

OFFERING CIRCULAR



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 Luxembourg Stock Exchange (the **Luxembourg Stock Exchange**) in its capacity as market operator of the Euro MTF market of the Luxembourg Stock Exchange (the **Euro MTF Market**) under Part IV of the Luxembourg Act dated 10 July 2005 relating to prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*), as amended (the **Luxembourg Act**) to have Covered Bonds issued under the Programme admitted to trading on the Euro MTF Market and listed on the official list of the Luxembourg Stock Exchange (the **Official List**) for a period of 12 months from the date of this offering circular (the **Offering Circular**). The Euro MTF Market is not a regulated market pursuant to the provisions of Directive 2004/39/EC (the **Markets in Financial Instruments Directive**) but is subject to the supervision of the financial sector and exchange regulator, the *Commission de Surveillance de Secteur Financier* (the **CSSF**). This Offering Circular constitutes a base prospectus for the purpose of the Luxembourg Act. This Offering Circular and any supplement thereto will be available on the website of the Luxembourg Stock Exchange (www.bourse.lu).

References in this Offering Circular to Covered Bonds being **listed** (and all related references) shall mean that such Covered Bonds are intended to be admitted to listing on the Official List and admitted to trading on the Euro MTF Market. However, unlisted Covered Bonds may be issued pursuant to the Programme. The applicable Pricing Supplement (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 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 Offering Circular 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 pricing supplement (the **Pricing Supplement**) which, with respect to Covered Bonds to be admitted to trading on the Euro MTF Market, will be delivered to the Luxembourg Stock Exchange on or before the date of issue of such Series of Covered Bonds and published in accordance with the rules and regulations of the Luxembourg Stock Exchange, as amended from time to time. Copies of the Pricing Supplement in relation to the Covered Bonds to be listed on the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

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

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

Arrangers

BNP Paribas J.P. Morgan

Dealers

**Bank of Cyprus
Barclays**

**BNP Paribas
BofA Merrill Lynch
HSBC**

**J.P. Morgan
Deutsche Bank**

The date of this Offering Circular is 21 December 2016.

IMPORTANT INFORMATION

This Offering Circular does not comprise 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 and any relevant implementing measure in a relevant Member State of the European Economic Area) (the **Prospectus Directive**). This Offering Circular has been prepared for the purpose of giving information with regard to the Issuer and its subsidiaries and affiliates taken as a whole (the **Group**) and the Covered Bonds which, according to the particular nature of the Issuer and the Covered Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

The Issuer accepts responsibility for the information contained in this Offering Circular and the Pricing Supplement 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 Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Circular 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 Offering Circular shall be read and construed on the basis that such documents are so incorporated and form part of this Offering Circular.

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 Pricing Supplement. This Offering Circular 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 a Pricing Supplement, must be read and construed together with the applicable Pricing Supplement. 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 Offering Circular 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 Offering Circular 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 Offering Circular or the legality of any investment. Neither the delivery of this Offering Circular 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 Offering Circular 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 Offering Circular and any Pricing Supplement 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 Offering Circular 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 Offering Circular 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 Offering Circular 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 Offering Circular or any Pricing Supplement 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 Offering Circular or any Pricing Supplement 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 Offering Circular 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 Offering Circular 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 Offering Circular 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

Historical Financial Information

In connection with the proposed insertion of Bank of Cyprus Holdings Public Limited Company (**BOCH**) as a new parent company for the Issuer by means of scheme of arrangement under sections 198 to 200 of the Cyprus Companies Law (the **Scheme**) and admission to the standard listing segment of the Official List of the United Kingdom Financial Conduct Authority, to trading on the London Stock Exchange's Main Market, to listing on the Cyprus Stock Exchange and to trading on the Cyprus Stock Exchange's Main Market, of up to 700,000,000 ordinary shares of BOCH (the **Proposed Listing**), BOCH has published a prospectus dated 30 November 2016 (the **BOCH Prospectus**).

For a description of the Scheme, see the section of the BOCH Prospectus entitled "*The Scheme of Arrangement*" which is incorporated by reference herein.

For the purposes of the BOCH Prospectus, the Issuer and its consolidated subsidiaries (together, the **Group**) have prepared consolidated historical financial information as at and for the six months ended 30 June 2015 and 2016 and as at and for the years ended 31 December 2013, 2014 and 2015 in accordance with IFRS and the requirements of the Regulation (EU) 809/2004 of the European Parliament and of the Council dated 29 April 2004, as amended.

Ernst & Young LLP as reporting accountant to BOCH has reported, in accordance with Statements of Investment Reporting Standards issued by the Auditing Practices Board in the United Kingdom, on the consolidated historical financial information as at and for the six months ended 30 June 2016 and as at and for the years ended 31 December 2013, 2014 and 2015, as stated in its accountant's report dated 30 November 2016 and included in "*Historical Financial Information*" of the BOCH Prospectus incorporated by reference herein (the **Accountant's Report**).

Unless otherwise stated in this Offering Circular, financial information in relation to the Group referred to in, or incorporated by reference in, this Offering Circular has been extracted or derived without material adjustment from the Historical Financial Information (as defined below) or has been extracted or derived from those of the Group's accounting records and its financial reporting and management systems that have been used to prepare that financial information. Financial information as at and for the nine months ended 30 September 2016 in this Offering Circular has been extracted or derived from the interim condensed consolidated financial statements of the Group for the nine month period ended 30 September 2016 (herein referred to as the **Third Quarter Financial Information**) or derived from those of the Group's accounting records and its financial reporting and management systems that have been used to prepare that financial information.

The consolidated audited historical financial information as at and for the six months ended 30 June 2016 and as at and for the years ended 31 December 2013, 2014 and 2015 and the consolidated unaudited historical financial information as at and for the six months ended 30 June 2015, together are herein referred to as the **Historical Financial Information**. The Historical Financial Information is incorporated by reference into this Offering Circular and should be read together with the notes thereto.

Published Financial Information

The consolidated financial statements of the Group as at and for the six-month period ended 30 June 2016 and the three years ended 31 December 2013, 2014 and 2015 were prepared in accordance with International Financial Reporting Standards (**IFRS**) as adopted by the EU and audited by Ernst & Young Cyprus Ltd (**EY Cyprus**), of Jean Nouvel Tower, 6 Stasinou Avenue, P.O. Box 21656 1511 Nicosia, Cyprus, the independent auditors of the Group within the meaning of the Cyprus Companies Law, Cap 113 and the Auditors' and Compulsory Audit of the Annual and Consolidated Accounts Law of 2009, Law 42(I)/2009 for those periods. The Third Quarter Financial Information (which includes comparative information for the nine

months ended 30 September 2015) was prepared in accordance with International Accounting Standard 34 and EY Cyprus 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 Third Quarter Financial Information and the independent auditor’s review report thereon (the **Q3 Review Report**), are incorporated by reference in this Offering Circular. The information therein and replicated therefrom and incorporated by reference herein, is unaudited.

Qualified Opinion with Respect to 2013 Financial Information in the Accountant’s