put**

[Applicable/Not Applicable]

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

(i) Optional Redemption Amount(s) of each Covered Bond and method, if any, of calculation of such amount(s): [●] per Calculation Amount

(ii) Notice period: Minimum period: [30] days

Maximum period: [60] 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)*

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

21. **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**

22. 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].")*

23. New Global Covered Bond: [Yes/No]

24. 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*

25. 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 [●.] / [None]

*(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/ <i>give names</i> ]    |
| (iii) | Stabilisation Manager(s) (if any): | [Not Applicable/ <i>give name</i> ]     |
| (iv)  | If non-syndicated, name of Dealer: | [Not Applicable/ <i>give name</i> ]     |
| (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;
- (o) Each Cypriot Loan has been originated by the Issuer in compliance with the Lending Criteria applicable at the time of origination; and
- (p) Each Cypriot Loan has a maturity date which falls 54 years or less after the latest Final Maturity Date to occur in relation to the Covered Bonds then in issue (the Covered Bonds in relation to which such Final Maturity Date applies being the **Latest Maturing Covered Bonds**).

### **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 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.

## 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 (the **Income Tax Law**).

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

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

### Competitive Strengths

The 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, and the second largest based on deposits, with a market share (based on CBC data) in loans in Cyprus of 38.5% and a market share (based on CBC data) in Cyprus in deposits of 25.7% at 30 June 2015. As such, it plays an important role in the Cypriot economy and is poised to benefit from the improving macroeconomic situation in the country.

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

Although Cyprus was deeply affected by the global economic crisis, actions taken by the Government and the Troika - including the reforms being implemented under the EAP - have put the Cypriot economy on the road to recovery. A flexible economy has allowed for significant and rapid adjustments in consumer prices,

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

### ***Aggressive management of delinquent loans***

The Issuer has made significant changes to its management and operational structure to improve the management of its delinquent loans. The Restructuring and Recoveries Division of the Issuer (the **RRD**) centralises the management and recovery of delinquent loans across the Cyprus portfolio and is also responsible for monitoring all exposures above €100 million, whether performing or not. It currently manages a large and delinquent loan portfolio of €11.5 billion. Since the RRD's set up, the Issuer has put mechanisms in place to ensure delinquencies in all portfolios are addressed at the earliest possible stage. Retail loans are addressed via the collections call centre, branches, and the retail and SME arrears management unit, which provides restructuring solutions to viable customers. Business support centres have been set up throughout Cyprus to help address delinquent SME clients and the major corporate and corporate units of RRD have been set up to focus entirely on the larger customers. The adoption of the new insolvency and foreclosure framework in the first half of 2015 is expected to facilitate RRD's management and resolution of the Issuer's delinquent loan portfolio.

### ***A strengthened capital structure as a result of the Capital Raising***

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

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

### **Strategy**

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

### ***Shrink to strength***

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

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

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

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

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

### ***Diversify funding sources***

Historically, customer deposits provided the principal source of funding for the Group. However, as part of the Recapitalisation a significant proportion of deposits were converted into equity, with customer deposits falling further during 2014 from €15.0 billion as at 31 December 2013 to €12.6 billion as at 31 December 2014. Customer deposits stood at €13.0 billion as at 30 June 2015. The Group is currently reliant on central bank funding, which comprised 30.7% of its funding as at 30 June 2015.

Customer deposits, however, remain the Group's primary source of funding, with their contribution to the Group's total funding gradually increasing. Customer deposits accounted for 53.7% of total assets as at 30 June 2015, compared to 49.2% as at 31 December 2014 and a low of 47.9% as at 31 March 2014. Despite the abolition in April 2015 of capital control measures in Cyprus, the Issuer's customer deposits in Cyprus remain relatively stable and stood at €11.6 million as at 30 June 2015 compared to €11.3 million as at 31 December 2014.

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

As part of its funding strategy going forward, the Group intends to restore its access to the wholesale markets either through bilateral transactions or by issuing debt securities in the capital markets as and when market conditions allow.

### ***Increase fee income***

The Issuer will seek to increase its fee income to increase revenues without a corresponding increase in capital requirements. To this end, the International Banking Services division is increasing its efforts with respect to international transaction services while simultaneously strengthening its deposit base. The Corporate Banking Division is focusing on fee generating activities such as factoring, debt collection, assessment services, ledger administration and trade finance. The Issuer is also looking to further strengthen its bancassurance operation. The Wealth, Brokerage and Asset Management division generates the majority of its income in the form of fees and commissions and is expected to be an additional driver of fee income growth. As the economic recovery in Cyprus takes hold, the Wealth, Brokerage and Asset Management division should also see an increase in investment banking and advisory fees.

### **History and development of the Group**

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

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

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

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

The Bank of Cyprus established its first branch in Greece in 1991 and, in 1994, the Issuer established the life insurance company, Eurolife Ltd (**EuroLife**).

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

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

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

In 2008, the 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 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 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. In 2015, the settlement terms of the deferred consideration and the related interest rate have been amended. The deferred consideration will be paid to the Group under a repayment programme which extends until 1 June 2019 (see “—*International Operations—Ukraine*”); and
- the sale of its 9.99% 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 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.

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

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

On 26 October 2014, the 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% CET 1 ratio, including transitional arrangements of CRR/CRD IV, for both the AQR and the baseline stress test scenario. For purposes of the stress test the minimum ratios applied across all participating banks were set at 8% CET 1 ratio for the baseline scenario and 5.5% CET 1 ratio for the adverse scenario. As a result of the application of the AQR and the stress test, before giving effect to the Capital Raising, the AQR Adjusted CET 1 ratio (based on transitional arrangements as of 1 January 2014) of the Issuer is estimated at 7.28%, the Adjusted CET 1 ratio after the baseline scenario is estimated at 7.73% and the Adjusted CET 1 ratio after the adverse scenario is estimated at 1.51%, resulting in a theoretical aggregated capital shortfall of the Comprehensive Assessment of an estimated €919 million. However, after giving effect to the €1 billion gross proceeds of the Capital Raising in September 2014, the AQR Adjusted CET 1 ratio (based on transitional arrangements as of 1 January 2014) of the Issuer increases to 11.53%, the Adjusted CET 1 ratio after the baseline scenario increases to 11.62% and the Adjusted CET 1 ratio after the adverse scenario increases to 5.85%, resulting in a theoretical aggregated capital surplus of €81 million.

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

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

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

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

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

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

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

### ***Capital Raising***

On 4 July 2014, the Board of Directors of the 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 was the Retail Offer in which the Issuer offered up to 416,666,667 new ordinary shares (which was in addition to those sold in the Placing and the Open Offer) for subscription by existing shareholders of the Issuer (which did not include investors who participated in the Placing unless they were already existing shareholders at that time) at a subscription price of €0.24 per share (for a total of €100.0 million), following completion of the Placing and the Open Offer and prior to any listing of the ordinary shares on the CSE and ATHEX (subject to the necessary regulatory approvals).

The subscription price for the ordinary shares was the same for all phases (€0.24 per share) and for both new investors and existing shareholders of the 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).

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

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

### **Recent Developments**

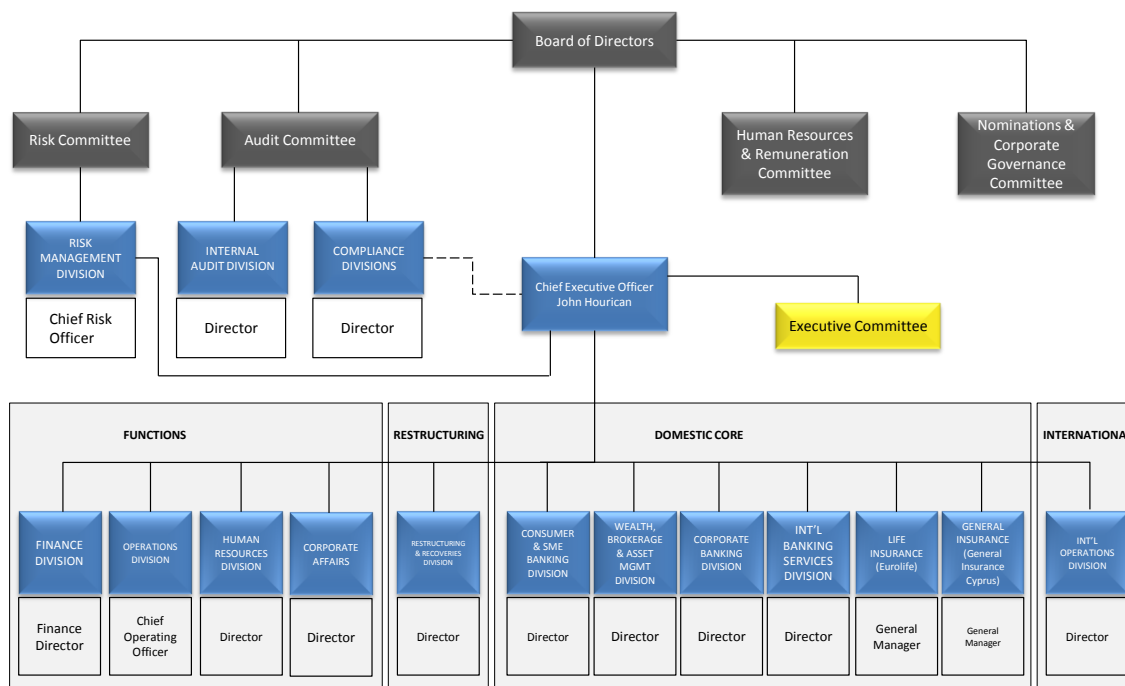
On 9 June 2015, the Government partially repaid a Cypriot sovereign bond held by the Issuer by an amount of €750 million. The Government had made an earlier partial repayment of €950 million on this bond on 1 July 2014. The bond was transferred to the Issuer in March 2013 as part of the acquisition of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

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

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

### **Group Management Structure**

The structure chart below sets out the key officers, committees and divisions of the management structure:



See "*Management and Corporate Governance*" for further information on the role of the Board of Directors and the committees of the Board of Directors.

## Share capital

The total issued share capital of the Issuer as of the date of this Base Prospectus is €892.3 million divided into 8,922,944,533 ordinary shares of a nominal value of €0.10 each. Laiki Bank, Lamesa Holding S.A. (an affiliate of the Renova Group), TD Asset Management Inc. and the European Bank of Reconstruction and Development (**EBRD**), each hold, directly or indirectly, 9.62%, 6.23%, 5.23% and 5.02%, 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 2015:

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 management	100

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

\*Entites disposed of after 30 June 2015

In addition to the above companies, as at 30 June 2015, 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, Fairford Properties Ltd, Citlali Properties Ltd, Endar Properties Ltd, Ramendi Properties Ltd, Ligisimo Properties Ltd, Thames Properties Ltd, Moonland Properties Ltd, Polkima Properties Ltd, Nalmosa

Properties Ltd, Smooland Properties Ltd, Emovera Properties Ltd, Estaga Properties Ltd, Skellom Properties Ltd, Blodar Properties Ltd, Spaceglowing Properties Ltd, Threelfield 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, Laiki Lefkothea Center Ltd, Labancor Ltd, Paneuropean Ltd, Philiki Ltd, Cyprialife Ltd, Imperial Life Assurance Ltd, Philiki Management Services Ltd, Nelcon Transport Co. Ltd, Steparco Ltd, Joberco Ltd, Zecomex Ltd, Domita Estates Ltd, Memdes Estates Ltd, Obafemi Holdings Ltd, Pamaco Platres Complex Ltd, Gosman Properties Ltd, Odaina Properties Ltd, Vameron Properties Ltd, Thryan Properties Ltd, Icecastle Properties Ltd, Otoba Properties Ltd, Edoric Properties Ltd, Belvesi Properties Ltd, Ingane Properties Ltd, Indene Properties Ltd, Canosa Properties Ltd, Silen Properties Ltd, Kernland Properties Ltd, Unduma Properties Ltd, Iperi Properties Ltd, Warmbaths Properties Ltd, Danoma Properties Ltd, Kimrar Properties Ltd, Jobelis Properties Ltd, Tavoni Properties Ltd, Metin Properties Ltd, Pekiro Properties Ltd, Melsolia Properties Ltd, Nimoland Properties Ltd, Lozzaria Properties Ltd, Koralmom Properties Ltd, Petrassimo Properties Ltd, Kedonian Properties Ltd, Lasteno Properties Ltd and Armozio Properties Ltd.

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

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

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

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

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

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

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

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

*\* Entities disposed of after 30 June 2015*

### ***Investments in associates and joint ventures***

The following table sets out the Group's associates and joint ventures as at 30 June 2015 which are accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary company nor a joint venture.

<b>Name</b>	<b>Country of incorporation</b>	<b>Interest held by Group (%)</b>	<b>Reported book value (€000)</b>
CNP Cyprus Insurance Holdings Ltd.....	Cyprus	49.9	111,842
Byron Capital Partners Ltd <sup>(1)</sup> .....	United Kingdom	70.0	5,322
Interfund Investments Plc .....	Cyprus	23.1	2,348
Aris Capital Management LLC.....	United States	30.0	—
Rosequeens Properties SRL.....	Romania	33.3	—
Rosequeens Properties Limited .....	Cyprus	33.3	—

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

### *CNP Cyprus Insurance Holdings Ltd (CNP)*

As part of the acquisition of certain operations of Laiki Bank pursuant to the Laiki Transfer Decrees, 49.9% of CNP, the parent company of a group of insurance companies in Cyprus and Greece, was acquired by the Group. CNP holds deposits with companies within the Group amounting to €16.1 million as at 30 June 2015.

### *Interfund Investments Plc*

The Group has a 23.1% 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% (effective shareholding) 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.

### *Rosequeens Properties Limited*

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

## **Banking and financial services**

### **Overview**

The majority of the Group's revenue is derived from banking and financial services, which accounted for 96.4% and 94.1% of total revenue from continuing operations for the years ended 31 December 2014 and 2013, respectively, and 97.5% of total revenue from continuing operations for the six months ended 30 June 2015. Gross loans and advances to customers before fair value adjustments on initial recognition represented 88.7% and 88.1% of the Group's total assets as at 31 December 2014 and 2013, respectively, and 94.3% of the Group's total assets as at 30 June 2015. As of 31 December 2014 and 31 December 2013, the Group's gross loans and advances to customers before fair value adjustments on initial recognition was €23.8 billion

and €26.7 billion, respectively. As of 30 June 2015, the Group's gross loans and advances to customers before fair value adjustments on initial recognition was €23.9 billion. As of 31 December 2014 and 2013, the Group's customer deposits were €13.2 billion and €15.0 billion, respectively, reflecting a 12.0% decrease which was primarily attributable to customer deposit outflows. As of 30 June 2015, the Group's customer deposits were €13.6 billion reflecting a 3.5% increase from 31 December 2014, despite the full abolishment of the capital controls in April 2015. The Group's net loans (excluding loans and advances classified as held for sale) to deposits (excluding deposits classified as held for sale) ratio decreased from 145.4% as at 31 December 2013 to 143.9% as at 31 December 2014 and 139.2% as at 30 June 2015. The 90+DPD Ratio increased from 48.6% as at 31 December 2013 to 53.2% as at 31 December 2014 and slightly decreased to 52.9% as at 30 June 2015, mainly as a result of the improving but still challenging economic environment in Cyprus and Russia, particularly in the Cypriot construction and real estate sectors.

### ***Customer Deposits***

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

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

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

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

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

### ***Loans and advances to customers***

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

	31 December 2014		30 June 2015	
	€ billion	% of total	€ billion	% of total
Retail .....	5.4	23.6	5.3	23.3
SME.....	2.1	9.4	2.0	8.5
Corporate.....	3.1	13.6	3.5	15.1
	<u>10.6</u>	<u>46.6</u>	<u>10.8</u>	<u>46.9</u>
Restructuring and recovery				
of which:				
- Corporate	5.3	23.2	5.2	22.6
- SME	1.4	6.2	1.4	6.0
- Recoveries	4.8	21.0	5.0	21.8
Total restructuring and recovery	<u>11.5</u>	<u>50.4</u>	<u>11.6</u>	<u>50.4</u>
International banking services	0.6	2.7	0.5	2.4
Wealth management	0.1	0.3	0.1	0.3
<b>Total</b> .....	<u>22.8</u>	<u>100.0</u>	<u>23.0</u>	<u>100.0</u>

Additionally, as at 30 June 2015, €928.8 million of loans and advances to customers before fair value adjustment on initial recognition were classified as held for sale, consisting of €503.9 million of loans and advances to corporate customers, €175.2 million of loans and advances to SME customers and €249.7 million of loans and advances to retail customers. The Group's gross loans and advances to customers in Cyprus before fair value adjustments on initial recognition, by customer sector, follows:

	31 December 2014		30 June 2015	
	€ billion	% of total	€ billion	% of total
Retail .....	5.3	25.2	5.3	25.0
SME.....	1.7	8.1	1.7	7.9
Corporate.....	2.0	9.6	2.0	9.9
	<u>9.0</u>	<u>42.9</u>	<u>9.0</u>	<u>42.8</u>
Restructuring and recovery				
of which:				
- Corporate	5.3	25.1	5.1	24.2
- SME	1.4	6.6	1.4	6.6
- Recoveries	4.8	22.3	5.0	23.5
Total restructuring and recovery	<u>11.5</u>	<u>54.0</u>	<u>11.5</u>	<u>54.3</u>
International banking services	0.6	2.8	0.6	2.6
Wealth management	0.1	0.3	0.1	0.3
<b>Total</b> .....	<u>21.2</u>	<u>100.00</u>	<u>21.2</u>	<u>100.0</u>

The 90+DPD Ratio for retail loans in Cyprus was 34.5 per cent. and 34.2 per cent., for SME loans in Cyprus was 66.1 per cent. and 66.7 per cent. and for corporate loans in Cyprus was 61.6 per cent. and 61.7 per cent., as at 31 December 2014 and 30 June 2015, respectively. As of 30 June 2015, 88.1 per cent. of the Group's credit portfolio was funded and 11.9 per cent. was unfunded (87.8 per cent. and 12.2 per cent. respectively, as at 31 December 2014). The Group's unfunded credit consists of acceptances and endorsements,

guarantees, documentary credits and undrawn formal standby facilities, credit lines and other commitments to lend.

As of 31 December 2014 and 30 June 2015, retail customers accounted for 55.7 per cent. and 57.3 per cent., respectively, of the Group's total deposits in Cyprus and 59.0 per cent. and 58.8 per cent., respectively, of the Group's total deposits in Cyprus were time deposits.

The Group's lending is divided between corporate, SME and consumer customers. As of the date of this 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 million as falling within the SME category. All other customers fall within the consumer sector, which comprises personal customers and small businesses with facilities from the 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 129 retail branches located in key towns and regions of Cyprus. These include current accounts, deposits, home loans, student loans, personal loans, business loans for micro business, hire purchase finance for new and used cars and all types of finance cards (including credit, debit and prepaid cards). The 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.

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

The Issuer has developed a detailed consumer banking strategy, which is based on the following key elements:

- *Improving customer experience through all channels.* Customer service standards for branch appearance, cashier and telephone service (e.g. response time and length of customer queues) and training programmes for staff on these customer service standards have been developed and rolled out. The customer's experience is a top priority and is continuously monitored through call centre collection of customer feedback and market research. The consolidation and rationalisation of information technology systems has further improved the efficiency of customer service through the Issuer's traditional and alternative distribution channels such as its ATM network, e-banking platform (1bank) and mobile banking. 1bank offers customers the opportunity to carry out banking transactions through the phone or internet 24 hours a day, seven days a week. It also offers paperless electronic products (such as "e-instant access current account", "e-notice" and "e-fixed deposit accounts") which can be opened over the internet. The Issuer is the only bank in Cyprus which provides mobile person-to-person payment services under its platform "Quickpay".
- *Retain and increase deposits while managing costs.* Targeted marketing campaigns employing mass and social media, mail and the internet are used to communicate the Issuer's renewed strength. Following the consolidation and rationalisation of information technology systems, the Issuer proceeded with customer segmentation into "premier", "mass affluent" and "mass" in order to tailor its products and services to customer needs and implement loyalty schemes. Premier customers are

retail customers with deposits with the 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. In September 2015, the Issuer launched a customer relationship management project aimed at offering and targeting the right customer at the right time with the right deposit product.

- *Manage and improve quality of loan portfolio.* The consumer loan portfolio is closely monitored in order to identify potential customers who might default or require restructuring solutions. The 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. The consumer banking division is also incentivised through targets, campaigns and contests to improve the quality of consumer loan portfolios.
- *Prudent new lending.* As a result of the economic crisis in Cyprus, the 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. This strategy entails prudent lending to customers with proven repayment ability and sufficient assets to collateralise the loan. Small businesses with viable business models and the potential to benefit from any potential recovery in the economy are targeted for the purposes of providing short-term financing.
- *Improve retail branch network effectiveness and efficiency.* In order to improve its operational efficiency, the Issuer has rationalised its branch network and decreased the total number of branches in Cyprus to 129 as of 30 June 2015 down from 203 shortly after the absorption of the ex-Laiki Bank operations in 2013. The 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 2014. The Issuer's customer segmentation into "premier", "mass affluent" and "mass" allows the Issuer to assign relationship officers with the right level of experience and knowledge of the appropriate deposit and investment products for each segment to each customer.
- *Enhance profitability with a focus on fee generation.* The consumer banking division continues to focus on fee-generating activities such as hire purchase finance for new and used cars and all types of finance cards (including credit, debit and prepaid cards). The Issuer is the only financial institution that offers American Express local currency card products in Cyprus.

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

### *SME Banking*

The Group's banking facilities for SMEs comprise overdraft accounts, loans of fixed maturity, invoice discounting, domestic factoring, trade finance, import and export factoring, hire-purchase financing and leasing, bills discounting and stock financing. The 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.

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

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 systems and processes that have improved the speed at which client requests are authorised and approved.
- *Enhance the policy of low-risk new advances.* The strategy for new advances is directed to viable customers with proven repayment ability based on the Issuer's lending policy/criteria and the Loan Origination Directive. The SME division will monitor the general economic and industry performance indicators through internal tools which will allow it to assess and identify the growth potential as well as the risks of promising sectors of the domestic economy such as tourism, trade, manufacturing, education, health, agriculture, energy, green project and information and communication technology. The analysis of promising sectors will involve discussions with the economic research and finance division on economic and industry performance indicators, such as NPE statistics produced by the CBC (see "*The Banking Sector in Cyprus — Cyprus Banking Sector Structure — Cyprus banking system by assets*").
- *Manage and improve quality of existing advances/collection processes.* Given the high proportion of non-performing SME loans in the Group's portfolio, the restructuring and recovery of these loans is of critical importance. The Issuer has implemented targets on asset quality, based on both 90+DPD and 30+ DPD targets for each business centre. The main tools to achieve these targets are restructuring and collections on arrears. The 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 and increase deposit balances while managing costs.* Targeted marketing campaigns use mass and social media, mail and the internet to communicate the Issuer's renewed strength to potential customers. Deposit accounts are monitored daily in order to identify and contact clients who are potential depositors or have increased their rate or size of withdrawals or account activity.
- *Support for SMEs through financing and financial assistance planning.* The SME division assists a selection of SMEs with their financial business planning, taking account of their banking activity, financial performance ratios and prospects. The SME division has recently introduced the SME business tools for the Issuer's website, providing templates such as cash flow forecast and interest/instalment calculator to support Cypriot businesses. The European relations and products department was jointly created by the directors of the consumer and SME divisions, focuses on the provision of loans to SMEs which are partially administered, funded or guaranteed by the European Investment Fund (**EIF**) and/or the European Investment Bank (**EIB**). The Cyprus Entrepreneurship Fund (**CYPEF**) was created by the Government to strengthen entrepreneurship in Cyprus by providing financing to SMEs on favourable terms, including reduced interest rates, potentially reduced collateral requirements and extended loan maturities and grace periods. Amounts dedicated from the Government to the CYPEF are made available through the EIB and the CYPEF is managed by the EIF. The EIF was established in 1994 to provide financial support for SMEs in Europe and the EIB and the European Commission have a 61.4% and 26.5% equity stake, respectively, in the EIF. The European relations and products department has developed products backed by the CYPEF. As of 30 June 2015, the Issuer had €28.3 million (JEREMIE FRSP I and II) in loans to SMEs which were partially funded by the EIF and €3.6 million (JEREMIE FLPG) in loans to SMEs which were

partially guaranteed by the EIF. The Issuer has facilitated €10.8 million in loans under CYPEF and over €35 million under EIB loans.

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

### *Corporate Banking*

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

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

Most of the Group's corporate lending takes the form of loans bearing interest rates which vary according to each customer's credit risk profile. Maturities of corporate loans in the 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 banking division focuses on servicing credit-worthy corporate groups with exposures of more than €6 million or with an annual turnover of above €10 million and on attracting new customers / projects in promising sectors. The Group's corporate lending and other services in Cyprus are channelled through corporate banking centres, which are separate from the Issuer's retail branch network. After transferring large exposures and delinquent accounts to the RRD in the second quarter of 2014, the number of corporate banking centres in Cyprus has been reduced to four. The eight dedicated relationship management teams (with a total of approximately 60 employees) in these four corporate banking centres serve approximately three thousand five hundred credit-worthy corporate clients across Cyprus as of 30 June 2015, mainly in sectors such as tourism, trade, manufacturing, services and real estate.

The responsibility for all corporate exposures greater than €100 million (whether performing or non-performing) lies with the RRD. In addition, corporate exposures of more than €6 million and/or corporate clients with a minimum annual credit turnover of €10 million which are, in each case, more than 25% of the group exposure and 30 days past due are assigned to dedicated teams of credit officers supervised by the RRD for restructuring. To the extent the RRD is able to rehabilitate any corporate clients successfully, these corporate clients have been transferred back to the corporate banking division. For a discussion on the collection process for these corporate loan portfolios, see “—*Restructuring and Recoveries Division—Collection process for delinquent loans*” below.

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

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

- *Adopting a customer-centric culture to provide high quality service.* In order to provide high-quality service, the corporate banking division has implemented a relationship management model at all levels. Its most experienced relationship managers have been assigned to “prime” clients with advances of €20 to €100 million, an annual credit turnover of more than €25 million and/or significant market influence. The relationship managers are responsible for the development of account plans which identify and address “prime” clients’ financing needs (as well as those of their key shareholders and executives) and promote the cross-selling of products such as payroll services or corporate credit cards. In order to maintain the quality of service provided by its relationship managers, the corporate banking division has implemented a policy of no more than 10 “prime” customer groups per relationship manager. With respect to the rest of corporate banking client base, a limited number of customer groups (approximately 20) have been allocated to relationship officers, with the objective of maximising the quality of customer service and the effectiveness of account monitoring. A series of initiatives are in place to streamline procedures and improve customer experiences, such as the paperless corporate and client relationship management projects.
- *Targeted new lending to promising sectors of the domestic economy.* The corporate banking division monitors the general economic and industry performance indicators and develops internal tools for assessing the growth potential and the risks of promising economic sectors such as tourism, trade, manufacturing, professional services, education, health, agriculture, energy, green project and information and communication technology. The analysis of promising sectors involves discussions with the economic research department and finance division on economic and industry performance indicators, such as NPE statistics produced by the CBC (see “*The Banking Sector in Cyprus—Cyprus Banking Sector Structure--Cyprus banking system by assets*”). The corporate banking division works with the economic research department to formulate industry performance indicators, which rank each sector using a number of key performance indicators. Industry expertise is also being developed through the collection and analysis of industry-specific information for use by relationship officers and managers. Specific clients with a healthy risk profile in the targeted sector are approached with a tailored financing package to address their specific needs.
- *Protecting the quality of the corporate loan portfolio.* “Early warnings” such as the reduction of inflows into current accounts are used to identify clients that are at risk of default and corporate banking centres are assisting customers in dealing proactively with their financial issues. In addition, a comprehensive “early warning” system is currently being developed with the Credit Risk Reporting and Control department of the Group (**CRR&C**) to enhance proactive portfolio monitoring and handling by the corporate banking centres. The quality of new lending is also maintained by adhering to the new Group lending policy which has imposed tighter credit approval requirements in line with the recently enacted Loan Origination Directive. In addition, the corporate banking division is developing a close working relationship with the RRD in order to assess pre-arrear options for clients with early warning signs of default and implementing efficient post-restructuring procedures for corporate clients that have been rehabilitated by the RRD. For a description of the process for the management of delinquent corporate loans, see “—*Restructuring and Recoveries Division*” below.
- *Enhance profitability with a focus on fee generation.* The corporate banking division continues to focus on fee generating activities such as factoring, debtor collection, assessment services, ledger administration, and trade finance. Transaction banking and cash management services are being actively promoted to large corporate customers with high credit turnover and with a need for specialised electronic services. New products are being introduced to cater for liquidity management, payments and reporting. Furthermore, corporate finance services are promoted in cooperation with CISCO (as defined in “—*The Cyprus Investment and Securities Corporation Ltd (CISCO)*” below) and the cross selling of credit cards and insurance products in conjunction with the consumer business line is also being undertaken.

- *Increase deposits while managing costs.* The corporate banking division is focused on increasing its deposit base with long-term fixed deposits, departing from the short-term periods previously requested by customers. Towards this goal, relationship managers are closely monitoring customer fund inflows and outflows with a view to establishing comprehensive relationships that span the whole spectrum of transactional and cash management customer needs. For specific segments such as high-net-worth individuals, promotion of specialised products and services is also pursued in cooperation with wealth management, treasury sales and premier banking. This strategy has so far resulted in positive results as manifested in an increase of total corporate customer deposit balances from €639.1 million as at 31 December 2014 to €800.3 million as at 30 June 2015 and, especially in connection with longer-term deposits for the period between January and August 2015.
- *Compliance with anti-money laundering (AML) policies and procedures.* The corporate banking division is actively promoting a compliance culture across all levels and placing emphasis on comprehensive operational risk identification and assessment in line with the Group's AML policies and procedures. Campaigns are closely monitored and attention is given to the implementation of the customer complaints policy on the front-line.

### ***International Banking Services (IBS)***

IBS is a division that specialises in the offering of banking services in Cyprus to the international customers of the 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 and Chinese speakers. IBS also manages four representative offices outside of Cyprus (two in Russia and one in each of Ukraine and China) which support business relations. The Issuer has long-standing arrangements with a wide network of corporate service providers (**Introducers**) who are an important source of customer referrals for IBS. IBS is an important contributor of fee income and liquidity for the Issuer.

IBS's revenue is derived primarily from interest income as well as fee and commission income generated from international payments, foreign exchange transactions and trade finance instruments. As of 31 December 2014 and 30 June 2015, IBS accounted for 30.6% and 27.7%, respectively, of the Group's total deposits in Cyprus. The majority of deposits originated through IBS are from individuals and entities domiciled in Russia and other member countries of the Commonwealth of Independent States, as well as Ukraine.

IBS has contributed 8.1% of the Issuer's total revenue in Cyprus for the six months ended 30 June 2015.

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

- *Enhancing customer service based on customer characteristics.* Through its experienced and dedicated personal bankers, IBS's objective is to offer high-quality customer service based on its understanding of the needs and characteristics of each particular customer segment. IBS utilises information technology based service channels and products to offer fast, reliable, cost effective and customised banking solutions based on each customer segment's needs.
- *Rebuilding relationships with, increasing the deposits of and income from transactions with, 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 and superior service.
- *Rationalising international business unit network and becoming more cost-efficient.* IBS has reduced the size of its international business unit network from 13 in March 2013 to eight in June 2015 which

includes an international business unit specialising in the service of shipping customers. The IBS network also includes two international lending units. IBS staff levels increased from approximately 260 immediately prior to the Recapitalisation to approximately 530 due to the absorption of employees of ex-Laiki Bank. As a result of the VRS implemented in 2013, as well as staff transfers to other divisions, IBS has reduced its staff to 342 as of 30 June 2015.

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

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

### ***Restructuring and Recoveries Division***

The RRD is responsible for the management of all activity relating to corporate exposures greater than €100 million, debt restructuring and debt collection and recovery on delinquent loans across all customer segments and all corporate exposures of more than €6 million and/or corporate clients with a minimum annual credit turnover of €10 million which are, in each case, more than 25% of the group exposure and is 30 days past due. A key component of the Group's strategy for addressing its significant delinquent loan portfolio was the establishment of the RRD which is comprised of independent, centralised and specialised restructuring units. Through these RRD units, the Group aims to proactively and efficiently manage large and/or delinquent loans in order to contain the further deterioration of its loan portfolio and the subsequent rise of impairment provisions in the improving but still challenging economic environment in Cyprus. As at the date of this Prospectus, it manages a large and delinquent loan portfolio of €11.5 billion.

#### ***RRD Structure***

As of 30 June 2015, the RRD is staffed by 505 full-time employees dedicated to the management of large and delinquent loans. The RRD is organised as follows:

- *Retail and SME arrears management.* Four call centres and four retail arrears management units cover the retail loans while eight business support units focus on debt collection and restructuring in relation to SME loans. As of 30 June 2015, the business support units were responsible for managing a SME portfolio of €1.4 billion.
- *Corporate management services.* All corporate exposures greater than €100 million are managed by the major corporate management team. As of 30 June 2015, the major corporate management team was responsible for managing a total corporate loan portfolio of €3.2 billion. The major corporate management team is supported by external consultants. Each corporate group was assigned a small team of dedicated officers to develop a tailored action plan for the group. An action plan has been internally agreed and is in the process of being executed for each corporate group managed by the major corporate management team.

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

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

- *Other supporting departments:* The financial solutions department provides advanced technical support on restructuring solutions and other related projects. The strategy and analytics department engages in analysing and defining delinquent portfolio segments based on the status of the borrower and the size of exposure and is also in charge of monitoring the performance of the loan portfolios under management by the RRD and implementing the transfer of loan portfolios between the RRD and the relevant business division of the 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 7 days past due, it is automatically handled by the call centres which employ a client contact strategy for collection. If the loan concerned remains overdue for more than 30 days (and up to 60 days, in the case of smaller amounts with loans below €150,000), responsibility for the collection and the provision of more sophisticated restructuring solutions is assumed by the retail arrears management units. At any stage during the process, the client account can be transferred to a retail arrears management unit for restructuring; however, the front-line customer relationship always remains with the branch. In addition, for smaller loans below €150,000, the retail arrears management units are focused on industrialising the restructuring process in a cost and time efficient manner. The unit is responsible for rehabilitating this client segment through collection and restructuring.
- *SME.* In the early delinquency stage, the business centre officer assigned to the business concerned is responsible for making contact and offering restructuring solutions. In general, once the loan (of an amount between €2 million to €6 million) concerned is 60 days past due, it is transferred to the business support units for collection. A loan may also be transferred to the business support units even if there are no arrears depending on the risk profile and portfolio segment to which the customer or loan is assigned (e.g. client requiring restructuring when a previous restructuring has been performed in the last 18 months). Unlike retail clients who maintain a front-line customer relationship with the branch, SME clients are transferred to RRD on a group basis, which includes all client relationships within the SME group. Once the client relationship is rehabilitated, the client may, depending on certain factors, be returned to the SME division.
- *Corporate.* In the early delinquency stage, the corporate banking centre officer assigned to the corporate group concerned is responsible for making contact and offering restructuring solutions. In general, if at least 25% of the loan (of any amount of €6 million or more) concerned is 30 days past due, it is transferred to a corporate management team at which point meetings are scheduled with the customer to discuss restructuring solutions. The RRD maintains a flexible approach to restructuring corporate accounts and delinquent loans may be transferred to a corporate management team depending on the circumstances. Like SME clients, corporate clients are transferred to RRD on a group basis, which includes all client relationships within the corporate group.

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

### *Restructuring solutions*

In taking into consideration the current economic circumstances and the financial difficulties of its borrowers, the 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. The Group has developed and deployed sustainable restructuring solutions, which are suitable for the borrower and acceptable for the Group. Short-term restructuring solutions are defined as restructured repayment solutions of a duration of less than five years. In the case of loans for the construction of commercial property and project finance, a short-term solution may not exceed three years.

Short-term restructuring solutions can include the following:

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

Long-term restructuring solutions can include the following:

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

- *New loan facilities*: new loan facilities may be granted during a restructuring agreement, which may entail the pledge of additional security and in the case of inter-creditor arrangements the introduction of covenants in order to compensate for the additional risk incurred by the Group in providing new financing to a distressed borrower.
- *Debt consolidation*: the combination of multiple exposures into a single loan or limited number of loans.
- *Debt/equity swaps*: partial set-off of the debt and obtaining of an equivalent amount of equity by the Group, with the remaining debt right-sized to the cash flows of the borrower to allow repayment to the Group from repayment on the re-sized debt and from the eventual sale of the equity stake in the business. This solution is used only in exceptional cases and only where all other efforts for restructuring are exhausted and after ensuring compliance with the Business of Credit Institutions Law of 1997 (the **Banking Law**).
- *Debt write-off*: cancellation of part or the whole of the amount of debt outstanding by the borrower. The Group applies the debt forgiveness solution only as a last resort and in remote cases having taken into consideration the ability of the borrower to repay the remaining debt in the agreed timeframe and the moral hazard.

In the case of large corporate exposures, restructuring solutions involving more complex techniques such as mezzanine financing can be employed.

## **Wealth, Brokerage and Asset Management Division**

The wealth, brokerage and asset management division of the 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 2014 and 2013, the wealth, brokerage and asset management division contributed 2.9% and 2.9%, respectively, of the Group's total fee and commission income. For the six months ended 30 June 2015 and 2014, the wealth, brokerage and asset management division contributed 2.6% and 1.6%, respectively, of the Group's total fee and commission income. As of 31 December 2014 and 30 June 2015, the wealth, brokerage and asset management division accounted for 2.5% and 2.7%, respectively, of the Group's total deposits. The Group's assets under management, including on and off balance sheet assets under management, was €1,299.7 million, €1,240.8 million, €1,258.4 million and €1,456.3 million as at 31 December 2013, 31 December 2014, 30 June 2014 and 30 June 2015, respectively. Assets under management include customer deposits of the division and assets of the customers which are under execution, advisory or discretionary management of the wealth, brokerage and asset management division.

### ***Institutional Wealth and Global Markets***

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

- *Institutional Wealth Management* is responsible for institutional clients, such as pension and provident funds, insurance companies, family offices and investment funds, and provides such entities with financial services ranging from basic banking to investment services. Investment products offered include fixed income, structured products, commodities, mutual/hedge funds, global equities and foreign exchange. As of 30 June 2015, the institutional wealth management department had a client list of 80 institutional clients.

- *Global Markets Execution* acts as a multi-asset platform for all departments of the Group that require an execution venue for global financial instruments. Departments that utilise the services of global markets execution include institutional wealth and global markets, private banking and asset management.
- *Treasury Sales* offers risk management and foreign exchange trading tools to clients across all of the Group's business lines. In addition to spot foreign exchange (including foreign exchange margin trading), the department also offers customised risk solutions for corporations that address both market and asset price risk, including derivative products to hedge exposures to interest rates, foreign exchange, commodities and/or inflation. The treasury sales department is also responsible for designing and hedging structured investment products.

### ***Private Banking***

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

### ***Wealth Management Services***

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

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

### ***Investment and Energy Strategy***

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

### ***The Cyprus Investment and Securities Corporation Ltd (CISCO)***

CISCO was established in 1982 as the first investment and securities house in Cyprus. Since 1988, CISCO has been a wholly-owned subsidiary of the Group. CISCO provides a range of specialised financial services encompassing investment banking, asset management and brokerage services. CISCO has a financial service provider licence from the CySEC and is a member of the CSE and a remote member of ATHEX. Its market share for brokerage activities on the CSE reached 21.60% in the first half of 2015 (2014: 18.41%).

CISCO's investment banking sub-division provides a range of services in the field of corporate finance and capital markets which include listings on organised stock exchanges in Cyprus and abroad, debt and equity

issues, mergers and acquisitions, company valuations, capital restructuring, financial planning and feasibility studies.

The asset management department provides discretionary and advisory portfolio management services to a local and international investor base. It specialises in the provision of asset management services to retirement (provident funds and pension funds) funds as well as to insurance companies, investment companies and high-net worth individuals. Utilising an advanced fund selection process and investing in institutional share class funds, the asset management department provides a bespoke portfolio management and client service including continuous monitoring, reporting and communication. CISCO's brokerage department provides for the execution of client orders and corporate actions in the CSE, ATHEX and a number of other international markets including the New York Stock Exchange and has acted, during the last three years, for more than 20,000 investors.

### ***Laiki Financial Services Ltd***

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

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

### ***Strategic Objectives***

The Issuer has developed a detailed wealth, brokerage and asset management division strategy which is based on the following key elements:

- *Enhance customer relationship management.* By expanding and promoting a holistic approach to customer relationship management and by providing a broad range of services to meet the majority of client needs, the wealth, brokerage and asset management division aims to improve its competitive position within the market.
- *Focusing on investment banking opportunities.* Although the Cypriot economic crisis has caused significant damage to the financial and other economic sectors of Cyprus, it also presents opportunities for CISCO's investment banking division to provide services focused on potential privatisation initiatives, as well as corporate restructuring and mergers and acquisitions in cooperation with the 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.

### **Insurance Services**

Insurance services accounted for 3.3% and 5.5% of the Group's total revenue in Cyprus for the year ended 31 December 2014 and 2013, respectively, and 2.5% and 3.1% of the Group's total revenue in Cyprus for the

six months ended 30 June 2015 and 2014, respectively. The Group's life assurance business in Cyprus is conducted by EuroLife while the Group's general insurance business in Cyprus is conducted by General Insurance of Cyprus Ltd (**GIC**), both wholly-owned subsidiaries of the Issuer.

### ***Life Assurance***

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

EuroLife offers a range of unit-linked protection and savings products, augmented by a number of supplementary benefits which include, amongst others, disability and critical illness cover. EuroLife distributes its products through a network of 190 tied agents and the Issuer's branch network. For the year ended 31 December 2014 and the six months ended 30 June 2015, the Issuer estimates that approximately 81.1% and 70.6%, respectively, of EuroLife's new business was exclusively attributable to its agency network and that referrals from the Issuer accounted for approximately 18.9% and 29.4%, respectively, of new business.

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

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

As of 30 June 2015, EuroLife had total funds of €483.3 million, of which €377.0 million represented funds attributable to unit linked policies where the investment risk is passed on to policyholders. A further €90.6 million represented the deficiency reserve of EuroLife which is invested in short-term money market instruments, corporate bonds and government bonds. In addition, €4.7 million represented funds attributable to group pension contracts under EuroLife's management. The remaining €11.0 million represented non-unit-linked funds which are invested primarily in government bonds and bank deposits, with relatively small percentages invested abroad or in the Cypriot equity market.

EuroLife operates a branch in Greece under the name Kyprou Zois, which offers credit insurance and savings products to the 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 2013 and 2014, GIC's operations generated income net of claims, commissions and expenses of €9.6 million and €13.2 million, respectively, and for the six months ended 30 June 2014 and 2015, GIC's operations generated income net of claims, commissions and expenses of €7.1 million and €5.5 million, respectively. For the years ended 31 December 2013 and 2014, GIC's net claims ratio in Cyprus was 40.4% and 41.7%, respectively, and GIC's combined ratio in Cyprus was 89.7% and

82.2%, respectively. For the six months ended 30 June 2014 and 2015, GIC's net claims ratio in Cyprus was 36.3% and 36.9%, respectively, and GIC's combined ratio in Cyprus was 74.3% and 77.8%, respectively. For the year ended 31 December 2013 and 2014, GIC ranked first in terms of premiums generated in the general insurance market in Cyprus, with a market share of 12.7% and 12.2%, respectively, according to the official statistical information of the Insurance Association of Cyprus. According to the preliminary statistical information of the Insurance Association of Cyprus for the six months ended 30 June 2015, GIC ranked first in terms of premiums generated in the general insurance market in Cyprus, with a market share of 14.1%.

GIC offers its products through the Issuer's branch network (53.1%), by direct channels (25.2%) and through agents (21.6%). GIC has 171 agents and brokers who are paid on a commission basis and also employs a salaried sales force of 31 people (including call centre sales officers) who are based in GIC's branches throughout Cyprus.

GIC possesses a licence and offers insurance cover under 15 insurance technical classes, including: accident, liability for ships, general liability, land vehicles, goods in transit, miscellaneous financial loss, fire and natural forces, legal expenses and other damage to property.

The accounting class of fire and other damage to property is GIC's main business and during the year ended 31 December 2014 accounted for approximately 43.0% of gross premium income (43.2% during the year ended 31 December 2013) and during the six months ended 30 June 2015 accounted for approximately 35.4% of gross premium income (35.3% during the six months ended 30 June 2014).

GIC's claims ratio for the fire business is historically very low, with risk being spread across Cyprus. Risks are spread among a large number of smaller policies and GIC has traditionally had a relatively low maximum retention level. However, because of the low value of much of the property insured, approximately 71.7% of GIC's fire policies as of 30 June 2015 fall within its retention level. The remaining business is principally reinsured on a treaty and facultative basis with Munich Re and other international reinsurers.

GIC sells motor and home insurance to customers directly through its call centre established in 2000 and also through its salaried sales force and via its agents. Applications for these products are evaluated automatically through the use of a front-end system which also determines the premium at the same time.

GIC's investments amounted to €57.1 million as at 30 June 2015, of which approximately €0.6 million was invested in equities and mutual funds, €1.8 million in properties and the remainder in bank deposits. GIC's investment portfolio is held with the Issuer and managed by CISCO in accordance with conservative investment guidelines.

GIC's branch in Greece, Kyprou Asfalistiki, is in a run-down status, pursuant to the portfolio transfer agreement with an insurance provider in Greece, following the sale of the Group's Greek banking operations to Piraeus Bank.

### ***CNP Cyprus Insurance Holdings Ltd (CNP)***

As part of the acquisition of the ex-Laiki Bank operations under the Laiki Transfer Decrees, 49.9% of CNP, the parent company of a group of insurance companies in Cyprus and Greece, was acquired by the Group. As at 30 June 2015, CNP held deposits with companies within the Group amounting to €16.1 million.

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

CNP France has 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 division (**IO division**) is responsible for the following international operations and assets of the Group:

- all international banking subsidiaries of the Group in the United Kingdom and Channel Islands;
- the management of the loan portfolio transferred to the Issuer from Laiki Bank's branch in the United Kingdom on 1 April 2013 (see "*—United Kingdom—United Kingdom branch of Laiki Bank*" below);
- the winding-down and disposal of the Group's remaining loan portfolio and related collateral in Romania and Russia;
- the management of several international exposures and loans; and
- supporting the Group's Treasury division in the management of funding gaps associated with Laiki Banks international subsidiaries.

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

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

## ***Russia***

The Group operated in the Russian market primarily through Uniastrum and also provided leasing services through a Russian subsidiary.

On 28 September 2015, the Issuer announced the completion of the sale of the majority of its Russian operations, comprising (i) its equity holdings of 80% in Uniastrum, and of 80% in its Russian leasing subsidiary, Leasing Company Uniastrum Bank LLC, and (ii) certain other Russian loan exposures, to Mr Artem Avetisyan (the **Buyer**), the majority shareholder in Bank Regional Credit, and to entities under the control of the Buyer. The Russian operations sold accounted for 31.0% of the Group's staff and 47.5% of the Group's branches as at 30 June 2015. This sale allowed the Group to de-risk its balance sheet by approximately €600 million and allowed the release of risk weighted assets of approximately €550 million. The sale improved the Group's regulatory capital position, with a positive impact of approximately 30 basis points on its CET 1 capital ratio. Based on the June 2015 Unaudited Financial Statements, the transaction resulted in an accounting loss of €23.3 million, comprising a loss of €28 million caused by the technical unwinding of a foreign currency translation reserve and a profit of €5 million against the net book value of the assets. As a result of the transaction, the remaining net exposure (on and off balance sheet) of the Group in Russia was €155.3 million as at 30 June 2015 and is expected to be reduced over time. As a result of the final agreement, the remaining exposure includes €41.8 million arising from the deferred component of an asset swap arrangement, but benefits from the removal of an off-balance sheet exposure amounting to €34.0 million.

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

### ***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. Furthermore, under the SSM framework, the ECB effectively supervises BOC UK along with the Prudential Regulation Authority and the Financial Conduct Authority and, therefore, may issue joint decisions with the UK regulators in terms of BOC UK's capital requirements. On 1 April 2013, pursuant to the Laiki Transfer Decrees, BOC UK acquired customer deposits amounting to €325.2 million and certain liquid assets from the United Kingdom branch of Laiki Bank. With the exception of these customer deposits and certain liquid assets, no other assets, liabilities, premises, staff or other obligations of the United Kingdom branch of Laiki Bank have been transferred to BOC UK.

BOC UK operates in the United Kingdom through four business centres and banking outlets in London and Birmingham specialising in the provision of banking services to smaller businesses and property entrepreneurs. As of 31 December 2014 and 30 June 2015, the BOC UK loan portfolio stood at €811.2 million and €1.0 billion, respectively, and comprised 3.4 per cent. and 4.4 per cent., respectively, of the Group's gross loans and advances to customers before fair value adjustment on initial recognition and including loans and advances classified as held for sale. As of 31 December 2014 and 30 June 2015, customer deposits stood at €1.2 billion and €1.3 billion, respectively.

#### ***United Kingdom branch of Laiki Bank***

On 1 April 2013, £717.4 million customer loans and advances as well as the premises (6 properties), of the United Kingdom branch of Laiki Bank were transferred to the Group pursuant to the Laiki Transfer Decrees. Through redemptions and refinancing, the Issuer significantly reduced its exposure to these loans and advances to £317.1 million as at 30 June 2014. In line with the Group's objective for the disposal of non-core assets, on 17 September 2014, the Issuer entered into an agreement to sell the UK Loan Portfolio. The nominal value of the UK Loan Portfolio, as at the cut-off date for the transaction, was £289 million. On 31 October 2014 the Issuer completed the sale of the UK Loan Portfolio to purchasers selected through a competitive process. As of 31 December 2014 and 30 June 2015, the remaining gross customer loans and advances amounted to €69.5 million and €54.5 million, respectively. These customer loans and advances are administered by BOC UK under a service level agreement with the Issuer. Responsibility for the sale of the premises maintained by the United Kingdom branch of Laiki Bank has been assumed by the Group's valuation and estate department.

With the exception of customer advances, customer deposits, premises and certain liquid assets, no other assets, liabilities, staff or other obligations of the United Kingdom branch of Laiki Bank have been transferred to the 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 2014 and 30 June 2015, BOC CI had total assets of £133.9 million and £129.8 million, respectively. Its main activities are deposit-taking and lending, as well as the provision of private banking and international investment and brokerage services.

## ***Greece***

The Group exited Greece, a market in which it had operated for 22 years, through the disposal of loans, fixed assets and deposits of its banking and leasing operations in Greece to Piraeus Bank pursuant to the Greek Operations Decree. The Group's remaining activities and assets in Greece following the disposal to Piraeus Bank include the maintenance of insurance services through the Greek branch of EuroLife, the management of a €133.3 million, as at 30 June 2015, contingent off balance sheet exposure comprised of letters of guarantee issued by the 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 related loans to Piraeus Bank) and the management of a real estate portfolio, consisting of repossessed properties that were not part of the assets sold to Piraeus Bank under the Greek Operations Decree. Responsibility for the management of the Group's real estate assets and letters of guarantee exposure in Greece has been assumed by the Group's operations division. See "*—Property*" below for more detail on the Group's real estate in Greece.

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

## ***Romania***

On 25 April 2013, in accordance with the Romanian Operations Decree, certain assets (which included customer loans and related collateral, cash and other liquid assets) and liabilities of the Romanian branch of the Group, as well as all staff related to servicing the relevant contracts, were transferred to Marfin Bank Romania. The gross assets and customer deposits transferred to Marfin Bank Romania amounted to €82.0 million and €77.0 million, respectively. The 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 Group'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 €657.4 million as at 31 December 2013 to €518.2 million as at 31 December 2014, before decreasing to €429.7 million as at 30 June 2015 mainly as a result of loan disposals, repayments and write-offs.

On 11 September 2014, the Group disposed of its interest in GHES, including (i) the facility agreement between GHES and the Group's Romanian branch, (ii) the Group's 35.3% shareholding in GHES and (iii) the subordinated loan agreement from GHES. The sale consideration was €95.0 million.

As of 30 June 2015, the Group had a real estate portfolio in Romania with a book value of €262.9 million.

## ***Ukraine***

In April 2014, the 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. On 30 May 2015, the settlement terms of the deferred consideration and the related interest rate were amended. The deferred consideration will be paid to the Group under a repayment programme which extends until 1 June 2019.

## ***International Corporate Banking***

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

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

## ***Property***

As of the date of this Base Prospectus, 12 of the Group's retail branch premises are owned by the Group while the remaining 117 retail branch premises are leased. In addition, the Group's head offices, including the Group's headquarters in Nicosia, are owned by the Group. These properties and leases are managed by the Group's operations division. In addition, the Group's operations division also manages:

- the Group's real estate portfolio in Cyprus, Greece and Romania which is principally comprised of real estate which had been seized by the Group as a result of enforcing loan collateral as part of customer loan restructurings.; and
- the Group's property development companies in Cyprus, Kermia Ltd (including its subsidiary Kermia Hotels Ltd) (together, **Kermia**) and Kermia Properties & Investments group companies (together **KPI**).

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

Kermia and KPI are both wholly-owned subsidiaries of the Group with total assets as at 30 June 2015 of €35.6 million and €17.3 million, respectively. Kermia specialises in the development, trading and management of property and owns Kermia Hotels Ltd, which manages the Kermia Beach Bungalow Hotel, a tourist complex in Ayia Napa, Cyprus. KPI is mainly engaged in the development and management of property.

The Group's operations division is focused on the disposal of the Group's real estate portfolio in Greece, Romania and Cyprus, including the Group's interests in Kermia and KPI. See "*Risk Factors—Risks Relating to the Economic Crisis in Cyprus—Exposure to the Cypriot residential real estate market makes the Group vulnerable to developments in this market*" for a discussion of the risks involved in the disposal of real estate in Greece and Cyprus.

## **Group Compliance Division**

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

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

- *The Regulatory and Ethics Compliance Department.* The overall objective of this department is to establish and maintain an ethical corporate culture for the Group and its primary responsibilities include facilitating the identification, management and monitoring of compliance risk, reporting on key compliance issues, monitoring and supporting key corporate governance responsibilities, monitoring new legislation and regulations, supporting Group subsidiaries and branches with their compliance matters and managing the training of staff on regulatory and compliance matters; and
- *The Money Laundering Compliance Department.* This department is divided into four sub-departments:
  - (i) The Money Laundering Risk Monitoring Unit is primarily responsible for investigating alerts, carrying out internal investigations, submitting reports on suspicious transactions to the financial intelligence unit and responding to compliance queries;
  - (ii) The Money Laundering Assurance and Risk Management Unit is primarily responsible for onsite anti-money laundering visits and risk-control self-assessments;
  - (iii) The Money Laundering Third Party Risk Assessment Unit performs due diligence on new and existing client accounts, reviews of introducers and reviews of politically exposed persons;
  - (iv) The Money Laundering Customer Risk Assessment Unit performs review of high/significant risk clients, sanctions monitoring, correspondent banks assessments and handling of correspondent banks' inquiries; and
  - (v) The Operations Unit administers information technology systems and the policy and procedural framework of the department, as well as the required reporting to the CBC. The Operations Unit is also responsible for training staff on anti-money laundering issues and for monitoring overseas operations.

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

- *Risk Appetite Statement and Guidelines in Relation to Mitigating Risk Pertaining to Money Laundering and Terrorist Financing.* This policy provides a framework for executive management and the Board of Directors to more clearly define a risk based strategy for the prevention and suppression of money laundering and terrorist activities.
- *Policy Relating to the Prevention of Money Laundering and Terrorism Financing.* This policy sets out rules on the appointment of a compliance officer for each subsidiary company, performance of due diligence on customers and transaction parties and the retention of appropriate records and data for at least 10 years.

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

- *Customer Acceptance Policy.* This policy sets out the framework for the evaluation of customer risk, including establishing guidelines for identifying high-risk industries and entities (e.g. politically

exposed persons, trusts and client accounts) and prohibiting the establishment of a business relationship with certain persons (e.g. persons connected with sanctioned countries).

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

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

For more information, see "*Risk Factors — Risks Relating to the Group's Business — The Group is exposed to the risk of fraud and illegal activities*" and "*Regulation and Supervision of Banks in Cyprus — Money Laundering and Terrorist Financing*".

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

- Complaints Management policy;
- Competition Law policy;
- New products and services policy;
- Anti-bribery policy;
- Data protection policy;
- Market abuse procedure;
- Regulatory developments and communications with competent authorities;
- MiFID obligations on personal transactions.
- Regulatory Governance Compliance policy;
- Fit and Probity policy;
- Conflict of Interest policy;
- Corporate Governance Compliance policy;
- FATCA policy;
- Nominations Policy; and
- Diversity Policy.

## **Material Contracts**

Set out below is a summary of all material contracts that are not entered into in the ordinary course of the 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 **Resolution Decrees** or **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, 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 investors and those purchasers who had received investment advice from independent investment advisers before proceeding with the purchase. In the case of retail investors, particularly where it can be documented that the relevant 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.

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

### ***The Hellenic Capital Market Commission Investigation***

In 2014, the Issuer was under investigation in Greece by the HCMC in relation to the issue of 2009 Convertible Capital Securities and CECS and; more specifically, whether the Issuer had violated certain

provisions of Greek law by providing investment advice without having entered into the required client agreements or having conducted the required fitness test pursuant to the Greek law which transposes the EU Directive on Markets in Financial Instruments and the implementing regulation.

The HCMC investigation was concluded at the end of 2014. According to its decision issued in February 2015, the Issuer provided accurate and sufficient information to potential investors through the prospectuses for the CCS and CECS regarding the characteristics and particularities of such securities and the risk factors for an investment thereof. However, the HCMC also held that the Issuer provided investment advice to potential investors when promoting such securities and omitted to comply with its obligation to perform a suitability assessment for such investors, according to the provisions of the law and related regulations. For this violation, a fine of €10,000 was imposed upon the Issuer. In April 2015, the Issuer filed a petition before the competent Administrative Court challenging HCMC's decision. While the decision of the HCMC in this matter will not be binding on the Greek or Cypriot courts, it may be put before the court by the complainants in any proceedings against the 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.

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

### ***The Cyprus Securities and Exchange Commission Investigations***

On 2 August 2013, CySEC published its conclusions regarding an investigation into the failure by the Issuer in June 2012 to disclose material information to investors concerning the amount of a capital shortfall to meet the requirements of the European Banking Authority (EBA). CySEC came to the conclusion that the Issuer was in breach of the 'Insider Dealing and Market Manipulation (Market Abuse) Law of 2005' and on 27 November 2013 imposed an administrative fine on the Issuer of €70,000. On 27 November 2013, CySEC also imposed administrative fines on certain of the then members of the Board of Directors. The recourses that the Issuer has filed before the Supreme Court challenging CySEC's decision are still pending.

CySEC has also concluded (in two stages) during 2013 and 2014 its investigation in respect of the Group's exposure to Greek Government bonds, related non-disclosure of material information and other corporate governance deficiencies. In this respect, CySEC has issued two decisions, coming to the conclusion that the Issuer was in breach of certain laws regarding disclosure of information and has imposed administrative fines upon the Issuer of a total sum of €1,110,000. It has also imposed fines upon certain of the then members of the Board of Directors and management of the Issuer. The Issuer has filed recourses before the Supreme Court regarding the decisions of CySEC and the fines imposed upon it. CySEC has meanwhile filed legal actions against the Issuer for the non-payment of the fines imposed.

During 2014, CySEC issued its decision regarding the Group's failure to publish its 2012 annual financial statements within the legally prescribed time limits. No fine was imposed, but only a reprimand.

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

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

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

- matters concerning the Issuer's investment in Banca Transylvania;

- the non-disclosure of certain terms and conditions of the Group's ELA funding;
- the non-disclosure of the Issuer's request to the Ministry of Finance for granting additional government guarantees of up to €3 billion, for bonds that the Issuer could issue to enhance its liquidity position;
- the adequacy of provisions for impairment of loans and advances in years 2011 and 2012;
- the reclassification of Greek Government bonds on 1 April 2010; and
- the adequacy of provisions for impairment of loans and advances in year 2013 in light of the results of the AQR.

A decision of CySEC will not be binding on the courts. If a person wishes to claim damages or any other remedy against the Issuer, fresh proceedings must be brought against the Issuer before the competent Courts of the Republic of Cyprus.

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

### ***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 grounds that, inter alia, the Resolution Law and the Bail-in Decrees are in conflict with the Constitution of the Republic of Cyprus and the European Convention on Human Rights. Actions on the part of the affected depositors have been filed before the District Courts and their objective is to obtain damages for the loss allegedly sustained by them as a result of the bail-in of their deposits effected by the relevant Decrees. In a number of those actions, interim orders were issued prohibiting the Issuer from treating the deposits of the applicants in question as converted into shares of the Issuer. The Issuer took active steps and obtained the discharge and cancellation of the interim orders. In parallel, the Issuer is defending the actions of depositors vigorously.

#### *Shareholders*

There are also numerous claims filed by shareholders against the Government and the CBC before the Supreme Court in relation to the dilution of their shareholding as a result of the Recapitalisation pursuant to the Resolution Law and the Bail-in Decrees issued thereunder. The objective of these proceedings before the Supreme Court was to obtain the annulment (i.e. cancellation and setting aside) of the Decrees as unconstitutional and/or unlawful and/or irregular. The 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 the prospectus, both the Resolution Law and the Bail-in Decrees have not been annulled by a court of law and thus remain legally valid and in effect. On 9 October 2014, the Supreme Court ruled that the proceedings fall within private and public law (before the District Courts), thus accepting the position of the Issuer, and accordingly all recourses instituted before the Supreme Court (in its revisional jurisdiction) were dismissed. It is expected that actions for damages will be instituted in due course before the District Courts.

#### *Claims based on set-off*

Certain claims have been filed by customers against the 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.

### *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.

### *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).

### *Legal Position of the Group*

All above 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 a statement of objections, alleging violations of Cypriot and EU competition law relating to the activities and/or omissions in respect of card payment transactions by, among others, the 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.

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

### *Laiki Transfer Decrees and related actions*

A customer sent a statutory demand to the Issuer in January 2015 threatening to wind up the Issuer if its claim for €350,000 under a letter of guarantee issued by Laiki Bank was not paid. The Issuer believes that such claim is immaterial, unfounded and without merit because the letter of guarantee had not been transferred to the Issuer under the Laiki Transfer Decrees. No action has been taken by the customer to file winding up proceedings against the Issuer since the statutory demand was sent in January 2015 and the Issuer will take all steps to defend itself against any further action taken in relation to such claim if necessary.

## ***CNP – Arbitration***

CNP had certain exclusive arrangements with Laiki Bank with respect to insurance products offered in Cyprus through the formation of a local company (**CNP Cyprus**). CNP France held 50.1% of the shares of CNP Cyprus and Laiki Bank held 49.9% of the shares. In the context of the total arrangement between the parties, two agreements were in place between CNP and Laiki Bank, a Shareholding Agreement (the **Shareholding Agreement**) and a Distribution Agreement (the **Distribution Agreement** and, together with the Shareholding Agreement, the **Agreements**). As regards the Shareholding Agreement, the 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. The claims of CNP amount to approximately €240 million (including interest and grossed-up for tax). The Issuer considers 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, the Agreements as concluded between CNP and Laiki Bank cannot possibly operate in the context of the new realities. The hearing of the Arbitration is planned to take place in May 2016.

## ***Other Litigation***

The Group is involved in a number of other litigation proceedings involving cases against the Group arising in the course of its normal operating activities, mainly in Cyprus and Greece.

### ***Provident Fund Cases***

Twenty three claims are pending before the Labour Disputes Tribunal by former employees with respect to their retirement benefits, judgment has been reserved. These employees retired and/or departed in 1999 and claim that the 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 approximately €24 million. A provision has been made based on management's best estimate of probable outflows.

### ***Employment Litigation***

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

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

### ***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 €38.0 million plus interest. Any related provisions were reversed as at 31 December 2014 following the dismissal of the said judgment by the Supreme Court in March 2015. The case may be sent for retrial. The Issuer has indemnified Piraeus Bank (the acquirer of its Greek operations in March 2013) through a letter of guarantee,

for any claim brought against it in connection with this case. The case relates to the discontinued operations of the Bank in Greece.

#### *Private Criminal Prosecutions*

Six private criminal prosecutions have been instituted by certain customers against the 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. The Issuer expects that these prosecutions will be dismissed. The Issuer has asked the Attorney-General to discontinue the proceedings (*nolle prosequi*) but such request has been rejected. The Issuer has renewed its request for a *nolle prosequi* in respect of such cases. The two private criminal prosecutions concerning alleged misrepresentations in the financial statements were withdrawn in September 2015.

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

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

#### *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. Based on the currently available information, the Issuer is of the view that any further investigations or claims resulting from these investigations will not have a material impact on the financial position of the Issuer.

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

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

#### *House of Representatives*

Occasionally, matters are brought before the House of Representatives (Cyprus’ legislative assembly) and its Committees, either in order to consider and enact legislation or to investigate certain matters. An example of the former is the House’s consideration of the provision of loans by banks in foreign currencies, mostly Swiss Francs. Under the Constitution of Cyprus, the State has no power to interfere with freedom of contract

nor can it enact retrospective legislation (with a few very limited exceptions). There is pressure from the House upon other organs of Government to consider the alleged provision of investment advice from the banks to consumers. An example of the latter is the consideration by House's Committees of the Uniastrum acquisition, see "*—International Operations—Russia*". The Issuer considers any discussion by the House Committee will have no material adverse impact on the Issuer.

#### *Swiss Francs loans Litigation*

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

#### *Criminal Investigation regarding Uniastrum*

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

#### *UK cases against the Issuer*

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

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

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

Subject to the SSM Regulation discussed below, the CBC is responsible for the licensing and supervision of credit institutions in Cyprus in accordance with (i) the Banking Law, (ii) the Law on the Establishment and Operation of Deposit Protection and Resolution of Credit and Other Institutions Scheme of 2013 and the regulations issued thereunder on the Cypriot Deposit Protection Scheme (see "*Deposit Protection Scheme*"), (iii) the Regulations on the Establishment and Operation of an Investor Compensation Fund for Clients of Banks of 2004 and 2007 on the Cypriot investor compensation fund, established under the Investment Firms Law of 2002, (iv) the Prevention and Suppression of Money Laundering Activities Law of 2007 on anti-money laundering activities (see "*Money Laundering and Terrorist Financing*"), (v) the Payment Services Law of 2009 on payment services and credit institutions; and (vi) other relevant laws of Cyprus. Furthermore, in accordance with the Central Bank of Cyprus Law of 2002, the CBC has additional regulatory and supervisory powers relating to the operation of credit institutions in Cyprus.

Subject to the SSM Regulation discussed below, the CBC issues a banking licence to credit institutions meeting the requirements set out in the provisions of the Banking Law. Specifically, the Banking Law regulates or determines, inter alia, the criteria to be considered in the granting of an establishment and operation licence of a credit institution in Cyprus and in the revocation of such licence, the business of credit institutions, the establishment and provision of services by credit institutions, relations with third countries, matters relating to the capital of a credit institution, matters relevant to special participations of credit institutions in other businesses and the participations of individuals or entities in credit institutions, the maintenance of liquidity, the supervision and inspection of credit institutions by the CBC, both on a unconsolidated and a consolidated basis, bank secrecy, professional secrecy, matters relating to reorganisation measures, the winding up and dissolution of credit institutions and penalties. In 2013, the Resolution Law was enacted to provide a special resolution regime for Cypriot banks and other financial institutions.

The ECB is the central bank for the Eurozone and administers the monetary policy of the Eurozone. With the goal of establishing a single supervisory mechanism to oversee and unify credit institutions in the Eurozone, the SSM Regulation, adopted on 15 October 2013, confers on the ECB prudential supervisory responsibility over credit institutions in the Eurozone and other EU Member States that participate in the SSM (together with the Member States of the Eurozone, **participating SSM Member States**), with a view to contributing to the safety and soundness of credit institutions and the stability of the financial system within the EU and each Member State. The ECB has fully assumed the following supervisory responsibilities, among others, since November 2014:

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

- in relation to significant credit institutions, to ensure compliance with requirements on securitisation, large exposure limits, liquidity, leverage, as well as on the reporting and public disclosure of information on those matters;
- in relation to significant credit institutions, to ensure compliance with respect to corporate governance, including requirements on risk management processes, internal control mechanisms, remuneration policies and practices and effective internal capital adequacy assessment processes (including internal ratings based models);
- in relation to significant credit institutions, to carry out supervisory reviews, including, where appropriate and in coordination with the EBA, stress tests and supervisory reviews to impose specific additional own funds requirements, specific publication requirements, specific liquidity requirements and other measures;
- in relation to significant credit institutions, to supervise the credit institutions on a consolidated group basis, extending supervision over parent entities established in one of the participating SSM Member States; and
- in relation to significant credit institutions, to carry out supervisory tasks in relation to recovery plans, provide early intervention where a credit institution or group does not meet or is likely to breach the applicable prudential requirements and, only in the cases explicitly permitted under law, implement structural changes to prevent financial stress or failure, excluding any resolution powers.

The ECB and the national central banks together constitute the Eurosystem (the **Eurosystem**), the central banking system of the Eurozone. The ECB exercises its supervisory responsibilities under the SSM Regulation in cooperation with the national central banks in the participating SSM Member States. As such, in Cyprus, the ECB cooperates with the CBC and the Issuer is a significant credit institution for the purposes of the SSM Regulation.

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

As regards the monitoring of credit institutions, the national competent authorities (**NCA**s) continue to be responsible for supervisory matters not conferred on the ECB, such as consumer protection, money laundering, payment services, and branches of third country banks. The ECB, on the other hand, is exclusively responsible for prudential supervision, which includes, among other things, the power to: (i) authorise and withdraw authorisation (this applies to all credit institutions in participating SSM Member States; the ECB will, however, only authorise a credit institution if the NCA of the relevant participating SSM Member State has confirmed that relevant authorisation requirements in that state's laws have been met); (ii) ensure compliance with all prudential requirements laid down in general EU banking rules; (iii) set, where necessary, higher prudential requirements for certain banks to protect financial stability under the conditions provided by EU law; (iv) impose robust corporate governance practices and internal capital adequacy assessment controls; and (v) intervene at the early stages when risks to the viability of a credit institution exist, in coordination with the relevant resolution authorities.

The operation and supervision of credit institutions within the EU is governed by Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (**CRD IV**) and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (the **CRR**, and together with CRD IV, **CRD IV/CRR**).

The CRR is directly applicable in all 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 applied from 1 January 2015) and stable funding (which will apply from 1 January 2016).

CRD IV was required to be transposed into the national law by 31 December 2013, though certain provisions (including provisions relating to the requirements to maintain a capital conservation buffer and an institution-specific countercyclical capital buffer, the global and other systematically important institutions, the recognition of a systemic risk buffer rate, the setting of countercyclical buffer rates, the recognition of countercyclical buffer rates in excess of 2.5%, the decision by designated authorities on third country countercyclical buffer rates, the calculation of institution-specific countercyclical capital buffer rates and restrictions on distributions) shall enter into force from 1 January 2016. In August 2014, the CBC issued a directive on Governance and Management Arrangements transposing certain aspects of CRD IV into Cypriot law.

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

Key amendments to the Banking Law include the following:

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

The Macroprudential Supervision Law is mainly responsible for providing:

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

Under the current regulatory framework, credit institutions operating in Cyprus are required to, among other things:

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

If a credit institution breaches any law or regulation falling within the scope of the supervisory power attributed to the CBC, the CBC (and, where applicable, in coordination with the ECB) is empowered to, amongst other things:

- require the relevant credit institution to take appropriate measures to remedy the breach or to restrict its operations by imposing conditions on its licence (which may include, requiring the relevant credit institution to take certain actions or refrain from taking certain actions, imposing limitations on the acceptance (and solicitation) of deposits, the granting of credit or the making of investments, prohibiting the entering into of certain transactions, requiring the removal of corporate officers, requiring the holding of own funds in excess of prescribed levels and requiring the implementation of policies on the treatment of certain assets and risk);
- impose fines;
- assume control of, and carry on in the credit institution's name, the business of the credit institution, for so long as the CBC considers necessary;
- demand the increase of a credit institution's share capital;

- demand that the credit institution prepares and submits a recovery plan and submit information so that the CBC can prepare a resolution plan in its capacity as Resolution Authority;
- demand that dividends be limited or withheld; and
- revoke the licence of the credit institution where the breach cannot be remedied and place it in a state of special liquidation (i.e., where a court application is made for liquidation on an ex-parte basis where services performed by the relevant credit institution concern the public interest).

In 2013, the Resolution Law was enacted to provide a special resolution regime for Cypriot banks and other financial institutions (see "*Resolution Law*" below).

In relation to the recovery and resolution of credit institutions, the BRRD has also been adopted. The BRRD was required to be implemented by Member States by 1 January 2015.

The implementation of the BRRD is intended to equip authorities with common and effective tools and powers to tackle bank crises pre-emptively, safeguarding financial stability and minimising taxpayer exposure to losses in insolvency. The framework is meant to apply in relation to banks of all sizes and consists of three pillars: preparatory and preventative measures, early intervention, and resolution tools and powers, within a framework of improved cross-border cooperation.

The range of powers available to resolution authorities consist of three elements: (i) preparatory steps and recovery and resolution plans to minimise the risks of potential problems (preparation and prevention); (ii) in the event of incipient problems, powers to arrest a bank's deteriorating financial situation at an early stage so as to avoid insolvency (early intervention); and (iii) if insolvency of an institution presents a concern as regards the general public interest, a clear means to reorganise or wind down the bank in an orderly fashion while preserving its critical functions and limiting to the maximum extent any exposure of taxpayers to losses in insolvency (resolution). In addition, the BRRD provides a framework to improve cooperation across borders to coordinate resolution measures in all affected Member States in the event that a cross-border banking group should fail.

The BRRD establishes common parameters for triggering the application of resolution tools. The conditions that have to be met before resolution authorities take a resolution action in relation to a credit institution are: (a) the NCA determines that the institution is failing or is likely to fail; (b) there is no reasonable prospect that any alternative private sector or supervisory action taken would prevent the failure of the institution within a reasonable timeframe; and (c) a resolution action is necessary in the public interest. When the trigger conditions for resolution are satisfied, the BRRD provides a set of resolution tools that resolution authorities have the power to apply singly or in conjunction. These tools are the following:

- *Sale of business.* Resolution authorities may effect a sale of the institution, in whole or in part, on commercial terms, without requiring the consent of the shareholders or complying with other procedural requirements.
- *Bridge Institution.* Resolution authorities may transfer all or part of the business of an institution to a publicly controlled entity. The operations of a bridge institution are temporary, the aim being to sell the business to the private sector when market conditions are appropriate.
- *Asset Separation.* Resolution authorities may transfer impaired or problem assets to an asset management vehicle to allow them to be managed and worked out over time.
- *Bail-In.* Resolution authorities may write down the claims of unsecured creditors of a failing institution and/or convert such claims into equity.

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

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

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

The regulation on the SRM adopted by the European Parliament and the Council (the **SRM Regulation**) entered into force on 19 August 2014 and establishes uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the SRM and the SRF.

The SRM Regulation builds on the rulebook on bank resolution set out in the BRRD and establishes the following:

- the SRM applies to all banks within the SSM. The single resolution board (the **SRB**) will prepare resolution plans for and directly resolve all banks directly supervised by the ECB and for cross-border banks. National resolution authorities will prepare resolution plans and resolve banks which only operate nationally and are not subject to full ECB direct supervision, provided that this will not involve any use of the SRF. Member States can opt to have the SRB directly responsible for all their banks. The SRB will decide in any case for all banks, including those that operate nationally and are not subject to full ECB direct supervision, whether resolution will involve the use of the SRF;
- centralised decision-making will be built around a strong SRB and will involve permanent members as well as the European Commission, the Council, the ECB and the national resolution authorities. In most cases, the ECB will notify that a bank is failing to the SRB, the European Commission, and the relevant national resolution authorities. The SRF will then assess whether there is a systemic threat and the availability of any private sector solution. If no private sector solution exists, it will adopt a resolution scheme including the relevant resolution tools and any use of the SRF. The European Commission is responsible for assessing the discretionary aspects of the SRB's decision and endorsing or objecting to the resolution scheme. The European Commission's decision is subject to approval or objection by the Council only when the amount of resources drawn from the SRF is modified or if there is no public interest in resolving the bank. If the Council or the European Commission objects to the resolution scheme, the SRB will need to amend the resolution scheme. The resolution scheme will be implemented by the national resolution authorities. If resolution entails state aid, the European Commission will need to approve the aid prior to the adoption of the resolution scheme by the SRB;
- in its plenary session, the SRB will take all decisions of a general nature and any individual resolution decisions involving the use of the SRF in excess of €5 billion. In its executive session, the SRB will take decisions in respect of individual entities or banking groups where the use of the SRF remains below this threshold. The composition of the executive session of the SRB will include the

chair, the executive director and three other permanent members, with the European Commission and the ECB sitting as permanent observers. In addition, to ensure that the interests of all Member States on which the resolution had an impact were considered, Member States that can potentially be affected by the resolution based on the institution being resolved will also participate in the session. None of the participants in the deliberation will have a veto;

- all the banks in the SSM will contribute to the SRF. The SRF has an estimated target level of €55 billion and can borrow from the markets if decided by the SRB in its plenary session. The SRF will be owned and administrated by the SRB. The SRF will reach a target level of at least 1% of covered deposits over an eight-year period. During this transitional period, the SRF, established by the SRM Regulation, will comprise national compartments corresponding to each participating SSM Member State. The resources accumulated in those compartments will be progressively mutualised over a period of eight years, starting with 40% of these resources in the first year. The establishment of the SRF and its national compartments and decisions as to their use will be regulated by the SRM Regulation. The transfer of national funds into the SRF and the activation of the mutualisation of the national compartments is provided for in an inter-governmental agreement established among the participating SSM Member States on 14 May 2014; and
- the SRF will be funded through contributions made by all credit institutions established in participating SSM Member States. Each year, the SRB, after consulting the ECB or the NCAs, and in close cooperation with the national resolution authorities, will calculate the individual contributions. The European Commission and the Council have also adopted delegated acts to specify, among other things, the criteria and the methodology for establishing the annual contributions payable by credit institutions. Contributions will be determined in proportion to each institution's risk profile and calculated on the basis of their liabilities, excluding own funds and covered deposits.

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

The 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, and was subsequently amended to capture all related EU Directives by the CBC Directives to Banks for the Calculation of the Capital Requirements and Large Exposures of 2006 to (No. 2) 2011.

In December 2010, the Basel Committee issued two prudential framework documents ("Basel III: A global regulatory framework for more resilient credit institutions and banking systems", December 2010 and "Basel III: International framework for liquidity risk measurement, standards and monitoring", December 2010) which comprise the Basel III capital and liquidity reform package (**Basel III**). The Basel III documents were revised in June 2011. The Basel III framework has been transposed into law in the EU through new banking regulations adopted on 26 June 2013: CRD IV and the CRR. CRD IV/CRR has applied from 1 January 2014, with particular elements being phased in over a period of time (the requirements will be largely fully effective by 2019 and some minor transitional provisions provide for the phase-in until 2024) but it is possible that in practice implementation under national laws may be delayed until after such date.

Some important points of CRD IV/CRR framework include:

- *Quality and Quantity of Capital.* CRD IV/CRR revised the definition of regulatory capital and its components at each level. It also proposed a minimum CET 1 capital ratio of 4.5% 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 consisting of common equity and amounting to 2.5% of risk weighted assets as a capital conservation buffer. Depletion of the capital conservation buffer will trigger limitations on dividends, distributions on capital instruments and compensation and it is designed to absorb losses in stress periods;
- *Systemic Risk Buffer.* According to CRD IV/CRR, Member States may require the creation of a buffer against systemic risk in the financial sector or subsets thereof in order to prevent and mitigate long-term non-cyclical systemic or macroprudential risks not covered by CRD IV/CRR. The buffer should be at least 1% and is constituted by CET 1 elements;
- *Deductions from CET 1.* CRD IV/CRR revises the definition of items that should be deducted from regulatory capital. In addition, most of the items that were previously required to be deducted from regulatory capital will be deducted in whole from the CET 1 component;
- *A Grandfathering Period for Existing "own funds" items.* Capital instruments that qualify as own funds under Directive 2006/48/EC will be phased out over a period that began on 1 January 2014 and ends on 31 December 2021. The regulatory recognition of capital instruments that qualified as own funds prior to 31 December 2011 will be reduced by a specific percentage in subsequent years. Step-up instruments will be phased out at their effective maturity date (i.e., their call and step-up date) if the instruments do not meet CRD IV/CRR criteria for inclusion in Tier I or Tier II. Existing public sector capital injections will be grandfathered until 31 December 2017;
- *No Grandfathering for Instruments issued after 1 January 2012.* Only those instruments that were issued before 31 December 2011 qualify for the transition arrangements discussed above;
- *Countercyclical Buffer.* To protect the banking sector from excess aggregate credit growth, CRD IV/CRR gives Member States the right to require an additional buffer consisting of CET 1 and amounting to 0% to 2.5% of risk weighted assets, to be imposed during periods of excess credit growth, according to national circumstances. The countercyclical buffer, when in effect, will be introduced as an extension of the conservation buffer range;

- *Central Counterparties (CCPs)*. A 2.0% 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 EMIR (since non-qualifying CCPs will be treated as bilateral exposures and will not receive the preferential capital treatment referred to above), and also partly on the nature of segregation arrangements relating to capital posted to that CCP. As mentioned above, a credit institution's collateral and mark-to-market exposures to CCPs meeting these enhanced principles will be subject to 2.0% 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*. CRD IV/CRR increases risk weights on certain exposures to financial institutions; in particular, a multiplier of 1.25 has been introduced into the calculation of risk weighted exposure amounts for exposures to “large financial sector entities” and “unregulated financial entities” (as defined in the CRR);
- *Counterparty Credit Risk*. CRD IV/CRR raises counterparty credit risk management standards in a number of areas, including for the treatment of so-called wrong-way risk, i.e., cases where the exposure increases when the credit quality of the counterparty deteriorates. For example, a capital charge for potential mark-to-market losses associated with a deterioration in the creditworthiness of a counterparty and the calculation of expected positive exposure by taking into account stressed parameters;
- *Leverage Ratio*. Credit institutions are required under CRD IV/CRR to submit to their NCA all necessary information on the leverage ratio and its components and, from 1 January 2015, have been required to disclose information on the leverage ratio publicly. In this regard, the Basel Committee has stated that it intends to make final adjustments to the definition and calibration of the Basel III leverage ratio before 2017 based on its findings during the "parallel run period" between 1 January 2013 and 1 January 2017 during which it is testing a minimum requirement of 3% for the leverage ratio, with a view to migrating to a binding minimum requirement from 1 January 2018;
- *Systemically Important Institutions*. Systemically important credit institutions should have loss-absorbing capacity beyond the minimum standards and work on this issue is ongoing. Under CRD IV/CRR, global systemically important institutions will, and other systemically important institutions may, be required to maintain a buffer of up to 3.5% and 2% of the total risk exposure amount, respectively, taking into account the criteria for its identification as a systematically important credit institution. That buffer shall consist of and be supplemental to CET 1 capital; and
- *Liquidity Requirements*. CRD IV/CRR contains high level provisions on the liquidity coverage ratio (which is an amount of unencumbered, high quality liquid assets that must be held by a credit institution to offset estimated net cash outflows over a 30-day stress scenario, and will be phased in gradually, starting at 60% on 1 October 2015, and expected to be 100% from 1 January 2018) and the net stable funding ratio (which is the amount of longer-term, stable funding that must be held by a credit institution over a one year timeframe based on liquidity risk factors assigned to assets and off-balance sheet liquidity exposures, and which is being developed). The liquidity coverage ratio was brought into effect by means of Commission Delegated Regulation 2015/61, published in the Official Journal of the EU in January 2015. This Delegated Regulation sets out rules governing which assets will qualify as high quality liquid assets, and how cash outflows and inflows should be calculated under stressed conditions. The European Commission is also required to produce a report on the net stable funding ratio by 31 December 2016, containing a legislative proposal if appropriate. The Basel Committee's aim is that the net stable funding ratio should be the minimum binding standard by 1 January 2018.

Although the CRR is directly applicable in each Member State, it leaves a number of important interpretational issues to be resolved through technical standards, and leaves certain other matters to the discretion of the NCA in each Member State. In addition, CRD IV/CRR allows for the ECB to assume certain supervisory responsibilities formerly handled by national regulators. The ECB may interpret CRD IV/CRR or exercise discretion accorded to the NCA under CRD IV/CRR in a different manner than national regulators. The manner in which many of the new concepts and requirements under CRD IV/CRR will be applied to the 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/liquidity requirements and capital/liquidity costs (see "*Risk Factors — Risks Relating to the Group's Business — The Group is subject to evolving minimum capital requirements and ECB supervision which may require it to raise additional capital or result in increased costs*").

In addition to the substantial changes in capital and liquidity requirements introduced by CRD IV/CRR, there are several new regulatory initiatives, in various stages of finalisation, which represent additional regulatory pressure over the medium term and will impact the EU's future regulatory direction. These initiatives include, among others, the revised Markets in Financial Instruments Directive and the Markets in Financial Instruments Regulation (see "*— MiFID (the Markets in Financial Instruments Directive (Directive 2004/39/EC))*" below) and the European Market Infrastructure Regulation (see "*— The European Market Infrastructure Regulation*" below).

The Basel Committee has also published certain proposed changes to the current securitisation framework which may be accepted and implemented in due course.

The implementing technical standards for supervisory reporting, which have applied as from 1 January 2014, establish rules on prudential reporting laid down in CRD IV/CRR and set out the content and format of data to be reported by credit institutions to their respective NCAs. The scope of the reporting requirements extends to reporting on the following items:

- own funds;
- financial information, including "FINREP" reporting for IFRS credit institutions;
- real estate losses;
- large exposures;
- leverage ratio;
- liquidity coverage ratio; and
- liquidity net stable funding ratio.

## **Solvency II**

The directive on the undertaking and pursuit of the business of insurance and reinsurance (Directive 2009/138/EC) of 25 November 2009 (**Solvency II**) is a fundamental review of the capital adequacy regime for the European insurance sector business. When implemented the capital structure and overall governance of the Group's insurance business will alter and this may have an impact on the Group's capital position and the allocation of capital within the Group. The Group's insurance companies, GIC and EuroLife, do not anticipate any material issues in complying with Solvency II requirements on the current timetable. Directive 2013/58/EU set the date for transposition of the Solvency II framework into national law as at 31 March 2015, and 1 January 2016 was set as the date of application and subsequent removal of the existing relevant insurance and reinsurance directives. Cyprus did not meet the 31 March 2015 deadline for the transposition

of the Solvency II framework into domestic law. However, it is currently expected that such transposition will take place prior to 1 January 2016.

### **MiFID (the Markets in Financial Instruments Directive (Directive 2004/39/EC))**

Directive 2004/39 on markets in financial instruments (as supplemented by Directive 2006/73 and Commission Regulation 1287/2006) (**MiFID**) provides for the regulation of firms that provide investment services and advice and introduced a regulatory regime for the trading of financial instruments on regulated markets and multilateral trading facilities. MiFID was incorporated into Cypriot law by the Investment Services and Activities and Regulated Markets Law and the CBC and CySEC have issued several directives with respect to the requirements of this law.

MiFID introduced significant changes in Cyprus' regulatory framework with a view to: improving investor protection, increasing transparency, requiring investment services providers to categorise their clients as per the client's risk profile, offering increased transparency on fees and expenses charged to clients, ensuring the timely and duly forwarding of clients' orders to exchanges, improving procedures to identify and prevent conflicts of interest and other relevant matters.

The Group has instituted appropriate procedures to comply with the requirements of MiFID, as implemented into Cypriot legislation and regulations, and to be in line with applicable guidelines and best practices in relation to the provision of investment services and advice as well as the trading of financial instruments.

MiFID will be amended by a new EU Directive (commonly referred to as **MiFID II**) and Regulation (commonly referred to as **MiFIR**). MiFID II and MiFIR are intended to improve the functioning of financial markets in light of the financial crisis and to establish a safer and more transparent financial system by enhancing regulatory requirements, market transparency and strengthening investor protection. MiFID II and MiFIR were published in the Official Journal of the EU on 12 June 2014. Member States are required to implement MiFID II by 3 July 2016 and the national implementing measures shall apply, in relation to most provisions, from 3 January 2017. MiFIR will apply directly to investment firms regulated under MiFID from 3 January 2017 (with the exception of certain provisions).

### **Investor Compensation Fund**

The 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 Clients of Banks Regulations of 2004 and 2007 (the **Investor Compensation Fund Regulations**).

The Fund was established on 1 May 2004 and is administered by a management committee of five members, two of which must be the Governor of the CBC and the Senior Manager of the Banking and Supervision and Regulation Division of the CBC. All Cypriot incorporated banks, which offer certain investment services, are required to become members of the Fund. In addition to the 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 the Investor Compensation Fund Regulations). This contribution is required to be paid between the 16 and 31 of March of each year, and is calculated on the basis of the eligible funds and financial instruments of the 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 Banking Law, the Law on the Establishment and Operation of Deposit Protection and Resolution of Credit and Other Institutions Scheme of 2013 and the Establishment and Operation of the Deposit Protection and Resolution of Credit and Other Institutions Scheme Regulations of 2013 and 2014.

The Deposit Protection Scheme is comprised of three funds: the Deposit Protection Fund for banks, the Deposit Protection Fund for cooperative credit institutions and the Resolution of Credit and Other Institutions Fund. The Deposit Protection Scheme is administered by a management committee, the members of which are representatives from the Ministry of Finance of Cyprus and the CBC.

The purpose of the funds administered under the Deposit Protection Scheme is:

- to compensate depositors of a bank in the event that the bank is unable to repay its deposits; and
- to fund the implementation of resolution measures in respect of banks.

The Deposit Protection Scheme covers deposits denominated in euro or any other currency 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 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 Prevention and Suppression of Money Laundering Activities Law of 2007 or a corresponding law of another country; or
- who, in the opinion of the management committee, are responsible for the credit institution's bankruptcy or have profited out of circumstances which led to the credit institution's bankruptcy or any other similar situation,

are also excluded from compensation under the Deposit Protection Scheme.

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

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

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

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

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

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

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

### **Cypriot Guarantee Scheme for Credit Institutions**

In 2012, the Government established a €6 billion guarantee scheme for credit institutions incorporated in Cyprus and licensed by the CBC (including subsidiaries of foreign financial institutions) and the Cooperative

Central Bank to facilitate the access by eligible credit institutions to medium-term funding and to reinforce the overall stability of the banking system.

Pursuant to the Granting of Government Guarantees for the Conclusions of Loans and/or the Issue of Bonds by Credit Institutions Law of 2012, and implementing decrees, the maximum amount of Government guarantees that may be allocated to any credit institution cannot exceed 15% of the total domestic deposits of such credit institution and guarantees can only be granted in respect of debt obligations for a term between 3 months and 5 years. In addition, pursuant to the relevant Cypriot legislation, as long as the Government guarantee is in place, the relevant credit institution is, among other things, not allowed to repurchase its own shares, provide any discretionary bonuses to members of its board of directors or senior management or engage in aggressive commercial strategies which would not otherwise take place without the guarantee.

Before a Government guarantee can be granted, the relevant credit institution is required to provide the CBC with a plan for its mid-to-long term funding requirements and provide (subject to limited exceptions) eligible collateral to cover the guarantee allocated. In addition, the government guarantee scheme for credit institutions provides for the payment of a fee calculated based on the tenor of the debt obligation subject to the guarantee and the risk profile of the credit institution (based on an analysis of its credit default swap data or sample bank credit default swap data).

On 6 November 2012, the European Commission approved the establishment of the bank guarantee scheme under EU state aid rules. In July 2015, the European Commission announced the sixth extension of the bank guarantee scheme until 31 December 2015. For more information, see "*Risk Factors — Risks Relating to the Group's Business — The 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 a payment service provider (**PSP**), such as the Issuer, to ensure in an accessible form a minimum level of information and transparency regarding the payment services it provides, under the terms and conditions set forth in such law. The PSD also provides further protection regarding the rights of the users of the payment services, but it only applies where both the payer’s PSP and the payee’s PSP are located in the European Economic Area (**EEA**), with the exception of provisions regarding the value date of the transaction.

On 24 July 2013, the European Commission published a proposal for a new payment services directive to incorporate and repeal the PSD. This proposal, referred to as **PSD2**, may lead to additional obligations being imposed on PSPs, such as the Issuer. PSD2 is also expected to extend the scope of existing requirements on PSPs to certain situations in which only the PSP of the payee or the PSP of the payer is located in the EEA. On 8 October 2015, the European Parliament adopted the proposed PSD2. However, it remains to be adopted by the Council of European Union (which is expected in the “near future”). Once adopted by the Council of the European Union, the official final text of the PSD2 will be published on the Official Journal of the European Union and Member States will then have two years to implement it.

### *Single Euro Payments Area (SEPA)*

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

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

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

### **Capital Control Measures**

In order to address the risk of a significant outflow of funds from the Cypriot banking sector as a result of negotiations between the Government and the Troika for financial assistance, the first Enforcement of Restrictive Measures on Transactions in case of Emergency Law of 2013 Decree (each such decree, a **Capital Controls Decree**) was issued by the Ministry of Finance of Cyprus on 27 March 2013 and imposed a wide ranging set of restrictions and controls on the flow of funds from within and outside of Cyprus including:

- a limit on the amount of cash that can be withdrawn daily to €300 per natural person and €500 per legal person (or their equivalent in foreign currencies) in each credit institution irrespective of the number of accounts held;
- the prohibition on the cashing of cheques;
- the prohibition on the transfer of funds of more than €5,000 per month to accounts held outside of Cyprus or in any other bank, subject to limited exceptions; and
- increased scrutiny of large cashless payments or transfers of deposits/funds from Cyprus to accounts held outside of Cyprus.

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

### **Resolution Law**

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

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

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

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

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

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

### **CBC Credit Risk Directives**

As part of the restructuring of the financial sector in Cyprus, the CBC has issued a number of new directives which significantly impact the Issuer's credit risk policies and the management of its credit risk. The Group has instituted appropriate procedures to comply with the requirements of the directives described below.

#### ***Directive on Loan Origination Processes and Processes of Reviewing Existing Loans***

The Loan Origination Directive prescribes the minimum practices to be followed by, and new documentation requirements for, credit institutions during the process of assessing and granting or reviewing the provision of credit facilities. In particular, this directive has significantly increased the amount of data required from both borrowers and guarantors in relation to their financial history, regardless of loan amount.

The Loan Origination Directive:

- includes detailed requirements for the type of information credit institutions are required to collect during the loan origination process. The information requirements are specific to the category of borrower and type of loan for which the application has been made;
- includes detailed criteria that credit institutions must consider in the evaluation of credit applications, such as the borrower's repayment ability, credit rating, loan contribution and collateral quality, among others;
- creates new guidelines for lending in foreign currencies;
- creates procedures and guidelines that credit institutions must adhere to when extending credit to real estate companies or for the purchase of real property;
- creates procedures for the review of existing credit facilities and for type of information credit institutions are required to collect during the review process;

- includes guidelines for the selection and use of property surveyors and the preparation of property valuation reports; and
- provides a set of best practices to be followed by credit institutions in granting credit facilities to customers.

### *Arrears Management Directive*

Following the completion of a review conducted by the CBC with the assistance of an external expert on the arrears management policies and practices at the end of 2014, on 3 April 2015, the CBC issued the Arrears Management Directive which repeals and replaces the Arrears Management Directives of 2013 and 2014. The Arrears Management Directive requires the establishment of internal divisions and processes (including an appeals process for borrowers) in relation to the management of delinquent loans, sets out a code of conduct for dealing with borrowers who are in default and parameters for cooperation between credit institutions in relation to borrowers who have borrowed from multiple credit institutions.

The Arrears Management Directive also requires credit institutions to ensure the application of efficient and effective strategies, policies, structures, procedures and mechanisms for the management of arrears and the attainment of fair and viable restructurings of credit facilities for borrowers in financial difficulties. At a minimum, this includes:

- the establishment of policies on arrears management for each category of credit facility;
- the implementation of appropriate governance structures and control mechanisms by the credit institution with regard to arrears management;
- the implementation of portfolio segmentation requirements to permit credit institutions to segment and analyse their loan books in granular detail. In particular, for borrowers with credit facilities (together with the credit facilities of persons connected to them) of over €300,000 in total, the credit institution is required to calculate the net present value of the credit facilities concerned and analyse the impact on its capital position under each restructuring option for the credit facilities;
- the establishment of a clear and determined approach to arrears management for each category of credit facility;
- the establishment of procedures, mechanisms and systems, including data requirements, for arrears management. In particular:
  - the credit institution must consider macroeconomic forecasts and the likely adverse financial impact of failing to identify a restructuring option during the development of restructuring options; and
  - the credit institution must procure an independent professional valuation of the open market value and forced sale value of immovable property which is: (a) existing collateral to be sold to reduce a borrower's credit facilities; (b) unencumbered immovable property being considered as additional collateral; or (c) unencumbered immovable property being provided as collateral to convert unsecured credit facilities into secured credit facilities;
- adherence to the CBC's "Code of Conduct on the Handling of Borrowers in Financial Difficulties" (the **AMD Code**). In 2015:
  - the scope of the AMD Code was narrowed to cover micro and small enterprises (as defined in the European Commission Recommendation no. 2003/361/EC) and natural persons with

credit facilities (including the credit facilities of persons connected to them) of up to €1,000,000 in total;

- changes were made to the time-frames set out under the AMD Code in connection with the restructuring process to promote transparency, to set expectations between parties and to remove subjective interpretation of definitions (see “—*Insolvency Framework Laws*” and “—*Laws relating to Foreclosures*”); and
- the term "sustainability" as used in the AMD Code has been clarified to mean a restructuring option which gives the borrower the ability to repay credit facilities in accordance with a revised restructuring plan while allowing for a medium or long term reduction in his balance of credit facilities at the same time;
- the establishment of an independent, centralised arrears management unit within the credit institution (see "*Business Description of the Group — Banking and financial services — Restructuring and Recoveries Division*"); and
- the establishment of an independent internal appeals process for borrowers and the establishment of an appeals committee within the credit institution that is independent from the credit granting, monitoring and restructuring functions. In addition, the credit institution must publicise, through printed material in its local branches and on its website, the availability of mediation through the Financial Ombudsman.

The Issuer has taken measures to be in compliance with the Arrears Management Directive including, amongst other things, the implementation of a range of automatic notifications and other functions to minimise the risk of non-adherence to the restructuring time-frames set out under the AMD Code and improvements to its management information system. For more information, see "*Risk Factors — Regulatory and Legal Risks — The Group's business and operations are subject to substantial regulation and supervision and can be negatively affected by its non-compliance with certain existing regulatory requirements and any adverse regulatory and governmental developments*".

#### ***EU Mortgage Credit Directive 2014/17/EU***

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

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

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

### ***Directive on Loan Impairment and Provisioning Procedures of 2014 and 2015***

The Loan Provisioning Directive provides guidance to credit institutions in connection with their loan impairment policies and procedures for provisions. The purpose of Loan Provisioning Directive is to ensure that credit institutions have in place adequate provisioning policies and procedures for the identification of credit losses and prudent application of IFRS in the preparation of their financial statements. The Loan Provisioning Directive requires certain disclosures in relation to the loan portfolio quality, provisioning policy and levels of provision. The disclosures required by the Loan Provisioning Directive, in addition to those presented in the notes to the Group's financial statements, are set out in its Additional Risk and Capital Management disclosures section of its annual and mid-year financial reports and are principally focused on the Group's NPEs based on the definition contained in Commission Implementing Regulation (EU) 2015/227 of 9 January 2015 (the **ITS**) which came into force on 21 February 2015.

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

- (i) the debtor is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due;
- (ii) defaulted exposures as per the approach provided in Regulation (EU) No 575 / 2013 Article 178 or impaired for accounting purposes in accordance with the applicable accounting framework;
- (iii) material exposures which are more than 90 days past due;
- (iv) performing forbore exposures under probation for which additional forbearance measures are extended; or
- (v) performing forbore exposures under probation that present more than 30 days past due within the probation period.

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

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

- (i) the application of forbearance measures does not lead to the recognition of impairment or default;
- (ii) one year has passed since the forbearance measures were applied; and
- (iii) there is not, following the forbearance measures, any past due amount or concerns regarding the full repayment of the exposure according to the post-forbearance conditions.

In addition, the following materiality criteria apply:

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

for retail exposures:

- for loans: arrear amount greater than €500 or number of instalments in arrear greater than one

- for overdrafts: Excess amount greater than €500 or greater than 10% of the approved limit

for all other exposures:

- total customer arrear / excesses greater than €1,000 or greater than 10% of total customer funded balances

### ***Directive on Governance and Management Arrangements in Credit Institutions***

In August 2014, the CBC issued the Governance Directive which imposes new requirements for corporate governance on credit institutions operating in Cyprus. The Governance Directive, amongst other things, establishes new requirements for the board of directors and board committees of credit institutions in Cyprus. The Governance Directive also establishes new rules for the internal control functions, including rules regarding compliance, audit, risk and information security.

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

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

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

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

### **Consumer Protection**

Banks in Cyprus are subject to consumer credit legislation that seeks to protect consumers from abusive contractual terms and conditions. This legislation also sets forth rules on the distance marketing and advertisement of consumer financial services, prohibits unfair and misleading commercial practices and includes penalties for violations of such rules and prohibitions. The Unfair Contract Terms in Consumer Contracts Law of 1996, for example, provides that, inter alia, terms which allow a seller or a services provider to (i) terminate (without a material reason) a contract of unlimited duration without providing reasonable notice; or (ii) unilaterally amend the terms of a contract (without there being a material reason, which is specified in the contract), may be rendered void and unenforceable. See also " – *Interest Rates*".

In 2010, Cyprus transposed Directive 2008/48/EC of the European Parliament and of the Council on credit agreements for consumers (repealing the previous Directive 87/102/EEC) through the passing of the Consumer Credit Agreements Law of 2010 which in respect of certain consumer credit arrangements and amongst other things, provides the minimum content of pre-contractual information, introduces the obligation to assess the creditworthiness of the consumer, determines the minimum content of credit agreements, establishes the "Real Total Annual Interest Rate" and regulates issues regarding credit providers and credit intermediaries and other specific issues.

Moreover, the Consumer Credit (Housing Loans and Hire Purchase Agreements) Law of 2001 includes provisions for the protection of consumers in relation to certain housing loans and hire purchase agreements.

### **Money Laundering and Terrorist Financing**

As a fully cooperative member of the Financial Action Task Force (**FATF**) and a Member State, Cyprus abides by FATF recommendations and has transposed into national law Council Directives 2005/60/EC and 2006/70/EC and has adopted the International Convention for the Suppression of the Financing of Terrorism through the passing of the Prevention and Suppression of Money Laundering Activities Law 2007 and the issue by the CBC of the Fourth CBC Directive on the Prevention of Money Laundering and Terrorism Financing (together, the **Money Laundering Activities Law**).

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

The Fourth Money Laundering Directive (EU) 2015/849 (**MLD4**) was adopted on 26 June 2015 and must be transposed into Cypriot legislation by 26 June 2017. Further guidance and technical standards will be published by a joint committee of the European Supervisory Authorities in the interim period (a draft guidance document has already been issued). MLD4 contains a number of key amendments to the money laundering legislation that the Group is currently subject to (including a reduction in the due diligence threshold referenced above from €15,000 to €10,000) and changes will need to be made to the systems and controls, policies and procedures that are currently in operation to mitigate the risk of the Group being used to launder money and in connection with terrorist financing. MLD4 is intended to give greater prominence to a risk-based approach to allow for firms to use targeted and effective measures to address the risks to their business.

### **Equity Participation in Companies**

Credit institutions in Cyprus must follow certain procedures regarding holdings in other companies. An authorised credit institution incorporated in Cyprus is also subject to the following requirements under CRR: where (i) the value of a qualifying holding outside of the financial sector which exceeds 15% of the credit institution's eligible capital or (ii) the total value of qualifying holdings outside the financial sector exceeds 60% of the credit institution's eligible capital, the competent authority of the credit institution may either (A) require that the credit institution apply a risk weight of 1250% to the amount of such holdings in excess of the relevant percentage or (B) prohibit the credit institution from having such holdings in excess of the relevant percentage. The competent authority of the credit institution is required to publish its choice of (A) or (B). The CRR, which, since 1 January 2014, applies directly in all Member States (including Cyprus) provides that NCAs of Member States shall publish their choice of the requirements applicable to acquisitions by credit institutions of qualifying holdings in other companies, based on the choices made available in article 89 of the CRR (i.e., for qualifying holdings exceeding certain thresholds, whether the NCA chooses to apply a risk weight of 1250% or to prohibit such qualifying holdings in excess of certain thresholds). The CBC has elected (A) and credit institutions in Cyprus must apply a risk weight of 1250% to any such holdings, in accordance with Article 89 3(a) of the CRR.

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

- (a) a financial sector entity;
- (b) an undertaking, that is not a financial sector entity, carrying on activities which the competent authority considers to be any of the following:
  - (i) a direct extension of banking;
  - (ii) ancillary to banking;
  - (iii) leasing, factoring, the management of unit trusts, the management of data processing services or any other similar activity.

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

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

New and significant holdings (concentrations) must be reported to the Cyprus Commission for the Protection of Competition according to the Control of Concentrations between Undertakings Law of 2014 (Law 83(I)/2014), and, if such transactions have a European Community dimension within the meaning of Regulation (EC) No 139/2004 on the control of concentrations between undertakings (as supplemented by Commission Regulation (EC) 802/2004), these new and significant holdings must also be notified to the European Commission and cannot be put into effect prior to receiving a clearance from the European Commission. With respect to listed companies, the CySEC and the CSE must be notified once the ownership threshold of 5% is exceeded (whether in a single transaction or in a series of transactions), in accordance with the Securities and Cyprus Stock Exchange Law of 1993. Moreover, pursuant to the provisions of the Takeovers Bids Law of 2007, a person or persons acting in concert who acquire(s) 30% or more of the voting rights of a company registered in Cyprus and whose shares are traded on a regulated market in Cyprus is generally under an obligation to make an offer to buy all remaining shares unless the acquisition arises from the application of any powers and resolution mechanisms provided under the BRRD.

### **Constraints on the Use of Capital**

There are no constraints on the use of capital that have or may have a significant impact, directly or indirectly, on the Group's activities, except for the constraints imposed by the banking regulations discussed above and the legal framework applicable to credit institutions operating in Cyprus.

Part of this framework includes a prohibition set out in the Banking Law requiring CBC written approval (with such approval subject to the provisions set out in Cypriot company law) for any transaction which relates to a credit institution acquiring or dealing for its own account in its own shares, and a prohibition on granting, directly or indirectly, of credit facilities for the purchase of a credit institution's own shares or the shares of a holding company or subsidiary.

### **Equity Participations of Individuals or Legal Entities in Cypriot Credit Institutions**

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

The CBC will conduct an assessment of the acquirer and approve or reject the contemplated acquisition. If a person fails to comply with the CBC notification requirement, the CBC may, among other things, declare ineffective the legal documentation underlying the acquisition, suspend the voting rights attached to the relevant shares and impose fines.

The notification obligations also exist, and the relevant fines and administrative measures may be imposed, in the case where an individual or legal entity decides to dispose of, directly or indirectly, an equity participation or voting rights in a Cypriot credit institution or to reduce its current participation or voting

rights resulting in a decrease thereof below the legally defined thresholds set out above, or to dispose of a “qualifying holding”, directly or indirectly, in a Cypriot credit institution.

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

## **Interest Rates**

Pursuant to an amendment to the Interest Rate Law passed by the Cypriot Parliament in September 2014, terms in agreements relating to credit facilities that give a credit institution the right to unilaterally increase the interest rate margin payable by the borrower are void and unenforceable. This amendment applies to all credit facilities in existence as at the date it came into effect (9 September 2014) and all agreements relating to credit facilities entered into thereafter. In addition, this amendment, inter alia,:

- requires credit institutions to ensure clarity and transparency on changes to the amount of interest charged, to the timing of interest payments and the methodology for calculating such interest;
- requires credit institutions to publish on their website the calculation methodology of the various categories of their base rates as well as the conditions and parameters which contribute to the changes in base rates; and
- establishes that default interest shall not exceed 2%. 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 issued a directive on 23 April 2013 and subsequently on 17 February 2015, according to which Pillar 2 specific own funds capital requirements arise from high deposit interest rates. The Pillar 2 specific own funds capital requirements apply to deposits with an interest rate higher than the relevant Euribor/Libor plus 2% which is currently the applicable threshold.

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

## **Compulsory Deposits with the CBC**

The compulsory reserve requirement framework has been amended in accordance with EU regulations. As from January 2012, the compulsory reserve requirement ratio set by SSM Regulation (EU) No 1745/2003 and SSM Regulation (EU) No 1358/2011 is 1% 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 amended Foreclosure Law is intended to enable foreclosure within two years. See "*– Laws relating to Foreclosures*" for more information on Foreclosure Law.

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

### **Insolvency Framework Laws**

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

- Insolvency of Natural Persons (Personal Repayment Schemes and Debt Relief Orders) Law (No. 65(I)) of 2015 – a new law which provides for debt relief orders and consensual and non-consensual debt repayment schemes for natural persons (**Personal Repayment Schemes**);
- Bankruptcy Law (Amending) (No. 61(I)) Law of 2015 – a law amending the existing Cypriot Bankruptcy Law, Cap. 5 in relation to natural persons in order to provide, amongst other things, for the automatic discharge of a debtor from bankruptcy and certain debts after three years from the issue of the bankruptcy order if he has been co-operative and acted in good faith and to provide the official receiver with the power to dispose of assets without further court approval or involvement of the debtor (except in cases of property subject to security). In relation to property subject to a security interest, the official receiver/trustee in bankruptcy may obtain a court order to dispose of such property, however, the priority of the secured creditor in relation to the relevant sale proceeds is preserved;
- Company Law (Amending) (No. 63(I)) Law of 2015 – a law amending the liquidation provisions of the existing Companies Law in order to, amongst other things, allow for the appointment of the liquidator by creditors and contributories and not just by the Cypriot courts and to allow the liquidator to obtain a court order to dispose of property subject to security for the benefit of all creditors, paying the secured creditor in priority;
- Company Law (Amending) (No. 62(I)) Law of 2015 – a law amending the existing Companies Law in order to provide for a mechanism for the restructuring of a company's debts and requires the appointment of an Insolvency Practitioner as an independent examiner (at the application of the company or any creditor or shareholder holding at least 10% of the share capital or any guarantor) to formulate proposals for a compromise or a scheme of arrangement (**Examinership**). An examiner

can be appointed if the Cypriot courts are satisfied that there is a reasonable prospect of the survival of the company or its undertaking as a going concern. If an examiner is appointed, a four month moratorium against the claims of any secured or unsecured creditor is afforded to the company. The proposals of the examiner require the confirmation of the Cypriot courts (which may sanction, modify or reject the proposals). A court may sanction a proposal involving a scheme of arrangement provided that, amongst other things, a majority in value of at least one impaired class of creditors represented at the relevant meeting have voted in favour of the scheme; and

- Insolvency Practitioners Law (No. 64(I)) of 2015 – a new law which provides for the licensing and supervision of independent insolvency practitioners (**Insolvency Practitioners**) who will act in various capacities under the Insolvency Framework Laws,

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

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

- the ability of the Cypriot courts and the Insolvency Practitioner to impose Personal Repayment Schemes on both secured and unsecured creditors without their consent so long as certain criteria are met. These criteria include, amongst other things, a requirement that the total amount of the assets and the secured and unsecured debt of the debtor be not more than €250,000 and €350,000, respectively, and a requirement that the debtor's inability to pay his debts is a result of the deterioration of his financial position since 2009 which has led to a reduction of his income by at least 25%. In addition, the Insolvency Practitioner is expected to exclude any requirement on the debtor to sell his primary residence in a Personal Repayment Scheme to the extent possible.
- provisions which would render guarantors responsible for only the difference between the amount of the debt and the market value from time to time of any property securing the debt, even if the guarantee provides for the guarantor to be treated as principal debtor. The types of guarantors or guarantees protected by, and the definition of "market value" used in these provisions, vary under the different insolvency regimes.
- significant protections for guarantors who are natural persons in respect of debt subject to a Personal Repayment Scheme such as:
  - for a guarantor of any non-performing loan existing as of 7 May 2015, a prohibition on legal measures against him if his assets, excluding his primary residence, do not exceed €750,000, the debt guaranteed was for an amount of up to €250,000 or, as of 7 May 2015, the remaining debt guaranteed was for an amount of up to €250,000 and the debt guaranteed is secured against the primary residence of the borrower; and
  - the imposition of a two year time limit commencing on the implementation of the relevant Personal Repayment Scheme for claims to be brought against a guarantor. In addition, until 7 May 2018, even if a creditor brings claims against him within the two year limit, a creditor will be unable to foreclose on the primary residence of any guarantor who executed a guarantee prior to 7 May 2015 unless mortgaged for the debt concerned.
- in respect of companies under liquidation, the imposition of a burden on the secured creditor to submit a preliminary estimation of the value of the secured property within 10 days of the publication of the liquidation order in the Official Gazette.

- for guarantors of a company under liquidation, the barring of a creditor from taking any legal or other measures against a guarantor who is a natural person and who has guaranteed debt in an amount not exceeding €500,000 if the creditor does not submit its proof of debt to the company's liquidator within the specified time limit.
- under Examinership, significant protections for guarantors such as:
  - unless the guarantor is also subject to Examinership, a requirement that a creditor must offer the guarantor an assignment of its right to vote with respect to the proposed rehabilitation plan if the guarantor is a company or other legal entity, or is a natural person which has guaranteed an amount greater than €500,000. It is unclear whether the offer by the creditor should be conditional on, or based upon the amount of, the payment of the guaranteed amount by the guarantor or how this requirement would operate if there is more than one guarantor; and
  - the barring of a creditor from taking any legal or other measures against a guarantor who is a natural person and who has guaranteed debt in an amount not exceeding €500,000 if the creditor fails to submit a list of guarantors (which includes the market value of the secured property and the balance of the debt) within the time limit specified in the relevant law (as may be extended by the examiner).

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

- a requirement on the creditor to prove that the debtor does not have the financial ability or assets to repay the debt or that the creditor has exhausted all available measures against the debtor, otherwise the execution of judgment against the Protected Guarantor will be stayed; and
- a prohibition on foreclosure by a secured creditor on the mortgaged property of the Protected Guarantor if the mortgaged property of the debtor has not been subject to foreclosure.

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

### **Laws relating to Foreclosures**

As part of the MoU policy reforms prepared by the Troika, an amendment to the Foreclosure Law was passed by the Cypriot parliament in September 2014. This amendment is intended to improve the legal framework on foreclosures and the forced sales of mortgaged property, and is expected to improve banks' ability to negotiate with borrowers, as well as decreasing the time needed to re-possess, in the event that negotiations fail. For more information on the enforcement of security, see "*The Mortgage and Housing Market in Cyprus – Enforcing security*".

The Foreclosure Law, as amended, aims to ensure that foreclosures cannot be indefinitely delayed and establishes procedures for the valuation and auctioning of properties. The amendment passed in September 2014, however, gives borrowers the right to appeal, inter alia, against valuations and imposes an obligation on lenders to attempt to reach an agreement with borrowers to restructure the defaulted loan. It also ensures the protection of property buyers who have deposited their sale contract at the Land Registry Department, but who have not secured the property's title deed. Contemporaneously with the passing of this amendment to the Foreclosure Law, the Cypriot Parliament also passed The Legal Aid (Amending) (No 3) Law of 2014, which expanded mortgagors' rights to legal assistance in court proceedings relating to foreclosures. In

addition, the Cypriot Parliament passed the Central Bank of Cyprus (Amending) (No 2) Law of 2014, which requires the CBC to report to the Cypriot Parliament on a quarterly basis on the number and types of debts which have been restructured per credit institution and to report on developments with the application of the Foreclosure Law.

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

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

#### *New enforcement procedure*

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

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

- **Arrears:** a lender may only initiate the forced sale process after the borrower has been in arrears for at least 120 days from the date the entire mortgage debt becomes due and payable, unless pursuant to the provisions of any other applicable laws, regulations or directives, the forced sale process has been suspended.
- **Notice:** written notice should be served on the borrower (and any other interested party) accompanied by a detailed statement of the amounts outstanding and informing such persons that they have a specified amount of days, this number being not fewer than 30 days from the date of service of the notice to settle the debt. The notice should state that if the borrower does not comply with the notice, forced sale proceedings may be commenced.

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

- **Appeal:** a borrower (and any other party with a legal interest) has the right within 30 days from date of receipt of the second notice to file an appeal with the District Court on the grounds of procedural irregularities.
- **Valuation:** each of the borrower and the lender has a right to appoint an independent appraiser to value the mortgaged property. If the borrower does not appoint its own appraiser, the lender is required to appoint two appraisers.

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

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

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

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

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

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

- Public auction: This involves the lender providing details of the auction to the borrower and any other interested third party and publishing such details in a comprehensive list of places, including on the official website of the Ministry of the Interior, on the lender's website and in two daily national newspapers.
- In all cases, irrespective of whether the lender opts to directly sell the property or use the auction process, the property cannot be sold to a person who is an officer, director or employee of the lender, a person who holds more than 2% shareholding in the lender, or anyone who is connected or is a representative or a spouse or a parent or a descending relative of third degree to such person.
- Sale proceeds: following the sale or auction of the property, the lender is required to notify the borrower of the sale proceeds obtained, any fees and expenses incurred and the proposed manner of distribution of the sale proceeds. The sale proceeds are used to pay, firstly, expenses and any taxes (including capital gains tax); secondly, prior registered secured creditors; thirdly, the mortgage debt plus interest; and fourthly, any other secured creditors. Any residual amount is required to be paid to the mortgagor and any other expenses relating to the sale are paid by the mortgagee. The mortgagor or any other interested person has the right to challenge the proposed distribution of sale proceeds by filing an application with the District court.

### **Sale of Credit Facilities Law**

Pursuant to the requirements of the latest MOU, the Sale of Credit Facilities Law was approved by Parliament on 12 November 2015 with the intention of facilitating and regulating the sale of loan portfolios by Cypriot banks. It will become effective from the date of publication in the Cyprus Government Gazette. While the Sale of Credit Facilities Law is intended to facilitate the management of delinquent loans by Cypriot banks, the law is new and untested and it is not yet clear how some of its provisions are meant to operate or work in practice. In particular, the Sale of Credit Facilities Law will require purchasers of loans which have a principal amount of less than EUR 1 million to be, *inter alia*, authorised credit institutions in

the EU or entities which are incorporated in Cyprus and regulated by the CBC. Pursuant to the Sale of Credit Facilities Law, the CBC will have the authority to reject an application for authorisation from any purchaser for reasons of national interest. In addition, for all loans, regardless of amount, the Sale of Credit Facilities Law will introduce a requirement to give notice to borrowers of the proposed sale of loans and will give borrowers (and guarantors) a right to submit a proposal to purchase these loans within a limited time-frame.

### **Capital Requirements in Foreign Markets**

Group subsidiaries are regulated and supervised by the regulator in their respective jurisdictions of incorporation and are subject to local guidelines and directives. All Group subsidiaries comply with their applicable minimum capital requirement ratios.

### **Amendments to Cyprus Tax Legislation**

The House of Representatives of Cyprus approved a number of legislative bills which amended Cyprus' tax legislation in line with the MoU. For more information, see "*The Macroeconomic Environment in Cyprus—Tax and other fiscal measures*".

### **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.-source payments to non-participating FFIs and account holders who are unwilling to provide the required information.

FFIs that do not enter into an agreement with the IRS will be subject to a 30% withholding tax on certain U.S.-source payments made to them.

Registration of FFIs will take place through the "FATCA Registration Website" and, upon approval, the FFIs will receive a Global Intermediary Identification Number (**GIIN**) from the IRS. The IRS regularly publishes a list of registered and approved FFIs and their GIINs. Withholding agents will rely on this list to verify an FFI's GIIN and not withhold on payments made to the FFI.

The U.S. Department of the Treasury has collaborated with foreign governments to develop two alternative model intergovernmental agreements (**IGAs**) that facilitate FATCA implementation and further reduce burdens on FFIs in partner jurisdictions. Under a Model 1 IGA, reporting Model 1 FFIs would report specified information about U.S. accounts to their government, followed by the automatic exchange of that information on a government-to-government basis with the United States. Under a Model 2 IGA, reporting Model 2 FFIs would report specified information about U.S. accounts directly to the IRS in a manner consistent with the final FATCA regulations (as modified by the applicable Model 2 IGA), supplemented by a government-to-government exchange of information on request.

The U.S. Treasury has engaged with more than 100 countries and jurisdictions around the world to combat offshore tax evasion and improve global tax compliance. Currently, more than 60 countries have signed or initialled these agreements, specifically (for example): for Model 1 IGA — the United Kingdom, Mexico, Guernsey, Isle of Man, Italy, Jersey, Malta, the Netherlands, Denmark, Ireland, Spain, Norway, Germany, France, Costa Rica and Cayman Islands; and for Model 2 IGA — Austria, Bermuda, Chile, Japan and Switzerland and more signed agreements are expected to follow in the near future.

The Government signed a Model 1 IGA with the United States on 2 December 2014. The Issuer began the implementation of due diligence procedures for new clients from 1 January 2015, as provided by the IGA. On 26 August 2015, the Cypriot Minister of Finance issued a decree for the application of the IGA in Cyprus. Following the issuance of the decree, the Issuer submitted its first report to the Cyprus Competent Authorities on 31 August 2015.

All Group FFIs have registered with the IRS as Model 1 IGA Reporting Financial Institutions and have obtained their GIINs.

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

### **Common Reporting Standard**

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

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

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

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

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

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

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

### **Transfer Fees Law and Capital Gains Tax Law**

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

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

- no duties or fees would be chargeable under the Transfer Fees Law:
  - on the sale or transfer of a primary residence if the total sales proceeds per owner do not exceed €350,000 and so long as the sale or transfer concerned takes place in the context of a bankruptcy procedure, a procedure for the winding up of a company and/or a sale of mortgaged property by the creditor under the Foreclosure Law (see “– *Laws relating to foreclosure*” above);
  - on transfers of immovable property in the name of the creditor as part of a restructuring under the terms of the Arrears Management Directive;
  - if, among other exceptions, (i) on the same day as an existing mortgage is cancelled, a new mortgage is created over a different immovable property of the mortgagor in favour of the same mortgagee and in order to secure an amount which is equal to or less than the original amount; or (ii) on the same day as an existing mortgage is cancelled, a new mortgage is created over the same immovable property in favour of a different mortgagee in order to secure an amount which is equal to or less than the original amount.
- for the transfer, lease or sublease of immovable property, certain transfer fees are reduced by 50%, subject to certain exceptions, until 31 December 2016.

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

- until 31 December 2017:
  - on the sale of a primary residence where the total sales proceeds per owner do not exceed €350,000 and so long as the sale or transfer concerned takes place in the context of a restructuring under the terms of the Arrears Management Directive, a composition or scheme of arrangement under bankruptcy proceedings, a Personal Repayment Scheme, Examinership, liquidation or a sale of mortgaged property by the creditor under the Foreclosure Law;
  - on the sale of any property (e.g. immovable property and securities) in the context of any other restructuring; and

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

## The European Market Infrastructure Regulation

On 16 August 2012, EMIR came into force. EMIR introduces certain requirements in respect of derivative contracts, which will apply primarily to financial counterparties (**FCs**), such as investment firms, credit institutions, insurance companies, amongst others, and non-financial counterparties which are entities established in the EU which are not FCs. The 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 CCP; (ii) the implementation of risk mitigation techniques in respect of uncleared OTC derivative contracts; and (iii) reporting and record-keeping requirements in respect of all derivative contracts. These requirements are described in more detail below.

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

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

## Regulatory Proposals in Cyprus

One of the pillars of the MoU requires the implementation of structural reforms to support competitiveness and the sustainable growth of the Cypriot banking sector and the wider economy (see "*The Macroeconomic Environment in Cyprus*").

Some of the initiatives currently being formulated by the Government include:

- the creation of a central credit register for credit assessment purposes, which is expected to record a broad range of data for both performing and non-performing borrowers, including information on loans and deposit accounts with other credit institutions;
- various tax reforms aimed at reinforcing the efficiency and effectiveness of revenue collection, bolstering tax administration agencies and infrastructure, improving the effectiveness of the immovable property tax and facilitating the exchange of information of tax matters across Member States (see *"Risk Factors — Regulatory and Legal Risks — The Group is exposed to tax risk and failure to manage such risk may have an adverse impact on the Group"*); and
- the passing of a securitisation bill with a view to increasing the efficiency and transparency of the processes in relation to the securitisation of loan portfolios by Cypriot banks. The securitisation bill is in the process of being reviewed and considered by the Government and Cypriot bank representatives. It is currently anticipated that the Cypriot Parliament will approve the securitisation bill by the end of January 2016.

Generally, see *"Risk Factors — Regulatory and Legal Risks — The Group's business and operations are subject to substantial regulation and supervision and can be negatively affected by its non-compliance with certain existing regulatory requirements and any adverse regulatory and governmental developments"*.

## **EU Regulatory Proposals**

### ***Proposed EU regulation on mandatory separation of certain banking activities***

On 29 January 2014, the European Commission adopted a proposal for a new regulation following the recommendations on the mandatory separation of certain banking activities published on 2 October 2012 by the High Level Expert Group on reforming the structure of the EU banking sector (the Liikanen Group). The proposed regulation contains new rules to prohibit the largest and most complex banks from engaging in proprietary trading. The proposed regulation would also give supervisors the power to require those banks to separate certain trading activities from their deposit-taking business if the pursuit of such activities compromises the financial stability of the bank or of the EU financial system as a whole. In connection with this proposal, the Commission has proposed accompanying legislation aimed at increasing transparency of certain securities financing transactions.

The proposed regulation would apply to an EU bank that is designated as a global systemically important institution under CRD IV/CRR or that exceeds the following thresholds for three consecutive years: (a) total assets are equal to or that exceed €30 billion and (b) total trading assets and liabilities are equal to or exceed €70 billion or 10% of its total assets. Such a bank would be automatically banned from engaging in proprietary trading, defined narrowly as activities with no hedging purposes for client activities or no connection with customer needs. In addition, such a bank would also be prohibited from investing in or holding shares in alternative investment funds such as hedge funds, or entities that engage in proprietary trading or acquire units/shares in alternative investment funds. Other trading and investment banking activities—including market-making, lending to venture capital and private equity funds, investment and sponsorship of complex securitisation, sales and trading of derivatives—would not be subject to the ban, however they might be subject to separation from the deposit-taking business of such a bank. The proposed regulation would also apply to all branches and subsidiaries of such a bank.

The proprietary trading ban is proposed to apply as of 1 January 2017 and the effective separation of other trading activities is proposed to apply as of 1 July 2018.

### ***The Proposed Financial Transactions Tax (FTT)***

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**).

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the 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.

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

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

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

## RESTRUCTURING OF THE ISSUER AND LAIKI BANK

In line with the Eurogroup Statement on Cyprus, the MoU required the restructuring of Cyprus' banking sector, the main terms of which are:

- the immediate resolution of Laiki Bank into a "good" bank and "bad " bank;
- the recapitalisation of the Issuer through a bail-in of uninsured depositors, shareholders and other creditors of the Issuer; and
- the acquisition by 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 insured deposits and €9.1 billion of ELA;
  - certain assets and liabilities of the United Kingdom and Greek operations of Laiki Bank, comprised mainly of loans and any related security originated by Laiki UK, shares in Laiki Bank's subsidiary Marfin Capital Partners Ltd (UK), interbank deposits and real property in the United Kingdom and Greece; and
  - contracts of employment of employees of Laiki Bank in Cyprus; and
- on 1 April 2013, the acquisition of customer deposits amounting to €325.2 million and certain liquid assets of the United Kingdom branch of Laiki Bank by Bank of Cyprus UK Ltd, a wholly-owned subsidiary of the Group.

Under the Laiki Transfer Decrees, the Resolution Authority was required to determine the final value of the assets and liabilities of Laiki Bank transferred to the 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 – There are risks in relation to the ordinary shares of the Issuer*"). 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 on 6 April 2015, the Resolution Authority announced that it had entered into a preliminary agreement with the Investment Bank of Greece, a Greek subsidiary of Laiki Bank, for financial consulting services in relation to the evaluation and possible sale of the assets of Laiki Bank, with the aim of maximising the benefit of creditors.

### **Recapitalisation of the 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:

#### ***Holders 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
- 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 schuldchein 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: 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.

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

The Bail-in Shares, Diluted Shares and Laiki Shares comprised all of the ordinary shares of the Issuer as at 30 July 2013. Following the issue of the Bail-in Decrees, certain depositors secured (on an ex-parte basis)

interim orders from the Cypriot courts restricting the 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.

***Share capital of the Issuer as of 30 July 2013***

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

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

***Share capital of the Issuer as of the date of this Base Prospectus***

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

***Release of New Deposits***

The Issuer has released all 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*".

**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 risk management policies and processes in line with the Group's conservative risk appetite and strategy under the Restructuring Plan and in accordance with the requirements of the Governance Directive or the relevant directives and guidelines issued by the ECB or CBC, the RMD function was comprehensively reassessed and reorganised in 2014 to improve and enhance risk monitoring and reporting. As part of the reorganisation process, new departments have been created to address particular risks, and new subdivisions have been created within existing departments. The total number of employees in the Group's RMD has increased from 89 as of 31 March 2013, which includes 38 employees absorbed from Laiki Bank's risk management department, to 126 employees as of 30 June 2015.

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

- *Credit Risk Management.* This department is divided into three sub-departments:
  - (i) the Credit Risk Policy (**CRP**) department develops the Group's credit risk policy, lending policies and approval limits;
  - (ii) the Credit Risk Reporting & Control (**CRR&C**) department is responsible for reviewing credit approval applications, once approved by the Credit Risk Approval department, and monitoring the Group's credit portfolio, implementing the credit provisioning policy and reports on the relevant credit risk metrics; and
  - (iii) the Credit Risk Assessment (**CRA**) department safeguards the effective management of credit risk at all stages of the credit cycle. The CRA department was established in accordance with Loan Origination Directive in 2013.
- *Credit Appraisal.* This department is engaged in reviewing and approving credit applications, within an approved set of limits. The Credit Appraisal department reports to the GCRO.
- *Market Risk.* This department monitors risk from changes in market rates, liquidity risk and credit risk in relation to the Group's investments in liquid assets. For more detail on the market risk unit, see "*— Asset and Liability Management*" below.

- *Operational Risk.* This department is responsible for identifying key operational risks which are both assessed and managed through the implementation of the Group operational risk management policy. This policy includes the holding of risk control self-assessment workshops with employees of the Group, the maintenance of an operational loss collection process and evaluations of outsourcing activities, new and amended procedures and new products and services of the Group from an operational risk perspective. The operational risk department also cooperates with other departments of the Group (such as information technology, legal, information security, physical security, health and safety, and compliance) and business lines in general in order to monitor and identify operational risks.
- *Information Security.* This department has established an information management programme in order to identify, assess and mitigate information security risks and ensure compliance with the applicable data protection laws and regulations issued by the CBC. This is executed in practice through the use of policies, processes, systems and personnel operating under the following domains: governance, information protection, personnel, access control, infrastructure protection, physical protection, applications protection and threat and incident management. The Information Security department was previously within the Operational Risk department but has become a separate function as a result of the RMD reorganisation in 2014.
- *International Risk Management and Other Subsidiaries.* This department's primary responsibilities are to ensure that the business conducted by the Group's overseas operations (which include foreign subsidiaries) and local subsidiaries is consistent with the Group's risk appetite and that these overseas operations and local subsidiaries implement risk management policies, procedures and methodologies which are consistent with the Group's risk management guidelines. The International Risk Management and Other Subsidiaries department is a new department that was created as part of the RMD reorganisation in 2013.
- *Capital Risk Management.* This department is responsible for the calculation and reporting, both regulatory and management, of the Group's RWAs in line with the requirements of CRD IV/CRR (as defined in "*Regulation and Supervision of Banks in Cyprus*"). The Capital Risk Management department is also involved in any regulatory or other management assessments involving the Group's capital adequacy requirements. The Capital Risk Management department was created as part of the RMD reorganisation in 2014.
- *Credit Risk Systems & Analytics (CRSA).* This department is responsible for the development, evaluation and calibration of all risk-related models. The CRSA, among others, develops and runs the Group's credit scoring models and credit rating systems.
- *Regulatory/Supervisory Coordination Office (RSCO).* As a result of the increasing regulations applicable to credit institutions and the ECB's assumption of its supervisory role over the Group as a result of the ECB Regulation, the RSCO was established in the first quarter of 2015 to act (together with the Group Compliance Division) as the primary point of contact with the CBC, the ECB and other regulatory/supervisory authorities (i.e. CySEC, CSE etc), to supervise and report on the Group's review and compliance with any instructions or requests from the CBC or the ECB, or other regulatory/supervisory authorities. The RSCO reports directly to the GCRO. Furthermore, the Regulatory Steering Group comprising the GCEO, Finance Director, GCRO, Group Chief Financial Officer, Group Compliance Director, Chief Legal Officer and Company Secretary, Chief Operating Officer and the director of the RRD, convenes every week.

## **Overall Risk Strategy and Appetite**

The Group's overall risk strategy and appetite will remain conservative throughout the period of the Restructuring Plan. In particular:

- *Credit risk.* The Group has implemented conservative credit risk policies and a proactive approach on the monitoring of credit risk. Through the establishment of the RRD, the Group has strengthened the management and recovery of its delinquent loans as well as larger corporate exposures (regardless of delinquency status);
- *Liquidity and funding risk.* The 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 issued a number of 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 directives. For more detail on these directives, see "*Regulation and Supervision of Banks in Cyprus — CBC Credit Risk Directives*".

### ***Credit Risk Management***

The key elements of the Group's new credit risk policy and processes are:

- (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 NPEs, 90+DPD Ratios, excesses and arrears, and credit exposures to related accounts are aggregated and monitored on a consolidated basis. However, the department also monitors any concentrations in the Group's credit exposure to different sectors of the economy and pays particular attention to any loans with an increased risk profile. Loans with an increased risk profile include restructured loans, loans showing early warning signs of default (such as interest or principal arrears or write-offs, credit accounts with debit balances and interest and/or large security gaps), loans to customers on the "watch list" and loans which require a scheduled review or a review triggered by, amongst other things, out-of-date valuations of collateral, out-of-date audited financial accounts and/or expired fire insurance policies. In addition, the CRR&C, in cooperation with the business divisions, monitors compliance with the applicable loan quality targets and the transfer of delinquent loans from these divisions to the RRD. The CRR&C establishes the Group's loan provisioning policy and calculates the level of loan provisions to be provided based on its review of the Group's credit portfolio. The CRR&C and CRA monitor the compliance of each business division with the applicable lending policy and approval limits and with decisions issued by loans committee members.

The CRA is also based in the 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 €6 million (currently) and provides an assessment of the risks associated with the proposed funding to all loan committees (i.e. Credit Committee 1, Credit Committee 2 and Credit Committee 3). For customer credit applications below €6 million (currently), the CRA provides an assessment of the risks associated with the proposed funding to the manager of Credit Risk Management on an ad hoc basis. The CRA also performs random checks of all credit approval authorities for compliance with the Group's lending policies, credit approval limits and the conditions for approval of the loan concerned. Additionally, the CRA reviews the execution of decisions made by the relevant credit committees on a regular basis, in order to verify the implementation of any terms and conditions imposed in approved applications. Sample testing of the quality of applications is also carried out in order to take corrective actions and identify any inefficiencies or training requirements.

The Credit Appraisal department is independent of the relevant business divisions, including the RRD, and reviews and approves all credit applications. This department is mainly staffed by experienced credit officers responsible for reviewing and, subject to the credit approval limits described below, approving credit applications for new facilities, debt restructurings, other credit requests submitted by various business units in Cyprus as well as, in the case of credit applications above the limits set by the ALCO for the countries concerned, by the Group's banking subsidiaries in the United Kingdom, Romania, Russia and Guernsey.

### *Credit Approval Limits*

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

<b>Approval Limit</b>	<b>Approving Authority</b>
For retail, SME, international, wealth management lines with credit exposures of: <ul style="list-style-type: none"> <li>• up to €3 million (individually)</li> <li>• up to €6 million</li> <li>• €6 million - €25 million</li> </ul>	<ul style="list-style-type: none"> <li>• credit appraisers</li> <li>• manager (for unanimous decisions)</li> <li>• Credit Committee 1</li> </ul>
For corporate and mid corporate (under the RRD) lines with credit exposures of: <ul style="list-style-type: none"> <li>• up to €4 million (individually)</li> <li>• €4 million - €6 million (jointly)</li> <li>• up to €6 million</li> </ul>	<ul style="list-style-type: none"> <li>• credit appraisers</li> <li>• credit appraisers</li> <li>• manager (for non-unanimous decisions)</li> </ul>
For customers of overseas subsidiaries with credit exposures of €0 million - €25 million and for corporate and mid corporate (under RRD) with credit exposures of €6 million - €25 million:	<ul style="list-style-type: none"> <li>• Credit Committee 1</li> </ul>
For major corporate customers and mid corporate (under RRD) with credit exposures of €25 million - €50 million and for major corporate customers (under RRD) with credit exposures of €0 - €50 million :	<ul style="list-style-type: none"> <li>• Credit Committee 2</li> </ul>
For all lines (other than above) with credit exposures of €25 million - €50 million:	<ul style="list-style-type: none"> <li>• Credit Committee 2</li> </ul>
For credit exposures of €50 million - €100 million:	<ul style="list-style-type: none"> <li>• Credit Committee 3</li> </ul>
For credit exposures of €100 - €200 million:	<ul style="list-style-type: none"> <li>• Board Risk Committee, following the recommendation of Credit Committee 3</li> </ul>
For credit exposures of over €200 million:	<ul style="list-style-type: none"> <li>• Board of Directors, following the recommendation of Credit Committee 3 and Board Risk Committee</li> </ul>

The composition of Credit Committee 1 is jointly approved by the GCRO and the manager of the Credit Appraisal department. Membership and limit changes for Credit Committees 1 and 2 are jointly approved by the GCEO and GCRO. The composition of Credit Committee 3 and limits are approved by the Board of Directors through the Board Risk Committee. The GCRO's right of veto can be exercised at all credit

committee meetings attended by him or his CRA department representatives. This right of veto can only be overruled by the GCRO or, in the case of the GCRO himself, the Board Risk Committee.

#### *Credit Criteria by Lending Segment*

The 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 implemented the following additional credit criteria in line with its conservative credit risk policy:

- *Collateral coverage.* Increases in collateral coverage triggered by higher credit facility utilisations and increases in credit limits available under credit facilities;
- *Restricted sectors.* The CRP has defined economic sectors where lending is to be avoided (such as trade in tobacco, weapons and used cars), unless approved by credit appraisers or higher approving authorities, and which are determined based on the historical delinquent loan performance of that sector and on performance expectations from the Group's economics department, and existing loans to borrowers in these sectors are managed with a view to decreasing the Issuer's exposure to them; and
- *Foreign exchange disbursements.* No disbursements in foreign currencies are permitted, unless approved by credit appraisers or higher approving authorities.

In addition, SMEs and corporate customers are assessed by the 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 its 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 II internal-ratings based approach. The facility structuring module component that calculates the transaction rating is currently under review and is expected to be utilised in the near future.

In addition, the Issuer developed a new model and assessment tool to identify potential problematic clients. The results of this assessment tool are channelled to the client's home branch so that branch managers in turn are in a position to contact the clients in order to minimise any potential loss.

In addition, the 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 and the relevant exposures are set out in the Group's 2013 and 2014 Audited Financial Statements (see "*Management and Corporate Governance — Related Party Transactions*").

#### ***Provisioning***

A full review of the Group's portfolio is carried out quarterly under the supervision of the CRR&C in order to review all loans which meet certain criteria. These criteria are revised regularly to keep up with market developments and are specific to each country. The criteria for specific provisions currently include the following:

- customer groups for which the exposure exceeds 3% of the Group's capital;
- customer groups for which the exposure exceeds €40.0 million;
- customers with total direct facilities greater than €7.5 million which present the following trigger events:
  - classification as a non-performing loan;
  - performing and restructured (at least 20% of total direct facilities are restructured);

- bullet loans (at least 20% of total direct facilities are bullet loans);
- a 25% or more decrease in the customer's annual overdraft turnover; and/or
- a 25% or more decrease in the value of collateral securing the facilities when compared to the previous year;
- customers allocated specific provisions in the previous quarterly period;
- customers who are shareholders of the Issuer with holding of 10% or more and their connected parties;
- customers who are members of the Board of Directors of the parent company and their connected parties;
- customers who are members of senior management (key management personnel) of the Group and their connected parties;
- all customers in the construction and real estate sector (based on the NACE code definition) with total direct facilities of €10.0 million or more if the price of the property collateral securing the facilities has decreased by 10% or more within the year under review. The Issuer determines the price of property collateral by referenced to the RICS property price index and uses an annualised approximation if property prices are not available for the entire year;
- customers issued with specific recommendations by credit risk officers. These are typically customers who have been identified as facing repayment or other financial difficulties.

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

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

In relation to collective provisions, loans are grouped based on similar credit risk characteristics taking into account the type of the loan, past-due days and other relevant factors of the customer and whether the loan has been restructured.

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

### **Asset and Liability Management**

The strategy for the management of the Group's asset and liability position is established by the ALCO which meets on a monthly basis. In general, the Group aims to hedge any exposure arising from interest rate and currency movements within certain limits set in the Group's market risk policy. In managing these interest rate and currency exposures, the Group's Treasury Division uses both on balance sheet instruments

and off balance sheet derivative instruments. The overall asset/liability position is closely monitored by the Market Risk Department of the RMD (MR).

The MR is an independent department within RMD responsible for ensuring compliance at the level of individual units (through local market risk officers), as well as at Group level, with both internal policies and the limits set by the regulatory authorities in the countries where the Group operates. The MR and the ALCO monitor asset and liability management for the Issuer and other Group companies including the operations in the United Kingdom and Guernsey. There is also an ALCO in EuroLife, as well as in the United Kingdom and Romania, each of which monitor the implementation of asset and liability management for their operations.

### ***Liquidity and Funding Risk***

Liquidity risk is the risk that the Group is unable to fully or promptly meet current and future payment obligations as and when they fall due. This risk includes the possibility that the Group may have to raise funding at higher cost or sell assets at a discount. It reflects the potential mismatch between incoming and outgoing payments, taking into account unexpected delays in repayment or unexpectedly high payment outflows. Liquidity risk involves both the risk of unexpected increases in the cost of funding of the portfolio of assets and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

Local treasury centres at each banking unit in the United Kingdom and Romania are responsible for managing liquidity in their respective unit. Group Treasury is responsible for liquidity management at Group level and for overseeing the operations of each banking unit, to ensure compliance with internal and regulatory liquidity policies and provide direction as to the actions to be taken regarding liquidity availability. Group Treasury assesses on a continuous basis, and informs the ALCO at regular time intervals, about the adequacy of the liquid assets and takes the necessary actions to enhance the Group's liquidity position.

Liquidity is also monitored daily by the MR. MR reports to the ALCO the regulatory liquidity position of the various units and of the Group, at least monthly. After the Recapitalisation of the Issuer in March 2013, the ALCO monitors mostly the stock of liquid assets, the level of ELA and the cash inflows/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 and ELA evolution is also provided.

As part of the Group's procedures for monitoring and managing liquidity risk, there is a Group funding crisis contingency plan for handling liquidity difficulties. The plan details the steps to be taken, in the event that liquidity problems arise, which escalate to a funding crisis meeting of the ALCO. The plan sets out a series of possible actions that can be taken. This plan, as well as the Group's liquidity policy, are reviewed by the ALCO. The latter submits (via the Board Risk Committee) the updated policy with its recommendations to the Board of Directors for approval. The approved policy is notified to the CBC and ECB.

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

### ***Funding and liquidity sources***

Following the bail-in of unsecured depositors and other creditors of the Issuer in March 2013 and the transfer of a significant amount of ELA funding from ex-Laiki Bank, the Group's main sources of funding and liquidity are its customer deposits and central bank funding, either through the Eurosystem monetary policy operations or through ELA.

The Group has had limited access to interbank and wholesale markets, which combined with a general reduction in deposits in Cyprus, has resulted in increased reliance on central bank funding.

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

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

The funding provided to the Group through ELA is short-term (usually 2-3 weeks), covering the period until the next scheduled meeting of the ECB Governing Council. The funding via Eurosystem monetary ruling operations ranges from short-term to long-term funding.

The funding provided by the Issuer to its subsidiaries for liquidity purposes is repayable as per the terms of the respective agreements. For lending to BOC UK provided for capital purposes, the approval of the regulator is required prior to any repayment. BOC UK and BOC CI cannot place funds within the Group in excess of maximum limits set by the local regulators. Subsidiaries can proceed with dividend distribution in the form of cash to the 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 are acquired within limits and parameters specified in the liquid assets investment policy approved by the Board of Directors.

As of 30 June 2015, the Group had liquidity reserves of €2.3 billion (€1.9 billion as at 31 December 2014), of which €0.8 billion (€1.1 billion as at 31 December 2014) are eligible for the purposes of calculating the 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. The European Commission announced in July 2015 the sixth extension of the bank guarantee scheme, which will see the scheme continue until 31 December 2015. It is expected that the Group will be able to make use of the above guarantees if the need arises.

#### ***Market Risk***

In line with the Group's overall conservative risk strategy and appetite, the 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 (i.e. a 200 basis points change in interest rates).

### *Currency risk*

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. In order to manage currency risk, the Board of Directors has approved open position limits for the total foreign exchange position limits as well as for certain individual currencies. The foreign exchange position limits are lower than those prescribed by the CBC. These limits are monitored daily by market risk officers in all the banking units of the Group, who report the overnight foreign currency position of each unit to the MR daily.

### *Equity securities price risk*

Equity securities price risk is the risk of loss from adverse changes in price. The Group's existing portfolio is regularly marked to market and monitored, with the objective of gradually reducing it.

### *Debt securities price risk*

Debt securities price risk is the risk of loss as a result of adverse changes in the prices of debt securities held by the Group. Debt security prices change as the credit risk of the issuers changes and as interest rates change. The Group holds a significant part of its liquid assets in debt securities issued mostly by governments (comprised mainly of debt securities issued by the Republic of Cyprus). The average Moody's rating of the debt securities portfolio of the Group as at the date of this Base Prospectus was Baa3 (30 June 2015 : Ba1; 31 December 2014: Ba2; 31 December 2013 : B3). If debt securities issued by the Republic of Cyprus were excluded, the average rating of the Group's portfolio of debt securities would be Aa2 as of 30 June 2015.

## **Operational Risk**

Operational risk is defined as the risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems or external events, including legal risk. Operational risks can arise from all business lines and from all activities carried out by the Group. To enable effective management of all material operational risks, the operational risk management policy adopted by the Group is based on the three lines of defence model, through which risk ownership is dispersed throughout the organisation. The first line of defence comprises management and staff who have immediate responsibility of day-to-day operational risk management. Each business unit owner is responsible for identifying and managing all the risks that arise from the unit's activities as an integral part of their first line responsibilities. The second line of defence comprises the risk management function whose role is to provide operational risk oversight and independent and objective challenge to the first line of defence. The third line of defence comprises the

Internal Audit function and the Audit Committee of the Board of Directors, which provide independent oversight of the integrity and effectiveness of the risk management framework throughout the Group.

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

The main objectives of operational risk management within the Group are: (i) the development of operational risk awareness and culture through ongoing staff training, (ii) the provision of adequate information to the Group's management at all levels in relation to the operational risk profile on Group, entity and activity level, so as to facilitate decision making for risk control activities, and (iii) the control of operational risk to ensure that operational losses do not cause material damage to the Group's franchise and have minimal impact on the Group's profitability and corporate objectives.

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

Operational risk loss events are classified and recorded in the Group's internal loss database to enable risk identification, root-cause analysis and corrective action. In 2014, 387 loss events with gross loss over €1,000 were recorded (compared to 434 in 2013). The Group has adequate insurance policies to cover unexpected operational losses.

## **Other Risks**

### **Business Continuity Risk**

Business Continuity Plans and Disaster Recovery Plans exist and are being continuously enhanced for all markets in which the Group operates to ensure continuity and timely recovery after events that may cause major disruptions to the business operations.

### **Reputational Risk**

Reputational risk refers to the risk arising from negative perception on the part of the 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 Board Risk Committee and the GCRO. Information is protected in accordance with applicable international standards and regulations and certain information security policies approved by the Board of Directors. A Security Awareness Programme is planned to increase the awareness of all staff to all information security matters. The Group's systems are protected against electronic risks and a number of strict policies and baselines exist for the network, back-ups emails and the internet. Information technology applications are also protected in line with international best practices.

### **Insurance risk**

Insurance risk is the risk that an insured event under an insurance contract occurs and the uncertainty of the amount and the timing of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. In particular, the actual claims and benefit payments may exceed the amount of liabilities recognised in the financial statements. Insurance events are random and the actual number and amount of claims and benefits differs from year to year from those estimated using statistical and actuarial methods.

The Group's insurance subsidiaries address their risk exposure through the diversification across a large portfolio of insurance contracts, careful selection of policyholders in accordance with underwriting strategy guidelines and assessment of credit risk and the use of reinsurance arrangements. Although reinsurance arrangements mitigate insurance risk, the Group's insurance subsidiaries are not completely relieved of their direct obligations to their policyholders and a credit exposure exists to the extent that any reinsurer is unable to meet its contractual obligations. For this reason, the Group's insurance subsidiaries regularly monitor the credit worthiness of reinsurance companies with which they cooperate.

## 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 a few immaterial deviations during 2014 prior to the appointment of a new Board during the Bank's AGM on 20 November 2014.

In addition, in August 2014, the CBC issued the Governance Directive, which, among other things, limits the number of directorships to a maximum of 13 (two of which must be executive directors). The Board of Directors is currently comprised of seven non-executive directors, six of whom are independent, and two executive directors. Other than that the Human Resources and Remuneration Committee is operating with two members instead of three (the third member is expected to be appointed by the end of 2015), the Issuer is currently in compliance with the Governance Directive.

### Board of Directors

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

The Board of Directors meets on a regular basis and has a formal schedule of matters for consideration. During 2014, 27 meetings of the Board of Directors were held due to challenging events and circumstances prevailing following the Recapitalisation in 2013 and the Group's subsequently revised strategic objectives. The main areas of focus for the Board of Directors were the Issuer's strategy, the implementation of the Restructuring Plan, liquidity and arrears management, the Recapitalisation, improvement of the risk management framework, the smooth integration of ex-Laiki information technology systems and the overall improvement of the Group's operational efficiency. All directors have access to the advice and services of the company secretary and Group Compliance officer in charge of corporate governance. Independent professional advice is also available to the directors in accordance with the internal policy that was formulated and approved by the Board of Directors.

In accordance with the articles of association of the 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 three non-executive directors, two of which are independent. The audit committee considers and makes recommendations to the Board of Directors on matters relating to the review and assessment of,

among others, the Group's financial statements and the adequacy and effectiveness of the system of internal controls based on the reports prepared by the Group internal audit function. The audit committee also considers and makes recommendations to the Board of Directors on compliance issues based on the reports prepared by the Group compliance function. The audit committee oversees the Group's external auditors and their relationship with the Group, including the monitoring of the balance between audit and auxiliary non-audit services. The audit committee held 17 meetings during 2014.

- *Human Resources and Remuneration Committee* – The human resources and remuneration committee as of the date of this Base Prospectus comprises two non-executive directors, both of which are independent. The human resources and remuneration committee considers and makes recommendations to the Board of Directors on matters relating to the remuneration of executive and non-executive directors and senior executive management, as well as the overall Group remuneration policy. The human resources and remuneration committee prepares the annual Board of Directors remuneration report which is ratified by the Board of Directors and submitted to the shareholders at the annual general meeting. The human resources and remuneration committee held ten meetings during 2014.
- *Nominations and Corporate Governance Committee* – The nominations and corporate governance committee as of the date of this Base Prospectus comprises three non-executive directors, two of which are independent. The nominations and corporate governance committee makes recommendations to the Board of Directors for the appointment of new directors in order to fill vacant positions on the Board of Directors, taking into consideration relevant factors and criteria. The nominations and corporate governance committee also assesses the structure, size, composition and performance of the Board of Directors on an annual basis and submits any recommendations to the Board of Directors. The nominations and corporate governance committee is responsible for the formulation of the succession plans of the Board of Directors. In addition, the nominations and corporate governance committee has general responsibility for the application of corporate governance principles by the Group. The nominations and corporate governance committee held 14 meetings during 2014.
- *Risk Committee* – The risk committee as of the date of this Base Prospectus comprises four non-executive directors, all of which are independent. The risk committee examines, inter alia, the Group's risk policy and systems and assesses annually the adequacy and effectiveness of the risk management policy and makes recommendations to the Board of Directors regarding these matters. The risk committee held six meetings during 2014.

## Directors

The business address of each of the directors in their capacity as directors of the 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	Latest Appointment Date
Josef Ackermann	Chairman and Independent Director	Nominations and Corporate Governance Committee	20 November 2014
Wilbur L. Ross, Jr.	Vice-Chairman and Independent Director	Nominations and Corporate Governance Committee Risk Committee	20 November 2014
Maksim Goldman	Vice-Chairman and Non-Independent Director	Nominations and Corporate Governance Committee Audit Committee	20 November 2014

Michael Spanos	Senior Independent Director	Human Resources and Remuneration Committee	
John Patrick Hourican	Chief Executive Officer and Executive Director		20 November 2014
Christodoulos Patsalides	Finance Director and Executive Director		20 November 2014
Arne Berggren	Independent Director	Risk Committee Audit Committee	20 November 2014
Marios Kalochoiritis	Independent Director	Risk Committee Human Resources and Remuneration Committee	20 November 2014
Ioannis Zographakis	Independent Director	Risk Committee Audit Committee	20 November 2014

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

**Wilbur L. Ross, Jr.** *Vice-Chairman and Independent Director.* Mr Ross was born in 1937. He is the Founder, Chairman and Chief Strategy Officer of WL Ross & Co. LLC, a private equity firm. Mr Ross was also formerly the Chief Executive Officer of WL Ross prior to 30 April 2014 when he became its Chairman and Chief Strategy Officer. In March 2014 Mr Ross became the Chairman and Chief Executive Officer of WL Ross Holding Corp, a special purpose acquisition company. Mr Ross is currently a member of the board of directors of Arcelor Mittal, the world's largest steel and mining company; EXCO Resources, Inc., a natural gas and oil exploration company; DSS Holdings LP, a shipping transportation company and Sun Bancorp, a bank holding company. Mr Ross formerly served as a member of the board of directors of many banks, financial and other companies, including but not limited to The Governor and Company of the Bank of Ireland, a commercial bank in Ireland until June 2014, BankUnited, Inc., until March 2014; Talmer Bancorp., Assured Guaranty, an insurance company; International Textile Group; NBNK Investments PLC; PB Materials Holdings, Inc.; Ohizumi Manufacturing; Ocwen Financial Corp.; Navigator Holdings, a maritime transport company until November 2014; Plascar Participacoes SA, a manufacturer of automotive interiors, until 2014 and Air Lease Corporation, an aircraft leasing company from 2010 to December 2013; International Coal Group from April 2005 to June 2011, Montpelier Re Holdings Ltd., a reinsurance company, from 2006 to March 2010; The Greenbrier Companies, a supplier of transportation equipment and services to the railroad industry from June 2009 until January 2013. Mr Ross was Executive Managing Director of Rothschild Inc. for 24 years before acquiring that firm's private equity partnerships in 2000. Mr Ross is a graduate of Yale University and of Harvard Business School. Through the course of Mr Ross'

career, he has assisted in restructuring more than \$400 billion of corporate liabilities. Mr Ross is well qualified to serve as a director due to his over 35 years of experience in private equity, numerous public and private company directorship roles, and globally-recognised financial expertise having been elected to both the Private Equity Hall of Fame and the Turnaround Management Association Hall of Fame. Mr Ross has been appointed by President Clinton to the Board of Directors of the U.S-Russia Investment Fund and has served as Privatization Advisor to New York City Mayor Guiliani. He was awarded a medal by President Kim Dae Jung for assisting Korea during its financial crisis and in 2014 was awarded the Order of the Rising Sun with Gold and Silver Stars by the Japanese Government.

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

**John Patrick Hourican.** *Chief Executive Officer and Executive Director.* Mr Hourican was born in 1970. He served as chief executive of The Royal Bank of Scotland Group’s (**RBS**) Investment Bank (Markets & International Banking) from October 2008 until February 2013. Between 2007 and 2008, he served on behalf of a consortium of banks (RBS, Fortis and Santander) as chief financial officer of ABN AMRO Group and as a member of its managing board. He joined RBS in 1997 as a leveraged finance banker. He held a variety of senior positions within RBS’s wholesale banking division, notably on the division’s board as finance director and chief operating officer. He also ran RBS’s leverage finance business in Europe and Asia. Mr Hourican started his career at Price Waterhouse and he is a Fellow of the Institute of Chartered Accountants in Ireland. He is a graduate of the National University of Ireland and Dublin City University.

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

**Marios Kalochoritis.** *Independent Director.* Mr Kalochoritis was born in 1973. He is a financial executive with experience in investment banking, hedge fund management, private equity, wealth management and as a chief financial officer. Geographically he has covered North and South America, Western and Eastern Europe and the Middle East. He is experienced in start-ups and turnout situations. He has recently moved to Dubai from Cyprus to set up a family office for an industrialist family as head of investments, after spending five and a half years in Cyprus where, as the managing director, he had set up and ran the operations and risk management of a global macro hedge fund. Prior to that he was senior vice president for Credit Suisse Bank in Zurich and he was heading business development for Central and Eastern Europe and Turkey. Between 2003 and 2006 he was the chief financial officer for Amana Group in Dubai, a major regional construction group. He had moved to Dubai following a couple of years in New York where he was the co-founder of a boutique investment bank. He started his career at Enron in Houston where as a financial analyst and later an

associate in the finance department, he analysed and made investments in oil & gas, energy and other infrastructure opportunities around the world. He also interned with J.P. Morgan Bank in New York and McKinsey & Co in Athens. He holds an MBA from Harvard Business School and a BSc in Finance from Louisiana State University.

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

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

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

## Executive Committee

The executive committee consists of the following members:

Name	Position
John Patrick Hourican	Chief Executive Officer
Costas Argyrides	Director Wealth, Brokerage and Asset Management

Michalis Athanasiou  
Stelios Christodoulou  
Nick Smith  
Eliza Livadiotou  
Solonas Matsias  
Miltiades Michaelas  
Artemis Pantelidou  
Christodoulos Patsalides  
Louis Pochanis  
Charis Pouangare  
Nicolas Sparsis  
Aristos Stylianou  
Michalis Persianis

Chief Risk Officer  
General Manager General Insurance  
Head of Restructuring and Recoveries  
Chief Financial Officer  
Human Resources Director  
Director International Operations  
General Manager EuroLife  
Finance Director  
Director International Banking Services  
Director Consumer and SME Banking  
Director Corporate Banking  
Chief Operating Officer  
Corporate Affairs Director

## Related Party Transactions

	31 December		As at and for the year ended 31 December		As at and for the six months ended 30 June	
	2013	2014	2013	2014	2014	2015
	(number of directors)		(€'000)			
<b>Loans and advances to members of the Board of Directors and connected persons</b>						
- more than 1% of the Group's net assets per director .....	-	-	-	-	-	-
- less than 1% of the Group's net assets per director .....	15	10	302	382	316	381
	15	10	302	382	316	381
<b>Loans and advances to other key management personnel and connected persons</b>						
			3,448	4,317	4,093	4,129
Total loans and advances.....			3,750	4,699	4,409	4,510
Loans and advances:						
- members of the Board of Directors and other key management personnel .....			3,224	3,615	3,702	3,580
- connected persons .....			526	1,084	707	930
			3,750	4,699	4,409	4,510
Interest income for the year/period.....			929	205	71	69
<b>Deposits:</b>						
- members of the Board of Directors and other key management personnel .....			1,881	18,368	2,862	3,815
- connected persons .....			36,536	11,206	30,524	6,592
			38,417	29,574	33,386	10,407
Interest expense on deposits for the year/period.			1,115	398	245	139
<b>Debt securities in issue, subordinated loan stock and CECS:</b>						
- members of the Board of Directors and other key management personnel .....			-	-	-	-
- connected persons .....			-	-	-	-
			-	-	-	-

The above table does not include period or year-end balances for members of the Board of Directors and their connected persons who resigned/were removed during the period or year.

In addition to loans and advances, there were contingent liabilities and commitments in respect of members of the Board of Directors and their connected persons, mainly in the form of documentary credits, guarantees and commitments to lend amounting to €231 thousand and €175 thousand as at 31 December 2013 and 2014, respectively, and €121 thousand and €142 thousand as at 30 June 2014 and 2015, respectively. As of 31 December 2014 and 30 June 2015 there were no directors and their connected persons, whose total loans and advances exceeded 1% of the net assets of the Group per director. There were also contingent liabilities and commitments to other key management personnel and their connected persons amounting to €743 thousand and €689 thousand as at 31 December 2013 and 2014, respectively, and €702 and €874 thousand as at 30 June 2014 and 2015, respectively. The total unsecured amount of the loans and advances and contingent

liabilities and commitments to members of the Board of Directors, key management personnel and other connected persons (using forced-sale values for tangible collaterals and assigning no value to other types of collateral) as at 31 December 2013 and 2014 and 30 June 2014 and 2015 amounted to €1,439 thousand, €1,586 thousand, €1,616 thousand and €1,295 thousand, respectively.

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

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

*Transactions in 2013 with connected persons of the directors who resigned during 2013.* During 2013, the Group also had the following transactions with connected persons: reinsurance premiums amounting to €56 thousand paid to companies of the Commercial General Insurance Group in which Mr Andreas Artemis holds an indirect interest; purchases of equipment and services amounting to €1 thousand from Pylones SA Hellas and Unicars Ltd in which Mrs Anna Diogenous holds an indirect interest; purchases of equipment amounting to €89 thousand from Mellon Cyprus Ltd which is significantly influenced by a person connected to Mrs Anna Diogenous; insurance commissions amounting to €29 thousand to D. Severis and Sons Ltd which is owned by Mr Costas Z. Severis and rents amounting to €71 thousand paid by Tseriotis Group in which Mrs. Anna Diogenous holds an indirect interest. The total amount of professional fees paid to the law office Andreas Neocleous and Co LLC, in which the director Mr Elias Neocleous is a partner, amounted to €14 thousand. In addition, the Group had the following transactions with connected persons in their capacity as members of the interim board: legal fees amounting to €10 thousand paid to A. Poetis & Sons in which Mr Andreas Poetis is a partner and actuarial fees amounting to €48 thousand paid to AON Hewitt Cyprus Ltd in which Mr Philippos Mannaris is a partner.

Connected persons include spouses, minor children and companies in which directors/other key management personnel hold, directly or indirectly, at least 20 % 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 2013 and 2014 and for the six months ended 30 June 2014 and 2015 follows:

Year ended 31 December		Six months ended 30 June	
2013	2014	2014	2015
(€'000)			

### **Director emoluments**

#### *Executive directors*

	Year ended 31 December		Six months ended 30 June	
	2013	2014	2014	2015
Salaries and other short-term benefits.....	452	859	422	488
Termination benefits .....	84	-	-	-
Employer's contributions.....	27	51	23	30
Retirement benefit plan costs.....	31	113	55	64
	594	1,023	500	582
<i>Non-Executive directors</i>				
Fees.....	352	424	228	132
Emoluments of a non-executive director who is also an employee of the Issuer .....	100	-	-	-
Total directors' emoluments.....	1,046	1,447	728	714
<b>Other key management personnel emoluments</b>				
Salaries and other short-term benefits.....	943	2,231	1,086	1,891
Termination benefits .....	667	250	-	-
Employer's contributions.....	84	166	80	77
Retirement benefit plan costs.....	117	210	105	93
Total other key management personnel emoluments .....	1,811	2,857	1,271	2,061
<b>Total</b> .....	2,857	4,304	1,999	2,775

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

	Year ended 31 December	
	2013	2014
	(€'000)	
John Patrick Hourican (Chief Executive Officer - appointed on 1 November 2013) .....	141	844
Christodoulos Patsalides (Finance Director – appointed on 20 November 2014) .....	-	15
Yiannis Pehlivanidis (resigned on 29 March 2013) .....	104	-
Yiannis Kypri (resigned on 29 March 2013) .....	127	-
Dinos Christofides (Special Administrator - 25 March 2013 to 21 June 2013) ....	20	-
Christos Sorotos (Interim Chief Executive Officer - 29 May 2013 to 10 September 2013).....	60	-
	452	859

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

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

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

	Year ended 31 December	
	2013	2014
	(€'000)	
Josef Ackermann.....	—	8
Wilbur L. Ross Jr. ....	—	6
Arne Berggren .....	—	2
Maksim Goldman .....	—	2
Michalis Spanos.....	—	2
Kyrill Parinov .....	—	5
Andreas Artemis .....	20	—
Evdokimos Xenophontos.....	15	—
Vassilis G. Rologis .....	8	—
Costas Z. Severis .....	10	—
Christakis G. Christofides .....	5	—
Anna Diogenous .....	5	—
George M. Georgiades .....	2	—
Costas Hadjipapas.....	12	—
Nikolas P. Tsakos .....	1	—
Stavros J. Constantinides .....	2	—
Irene Karamanou .....	6	—
Elias Neocleous .....	4	—
Symeon Matsis .....	4	—
Sophocles Michaelides .....	25	—
Erol Riza .....	19	—
Constantinos Damsas.....	9	—
Takis Taousianis.....	11	—
Lenia Georgiadou .....	11	—
Philippos Mannaris .....	9	—
Lambros Papadopoulos.....	8	—
Andreas Persianis.....	6	—
Andreas Poetis .....	8	—
Panikos Pourous .....	15	—
Savvakis Savvides .....	8	—
Georgios Theocharides .....	9	—
Michalis Zannetides.....	7	—

	Year ended 31 December	
	2013	2014
Takis Arapoglou.....	6	—
Christis Hassapis.....	21	60
Vladimir Strzhalkovskiy .....	16	50
Anjelica Anshakova .....	6	24
Dmitry Chichikashvili .....	5	20
Marinos Gialeli .....	6	33
Marios Kalochoritis .....	6	25
Konstantinos Katsaros .....	7	35
Eriskhan Kurazov .....	4	12
Adonis Papaconstantinou.....	6	31
Anton Smetanin .....	4	12
Xanthos Vrachas .....	6	28
Marios Yiannas .....	6	7
Andreas Yiasemides.....	7	32
Ioannis Zographakis.....	7	30
	352	424

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

The key management personnel emoluments include the remuneration of the members of the executive committee of the Group for the period that each employee served as member of the executive committee.

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

For the years 2013 and 2014, no bonus was recommended or paid to other key management personnel.

### Interest in ordinary shares of Directors

Set out below are the direct and indirect interests of the Directors in the issued share capital of the Issuer as at the date of this Base Prospectus:

	Number of Shares			Percentage of Issued Share Capital (%)
	Direct Shareholding	Indirect Shareholding	Total	
Josef Ackermann .....	0	0	0	0.000
Wilbur L. Ross Jr.....	0	145,253,859	145,253,859	1.628
Maksim Goldman .....	0	143,821	143,821	0.002

	Number of Shares			Percentage of Issued Share Capital (%)
	Direct Shareholding	Indirect Shareholding	Total	
Arne Berggren .....	0	0	0	0.000
Marios Kalochoritis .....	0	0	0	0.000
Michalis Spanos .....	28,595	0	28,595	0.000
Ioannis Zographakis .....	0	32	32	0.000
John Patrick Hourican .....	0	0	0	0.000
Christodoulos Patsalides.....	3,390	0	3,390	0.000

## Employees

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

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

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

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

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

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

The Cyprus Union of Bank Employees (the **Union**) is party to a collective agreement with the Cyprus Bankers Employers' Association (of which the 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 has renewed the collective agreement with the Union. 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 (60 % of total Group employees) is a defined contribution plan. This plan provides for employer contributions of 14 % and employee contributions of 3 % to 10 % of the employees' gross salaries. This plan is managed by a committee appointed by the members.

A small number of employees who do not participate in the main retirement plan are members of a pension scheme that is closed to new entrants and may receive part or all of their retirement benefit entitlement by way of a pension for life. This plan is managed by an administrative committee composed of representatives of both the members and the employer.

A small number of employees of Group subsidiaries in Cyprus are also members of defined benefit plans. These plans are funded, with assets backing the obligations held in separate legal vehicles.

### ***Greece***

As part of the disposal of the Greek operations, the staff who were employed at the Issuer's Greek branch as at the date of the disposal and the related obligations under the defined benefit plan in Greece were transferred to Piraeus Bank. For the staff who left the Issuer's Greek branch prior to the disposal, a small obligation accrued to them on their retirement remains as a retirement obligation on the balance sheet of the Group.

All employees were entitled by law to compensation in case of dismissal or a lump sum payment upon normal retirement, at rates specified in the Greek legislation. All the benefits payable under this defined benefit plan were out of the Group's assets because this plan was unfunded.

In addition, a number of employees recruited up to 31 December 2002 participated in a defined benefit plan which comprised of two schemes, A and B. Scheme A covered part of the difference between the salary and the retirement benefit and it was settled in full and terminated with the consent of the employees in October 2011. Scheme B provided for a lump sum payment on retirement of up to approximately 50 monthly salaries depending on the length of service.

The third plan applied to employees recruited after 31 December 2002 and was a defined contribution plan.

### ***United Kingdom***

The Group's employees in the United Kingdom (3 % of total Group employees) are covered by a defined contribution plan for all current employees and certain employees are covered by a defined benefit plan which was closed in 2003 to new members and was closed in December 2008 to future accrual of benefits for active members.

### *Other countries*

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

### **Share Option Plan**

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

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

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

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

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

## 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 from 2011 to the beginning of 2014;
- the outflow of customer deposits from the middle of 2011 as a result of uncertainty in market conditions and because of the bail-in of uninsured depositors in the second quarter of 2013;
- uncertainty regarding Cyprus' continued participation in the Eurozone;
- the deterioration of the quality of the loan portfolios of Cypriot banks, including Greek government bonds; and
- the Cypriot banks' lack of access to international capital markets.

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

The CBC and the Government have adopted a series of actions pursuant to the EAP to protect and enhance the financial stability of the Cypriot banking system and the safety of customer deposits, including the recapitalisation and restructuring of commercial banks and the cooperative credit sector and significant advancements in banking sector regulation and supervision, such as the Loan Origination Directive, the code of conduct for dealing with troubled borrowers and the Arrears Management Directive. For more information on the Cypriot economic crisis and the current macroeconomic environment in Cyprus, please see "*The Macroeconomic Environment in Cyprus*". For more information on the regulation of banks in Cyprus, please see "*Regulation and Supervision of Banks in Cyprus*".

## **Key Operational Features of the Banking Sector in Cyprus**

In February 2013, PIMCO Europe Ltd published a publicly available study entitled "Independent Due Diligence of the Banking System of Cyprus" which examined the Cypriot banking sector. Among other things, the study identified a number of key operational features of the Cypriot banking sector which differ from other international banking systems. Following the Cypriot economic crisis, the CBC, through a number of recently enacted directives, has attempted to bring certain of these key operational features in line with international standards; however, structural differences remain. For further information on the CBC's recently enacted directives, please see "*Regulation and Supervision of Banks in Cyprus — CBC Credit Risk Directives*" and "*Risk Factors — Regulatory and Legal Risks — The Issuer is subject to certain regulatory and legal constraints in originating new loans and managing existing loans*".

### *Cross-Collateralisation Across Loans*

As a result of the prevalence of asset-based lending and the limited resolution framework (see "*— Legal Resolution and Foreclosure*"), cross-collateralisation of loans is a common feature in Cypriot lending market. The cross-collateralisation of loans in Cyprus is complex: a single property can secure multiple loans, multiple properties can secure a single loan and multiple properties can secure multiple loans. Credit institutions in Cyprus historically placed more reliance on the collateral securing the loan than on the borrower's ability to service the loan repayments. However, in deciding whether to extend additional loans, lenders are required under the Loan Origination Directive to evaluate thoroughly the ability of a borrower group to service additional loans, irrespective of the additional collateral offered.

### *Legal Resolution and Foreclosure*

Lengthy foreclosure and repossession timelines are a characteristic feature of the banking system in Cyprus. Under the CBC's Arrears Management Directive, credit institutions are required to apply efficient and effective strategies, policies, structures, procedures and mechanisms for the management of arrears and the attainment of fair and viable restructurings of credit facilities for borrowers in financial difficulties. The Arrears Management Directive favours a negotiated resolution with problem borrowers. In Cyprus, legal proceedings to enforce loan collateral have historically taken between five and 13 years, which is much longer than the international standard. As part of the MoU policy reforms prepared by the Troika, an amendment to the Foreclosure Law was passed by the Cypriot Parliament in September 2014. This is intended to amend the legal framework on foreclosures and the forced sales of mortgaged property, and is expected to improve banks' ability to negotiate with borrowers, as well as decreasing the time needed to repossess, in the event that negotiations fail. This amendment to the Foreclosure Law came into force following the enactment of the Insolvency Framework Laws in May 2015. For more information, see "*Risk Factors – Risks Relating to the Economic Crisis in Cyprus – The implementation, conditions and requirements of the MoU entered into between Cyprus and the Troika, and any government actions aimed at alleviating the economic crisis, are uncertain and may create adverse results or have an adverse effect on the Issuer*" and "*Risk Factors — Regulatory and Legal Risks — The Issuer is subject to certain regulatory and legal constraints in originating new loans and managing existing loans*".

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

### *Incomplete Information on Customer Financial Status*

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

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

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

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

#### ***Locally Authorised Credit Institutions***

The first category comprises domestic banks, which can be considered as universal banks, catering for domestic retail, SME and corporate clients and the international business segment. In addition, they offer non-credit institution services, such as insurance, brokerage, asset management, leasing and factoring. Traditionally, commercial banks have dominated the Cypriot financial services market.

#### ***Domestic cooperative credit institutions***

The second category comprises the Central Cooperative Bank and the individual CCIs, a less sophisticated segment of the market offering basic banking products, usually geared towards retail and SME clients.

Following intense consolidation efforts due to EU harmonisation directives, the number of CCIs dropped to 18, based on information available from the Cooperative Central Bank, from around 93 in 2013. In accordance with the MoU, the CCIs were consolidated and recapitalised and now represent increasing competition to the Issuer in the retail, and small and SME markets.

#### ***Subsidiaries or branches of foreign banks***

The third category comprises foreign banks' subsidiaries, or branches that cater for domestic retail, SME and corporate clients as well as for the international business segment. There are currently six subsidiaries of foreign banks operating in Cyprus, two of which are from non-Member States, and 25 branches of foreign banks, 16 of which are from non-Member States. The largest entities in this category are subsidiaries of Greek banks.

### *Cyprus banking system by assets*

The gross loans and banking system NPEs held by banks (including subsidiaries and branches of foreign banks) as at 30 June 2015 is outlined below.

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

## **Competition and the 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 38.5 % of loans in Cyprus as at 30 June 2015. The Issuer's deposit market share (based on CBC data) in Cyprus was 25.7 % as at 30 June 2015, compared to 24.8 % as at 31 December 2014.

## THE MACROECONOMIC ENVIRONMENT IN CYPRUS

### Overview and Economic Trends

#### *Cypriot Economy by Sector*

The GDP and gross value added (GVA) data included in this section is calculated based on publicly available information from the Cyprus Statistical Service.

The economy of Cyprus can generally be characterised as small, service-driven, open and dynamic. There is significant reliance on international trade with imports and exports of goods and services amounting to 121.7 % of GDP in real terms in 2014.

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

In contrast, the tertiary sector's share of real GVA increased from 76.5 % in 2000 to 86.6 % in 2014. In 2014, shares of real GVA in the tertiary sector included real estate activities (11.5 %), wholesale and retail trade, including repair of motor vehicles (15.7 %), public administration and defence (10.9 %), financial and insurance activities (7.4 %), tourism, including accommodation and food services activities (6.9 %), education (6.5 %), professional, scientific and technical activities (7.4 %), information and communication (4.6%), and human health and social work (4.0 %).

#### *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 "*Tax and other fiscal measures*"). Its location in the eastern Mediterranean Sea, together with its access to the EU single market and its developed legal, accounting and banking sectors, makes Cyprus a regional international business hub strategically positioned between Western Europe and the Mediterranean region and eastern Europe, including a number of emerging markets, such as Russia and Ukraine.

Additionally, because of its Mediterranean location, its membership in the EU and its developed infrastructure, Cyprus is a popular tourist destination for tourists from both within and outside the EU, with the majority of arrivals in 2014 from the United Kingdom (35.7 %) and Russia (26.1 %). In 2014, tourism receipts amounted to 11.6 % of GDP in nominal terms.

### *Investment in Natural Resources*

Reserves of oil and natural gas have been discovered off the coast of Cyprus in the Levant Basin, which is located along the shores of Syria, Lebanon, the Palestinian Territories, Israel and Cyprus. In 2010, the U.S. Geological Survey estimated that the Levant Basin has mean probable undiscovered oil resources of approximately 1.7 billion barrels and mean probable undiscovered natural gas resources of approximately 122 trillion cubic feet. In late 2013, appraisal drilling and flow test results at the Cyprus block 12 prospect (**Aphrodite**), which is within Cyprus's exclusive economic zone, has estimated the Aphrodite field to hold between 3.6 and 6 trillion cubic feet of natural gas, with estimated gross mean resources of 5 trillion cubic feet of natural gas (Ministry of Energy, Commerce, Industry and Tourism of Cyprus). The Aphrodite block structure is the third largest field discovered to date in the deepwater Levant Basin. In addition, in August 2015 Eni S.p.A. announced the discovery of 30 trillion cubic feet of natural gas in plot named Zohr within Egypt's Exclusive Economic Zone, which lies just six kilometres below plot 11 of Cyprus' Exclusive Economic Zone.

The Ministry of Finance of Cyprus estimates that a significant investment in gas exploration and exploitation for the period from 2013 to 2020 will be required to develop the Levant Basin, which will have a positive contribution to the economy of Cyprus. The Government has publicised plans to bring gas to Cyprus via a pipeline that connects the Aphrodite field with Vassilikos port near Limassol. In February 2015, the Government signed a memorandum of understanding with Egypt to provide gas from the Aphrodite field to the Egyptian onshore facilities. In June 2015, Noble Energy, Delek Drilling and Avner Oil Exploration, stakeholders in the Aphrodite field, notified the Government that they had discovered commercial quantities of gas in the Aphrodite field and would submit a development plan for the field to the Government. According to the Delek Group's 2014 annual report, the Aphrodite field is estimated to contain 4.54 trillion cubic feet of natural gas. The development plan was submitted to the Government in June 2015 and is in the process of being evaluated by the Government's ministries of energy, commerce and tourism. In August 2011, the Government signed a production sharing agreements with Noble Energy, whilst in January and February 2013 the Government signed production sharing agreements with Eni S.p. A./Korea Gas Corporation and Total, respectively, that provide for the extraction and development of oil and natural gas reserves in Cyprus' Exclusive Economic Zone, including the Aphrodite field. The Ministry of Finance of Cyprus expects that development of the natural resource sector in Cyprus will have positive effects on the services industry and will result in lower energy prices. (See "*Risk Factors — Risks Relating to the Economic Crisis in Cyprus — There can be no assurance that the development of Cyprus' oil and natural gas reserves in the Levant Basin will be successful*".)

### *Post-Crisis Economic Sentiment*

The post-crisis economic sentiment for Cyprus has improved as a result of better than expected macroeconomic and fiscal performance to date and positive Troika reviews leading to upgrades of sovereign credit ratings. The seventh Troika review of Cyprus' EAP was performed in July 2015 and the Troika noted that a staff-level agreement has been reached on policies that could serve as a basis for the completion of the review and the Cypriot authorities' commitment to the EAP is bearing results in several areas, with the economic recovery starting in early 2015. The approvals of the conclusion of the seventh review by both the EU and the IMF led to the disbursement of funds. Accordingly, the ESM disbursed €500 million in early October and the IMF disbursed approximately €126 million, (see "*The Cypriot Macroeconomic Adjustment Programme*"). The recent performance of the Cypriot economy reflects a number of underlying factors. Some sectors, particularly tourism and business services, have demonstrated resilience. In 2014 private consumption increased by 0.6 % in real terms. In the foreign sector, imports of goods and services increased by 2.0% in real terms in 2014 while exports of goods and services declined marginally by 0.5%, resulting in a negative net contribution to real GDP growth. The improved economic sentiment for Cyprus is also partially due to the flexibility of the Cypriot economy. Wages and prices decreased significantly during 2014. Unit labour costs declined in 2013 and 2014 and are expected to decline further in 2015 albeit marginally before rising marginally in 2016 according to the seventh review report of Cyprus published by the European Commission in October 2015. Therefore, the economic contraction in 2014 was mitigated by a

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

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

### **The Cypriot Economic Crisis**

Before the emergence of the global economic crisis Cyprus had enjoyed a track record of satisfactory economic growth, low unemployment and relatively stable macroeconomic conditions.

Between 2003 and 2008, real GDP rose at an average compound annual rate of 4.3 % as a result of increasing investment and growth of private consumption and exports. Consumption was supported by annual employment growth averaging 3.0 % over this period, attributable mainly to large inflows of migrant labour, particularly from other EU countries. During this period, per capita income in Cyprus converged rapidly with other Member States, with current GDP in euro per capita terms reaching €23,900 in 2008, corresponding to 92.2 % of the EU average or 105.4% of the EU average in purchasing power parity terms.

The average compound annual growth of real GDP in the period from 2008 to 2012 was 0.7 %, which includes 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.

On 25 March 2013, the Government and the Eurogroup reached an agreement on the key elements and principles necessary for a future macroeconomic adjustment programme (the **Eurogroup Statement on Cyprus**). These key elements and principles include the following:

- An appropriate downsizing of the financial sector.

- A restructuring of the banking sector through:
  - the immediate resolution of Laiki Bank, with the full contribution of shareholders, bondholders and uninsured depositors, by the CBC using the newly adopted bank resolution regime in Cyprus;
- the split of Laiki Bank into a "good" bank and a "bad" bank with the "bad" bank being run down over time and the "good" bank (including the full amount of the ELA that had been provided by the CBC to Laiki Bank) being absorbed by the 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, August 2014 and July 2015. To date, the ESM and the IMF have disbursed €6.3 billion and €882 million, respectively, totalling about 72% of available programme financing. The seventh review mission of the Troika took place from 14 to 24 July 2015 and was successfully completed following the approval of the conclusion of the review by both the EU and the IMF. The approval permitted the disbursement of €500 million from the ESM and approximately €126 million from the IMF (see “*Risk Factors—Risks Relating to the Economic Crisis in Cyprus—The implementation, conditions and requirements of the MoU entered into between Cyprus and the Troika, and any government actions aimed at alleviating the economic crisis, are uncertain and may create adverse results or have an adverse effect on the Bank*” and “*Risk Factors—Regulatory and Legal Risks—The Bank is subject to certain regulatory and legal constraints in originating new loans and managing existing loans*”).

The EAP's key objectives are:

- to restore the soundness of the Cypriot banking sector and rebuild depositors' and market confidence by thoroughly restructuring and downsizing financial institutions, strengthening supervision and addressing expected capital shortfalls, in line with the political agreement of the Eurogroup of 25 March 2013;

- to continue the on-going process of fiscal consolidation in order to correct the excessive general government deficit by 2016, in particular through measures to reduce current primary expenditure, and maintain fiscal consolidation in the medium-term, in particular through measures to increase the efficiency of public spending within a medium-term budgetary framework, enhance revenue collection and improve the functioning of the public sector; and
- to implement structural reforms to support competitiveness and sustainable and balanced growth, allowing for the unwinding of macroeconomic imbalances, in particular by reforming the wage indexation system and removing obstacles to the smooth functioning of services markets.

The implementation of the EAP commenced in April 2013 and, to date, has been the subject of seven review missions by the Troika. The latest review mission took place from 14 to 24 July 2015, and, according to a joint statement by the Troika:

- the economic recovery has started, but unemployment remains high ;
- the fiscal developments continue to exceed expectations;
- the financial situation of the banks is gradually improving, but a stronger implementation of financial sector reforms is needed to guarantee a sustainable stabilisation of the banking system. Even if there are some early signs that the rise of non-performing loans is levelling off, a decisive reversion of the non-performing loans trend has still to materialise;
- the reform of corporate and personal insolvency laws is being implemented; some progress has been noted on important growth-enhancing reforms, but firmly moving ahead - including the privatisation process and the public administration reforms - is critical to restore sustained economic growth; and
- however, other reforms have suffered from delays.

Risks related to the implementation of the EAP remain significant. For a discussion of the risks, see "*Risk Factors — Risks Relating to the Economic Crisis in Cyprus — The implementation, conditions and requirements of the MoU entered into between Cyprus and the Troika, and any government actions aimed at alleviating the economic crisis, are uncertain and may create adverse results or have an adverse effect on the 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 4/1978 (**Assessment and Collection of Taxes Law**) has been amended in order to define the books and records which need to be maintained by a taxable person to enable him to prepare and file tax returns. In addition, supporting documentation should be maintained. Similar amendments were introduced into the Cyprus Companies Law;
- the immovable property tax rates have been increased as of 1 January 2013 at rates which range from 0.6% 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 years 2014 and 2015, the immovable property tax will be on the basis of the valuation price as of 1 January 1980; and
- the special levy paid by banking institutions on deposits was increased from 0.11% 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.

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

## Employment

Employment figures in this section are calculated based on publicly available information from Eurostat and the Cyprus Statistical Service.

The rapid growth of the Cypriot economy during the period 2003-2008 led to strong employment conditions. Consequently, unemployment remained below 5 % during most of the period and fell to a low of 3.7% in 2008. The employment of foreign workers considerably increased the flexibility in labour markets and helped to moderate wage growth in the economy. The economic deceleration that started in 2009 gradually affected the labour market with some time lag, causing significant employment losses and a higher unemployment rate. In particular, the average unemployment rate increased from 5.4 % in 2009 to 16.1 % in 2014, with the new entrants, mainly young persons and persons employed in the construction and tourism sectors, being severely affected. Youth unemployment (persons aged less than 25 years) dropped from 38.9 % in 2013 to 36.0 % in 2014, which is the highest in the Eurozone after Spain, Greece and Italy. In the first half of 2015, the average unemployment dropped 15.8% on a seasonally adjusted basis.

The employment rate in Cyprus, the proportion of employed people to the economically active population, rose to 62.1 per cent. in 2014 from 61.7 per cent. in 2013, compared with a Eurozone average of 63.8 per cent. and remains higher than in other distressed countries, such as Greece (49.4 per cent.), Spain (56.0 per cent.) and Portugal (62.6 per cent.). Cyprus has relatively favourable demographics: the old age dependency ratio (defined as the ratio of population aged 0-14 and 65 and over to the population aged 15-64) in 2014 was 43.1 per cent., compared with 53.0 per cent. in the Euro area (18 countries) and 51.8 per cent. in the EU as a whole. Cyprus also has a median age of 36.8 years in 2014, compared 43.1 years in the Eurozone and 42.2 years in the EU as a whole. Finally, wages have continued to exhibit relative flexibility with a decreasing trend, adjusting to the overall economic situation. More specifically, real unit labour costs decreased by 3.1 per cent. in 2014 after dropping by 4.7 per cent. in 2013 and are expected to decrease by a further 0.3 per cent. in 2015 according to the European Commission (European Economic Forecast, Spring 2015), thus improving the overall cost competitiveness of the economy.

## Ratings

As of the date of this Prospectus, the Republic of Cyprus has been rated by Moody's Standard & Poor's, Fitch and DBRS. On 14 November 2014, Moody's upgraded the rating from Caa3 to B3 with stable outlook to reflect the consolidation of the Government's fiscal position and the stabilisation of the financial sector through the recapitalisation of the banking sector. On 13 November 2015, Moody's upgraded Cyprus' government bond rating by two notches from B3 to B1 with a stable outlook to reflect faster than expected economic recovery and the expectation of continued, more broad-based economic growth, as well as consistent outperformance of fiscal targets leading to a trend reversal of the public debt ratio.. On 25 September 2015, Standard & Poor's raised Republic of Cyprus' long-term sovereign credit rating to BB- from B+ to reflect the benefits to economic and financial stability from the removal of capital controls in April of the same year without disruptions in the banking system and alongside stronger than expected outcomes and outlook for fiscal consolidation and economic growth. Standard & Poor's maintained its outlook as 'positive' to reflect the view that it could raise the ratings in the next 12 months conditioned on continued growth and further stabilisation in the financial sector through improvements in asset quality. On 23 October 2015 Fitch Ratings upgraded Cyprus' long-term foreign and local currency issuer default ratings (IDRs) from 'B-' to 'B+' with positive outlooks. The issue ratings on Cyprus' senior unsecured foreign and local currency bonds have also been upgraded from 'B-' to 'B+'. The country ceiling has been raised from 'BB-' to 'BB+' and the short-term foreign currency IDR has been affirmed at 'B'. Fitch had previously raised Cyprus long-term local currency IDR to B- from CCC on 25 April 2014. The upgrade of Cyprus' IDRs reflects its track record of fiscal consolidation, an improved outlook for the trajectory of the public debt, Cyprus' return on track in its EAP following delays over the implementation of the Foreclosure Law, and the return to positive growth in the first half of 2015. On 27 June 2014, DBRS upgraded Cyprus' long-term foreign and local currency issuer ratings to B (low) from CCC with stable trends. In June 2015, DBRS confirmed the long-term foreign and local currency issuer ratings of B (low) with stable trends.

## Main Economic Indicators

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

	2010	2011	2012	2013	2014
GDP at current market prices (€billion)	19.1	19.5	19.5	18.1	17.4)
GDP per capita (€thousand)	23.0	22.9	22.5	21.0	20.4
GDP in constant prices (% change)	1.4	0.4	-2.4	-5.9	-2.5
Employment (% change)	1.4	-1.5	-2.4	-6.1	-0.1
Unemployment rate (%)	6.3	7.9	11.8	15.9	16.1
Harmonised index of consumer prices (% change)	2.6	3.5	3.1	0.4	-0.3
Fiscal balance (€billion)	-0.9	-1.1	-1.1	-0.8	-0.03
Fiscal balance (in% of GDP)	-4.8	-5.8	-5.8	-4.4	-0.2
Public debt (€billion)	10.8	12.9	15.5	18.5	18.7)
Public debt (% of GDP)	56.5	66.0	79.5	102.2	107.5
Exports of goods and services (% change)	2.6	4.2	-1.7	-5.0	5.7
Imports of goods and services (%)	4.5	-0.6	-4.6	-13.6	8.1

change)

Trade balance (€billion)	-4.7	-4.3	-3.9	-2.9	-3.2
Trade balance (% of GDP)	-24.5	-22.3	-19.9	-16.2	-18.5
Current account balance (€billion)	-1.7	-0.6	-1.2	-0.3	-0.8
Current account balance (% of GDP)	-9.0	-3.1	-6.3	-1.6	-4.5

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Source: IMF, Cyprus Country Report No. 15/271, September 2015.

\*Data was adjusted for national accounts revisions by the Cyprus Statistical Service after the IMF country report

## **THE 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 factors that contributed significantly 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 relocation of young 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 holiday homes for foreign nationals due to the attractive weather conditions, low tax regime, high standard of living, and the comparatively lower 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 interest rates, 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, contributed to the increased demand for housing.

The current economic downturn has had a significant impact on the demand for housing, and this has been reflected on the reduced number of new building permits being issued by the Town Planning and Housing Department and also in the steep reduction of property transactions in 2013 and 2014. The residential property price index maintained by the CBC recorded an average annual decrease of 8.8% in 2014 following a decline of 6.5% in 2013. The residential property price index declined by 5.8% on average in the first half of 2015 compared to the same period the year before, and a cumulative decline of 28.9% from the the fourth quarter of 2008 to the second quarter of 2015.

## **Mortgage Market**

Co-operative Credit Institutions were historically the major providers of residential mortgage loans and the availability of mortgage products was limited. Gradually, commercial banks started to compete more aggressively for a bigger share in the housing market, which contributed to the demand for housing.

As at 30 June 2015, the Issuer is the leading bank in Cyprus with an estimated market share in housing loans of 43.1%.

As at 31 August 2015, residential mortgage loans in Cyprus in both resident and non-resident sectors amounted to €13.1 billion, which represented approximately 76% of the country's GDP in 2014. Mortgage loans outstanding have been declining in recent years from their all time high of €15.1 billion in June 2012.

## **Security**

In Cyprus, the main security collateral for housing loans is the registration of 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 has recently been considerably reduced and in most cases, where no extra funds are administered to the customer, there is no cost at all.

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 " – *Regulation and Supervision of Banks in Cyprus – Laws relating to Foreclosures – New enforcement procedure*".

## ***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 demanding the persons indebted to make a payment of all amounts due within a specific period of time.

Following notification and in the case of continued default, 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 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 30 days. 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 that the debt is not settled within the above-mentioned 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 receipt 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:

An action 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 action (guarantors). A search is carried out by the Recoveries Department of the Issuer in the Land Registry's database in order to investigate 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 only for 10 years. At the expiration of the 10-year period, the MEMO can be renewed for a second period of up to 10 years, the exact duration of which will be set by a court decision.

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 one 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 suspended 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; or
- the bank's claim against the customer.

After an application is filed to the Court by the entity suspending the procedure, and provided that the evidence presented is acceptable in Court, the auction process is suspended 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 fees, taxes or rights owed to the state
- Preferential creditors (prior mortgage holders)
- Settlement of the entire mortgage security amount in favour of the mortgage holder who initiated the sale process
- Other mortgaged creditors (paid out in the order of priority according to the registration of their mortgage at the Land Registry)
- Other creditors, including MEMO holders (paid out in the order of priority according to the registration of their Court decision at the Land Registry).

## **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 (offered only when the loan is secured with full cash collateral), 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.

For certain housing loan products, customers may defer up to two monthly instalments in a calendar year, with a maximum of 24 deferrals over the life of the loan. Such deferral option is granted at the absolute discretion of the Issuer and to customers who are not in arrears.

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**) which are incorporated in the Bank's lending policy. 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. Borrowers are required to 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 amounts drawn and undrawn under credit facilities 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 in relation to housing
- 50% for investment purposes in relation to land

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**)

During the assessment of the repayment ability of private individuals, the DTI ratio is calculated as follows:

$$DTI = \frac{\text{Debt}}{\text{Net Income}}$$

The DTI Ratio is calculated by dividing (x) the total monthly obligations owed by the borrower (i.e. the Debt) by (y) the borrower's net monthly income (i.e. the Net 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
- Borrower's recurring / steady total monthly income is set out in the borrower's personal financial statement. For borrowers who do not have a steady monthly income, the borrower's annual income divided by twelve (12) should be used.
- 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. 35% of borrower's total monthly income; or
2. the difference between the total monthly income and the total monthly expenditure as set out in the borrower's personal financial statement.

For high income borrowers the debt servicing amount may exceed the above set limit of 35%.

- 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 20 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, 11 November 2014, 29 September 2015 and 19 November 2015) 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

#### *Administration of the Cover Pool*

The Issuer shall be entitled, prior to an Event of Default and any Series of Covered Bonds becoming Pass Through Covered Bonds and provided that no breach of any Cover Pool Adequacy Criteria would occur as a result of such removal or substitution, to: (i) remove Cover Pool Assets from the Cover Pool; or (ii) substitute existing Cover Pool Assets with Additional Cover Pool Assets. The Issuer will pay an amount equal to the outstanding principal balance of any Cover Pool Assets removed from the Cover Pool plus any Accrued Interest into the Transaction Account.

Following the occurrence of a failure by the Issuer to pay the Final Redemption Amount of a Series of Covered Bonds on the Final Maturity Date, the Issuer with the consent of the Trustee shall as soon as possible use reasonable endeavours to appoint a portfolio manager (the **Portfolio Manager**). The Portfolio Manager shall try to sell the Loans and their Related Security in the Cover Pool in respect of the relevant Series of Pass Through Covered Bonds having the Required Outstanding Principal Balance Amount (calculated in accordance with the provisions in the Trust Deed) (the **Selected Loans**) provided that: (i) where the Cover Pool Adequacy Criteria was met immediately prior to the proposed sale, the Cover Pool Adequacy Criteria will continue to be met following any sale of Selected Loans or removal of such Selected Loans; and (ii) where the Cover Pool Adequacy Criteria has been breached prior to such Selected Loans being sold, the Portfolio Manager may sell Selected Loans where the Cover Pool Adequacy Criteria will not be satisfied after such sale provided that the amount by which the Cover Pool Adequacy Criteria is breached is not worsened or further reduced as a result of sale of such Selected Loans.

Prior to the Portfolio Manager making any offer to sell Selected Loans to third parties and provided that no Insolvency Event has occurred or is continuing, the Portfolio Manager shall serve on the Issuer a notice giving the Issuer the right to prevent the sale of the Selected Loans to third parties by removing all or part of the Selected Loans made subject to sale from the Cover Pool and transferring an amount equal to the outstanding principal balance of the relevant portion of the Selected Loans and the relevant portion of all arrears of interest and Accrued Interest relating thereto to the Transaction Account.

The Portfolio Manager shall offer for sale the Selected Loans and their Related Security in respect of which the Issuer rejects or fails within the requisite time limit to accept the Portfolio Manager's offer to remove the

Loans and their Related Security from the Cover Pool in the manner and on the terms set out in the Trust Deed.

### *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, 11 November 2014, 29 September 2015 and 19 November 2015) 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 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 failure by the Issuer to pay the Final Redemption Amount) 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 failure by the Issuer to pay the Final Redemption Amount then, to the extent that such Selected Loans include Fixed Rate Loans, the Issuer may either:

- 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 failure by the Issuer to pay the Final Redemption Amount, 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
- 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 failure by the Issuer to pay the Final Redemption Amount, 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 failure by the Issuer to pay the Final Redemption Amount) 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 6.7 (*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 under Cypriot law 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.

#### Interest Income

##### *Non-Cyprus Tax Residents*

Persons (natural and legal) who are not resident for tax purposes pursuant to the provisions of the Income Tax Law will not be liable to any charge to income tax or the special contribution for defence tax.

##### *Cyprus tax resident individuals*

Under the provisions of the Income Tax Law, an individual who is tax resident in the Republic of Cyprus and who receives or is credited with interest, is exempt from income tax, but is subject to 30 per cent. withholding pursuant to the provisions of the Special Contribution for the Defence Fund of the Republic Law, Law 117(I) of 2002 (as amended) (the **SCDF Law**).

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

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

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

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

#### Cyprus tax resident companies

The interest received or credited by a resident company is subject to:

- (a) 12.5 per cent. pursuant to the provisions of the Income Tax Law, provided that this interest is derived from the ordinary carrying on of its business or closely connected with the carrying on of its business; or
- (b) 30 per cent. pursuant to the provisions of the SCDF Law, if that interest is not derived from the ordinary carrying on of its business and is not closely connected with the carrying on of its business.

#### **Stamp Duty**

The Stamp Duty Law provides that:

"(1) every instrument specified in the First Schedule shall be chargeable with duty of the amount specified in the said Schedule as the proper duty therefor respectively if it relates to any asset situated in the Republic or to matters or things which shall be performed or done in the Republic irrespective of the place where the document is made".

Furthermore, pursuant to the Stamp Duty Law, the First Schedule thereto provides a stamp duty of 0.15% 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 natural person or legal entity 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 in the form of interest payments (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.

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

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

## **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 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.

#### **(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 **Relibi 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 Relibi Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to an individual beneficial owner who is a resident of Luxembourg or to a residual entity (within the laws of 21 June 2005 implementing Council Directive 2003/48/EC of 3 June 2003 on the taxation of savings income and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the **Territories**)) established in an EU Member State (other than Luxembourg) or one of the Territories and securing such payments for the benefit of such individual beneficial owner will be subject to a withholding tax of 10%. 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 has been phased in for certain payments from sources within the United States and will apply to "foreign passthru payments" (a term not yet defined) no earlier than 1 January 2019. 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.

Cyprus signed a Model 1 IGA with the United States on 2 December 2014. 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)

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 (“FTT”) FOR PARTICIPATING MEMBER STATES**

On 14 February 2013, the European Commission published a proposal (the **Commission 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 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 (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

### **United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) 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
- (b) 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 23 October 2015. 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 Stassinos Street, Ayia Paraskevi, Strovolos, 2002 Nicosia, Cyprus and on the website [http://www.bankofcyprus.com/en-GB/Start/Investor-Relations/Debt\\_Securities/Covered-Bond/](http://www.bankofcyprus.com/en-GB/Start/Investor-Relations/Debt_Securities/Covered-Bond/). 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 179 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 2014. Save as disclosed on page 152, there has been no significant change in the financial or trading position of the Issuer since 30 June 2015.

### 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 2013 and 31 December 2014 (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 2015 (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](http://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 2013 and 31 December 2014, 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.

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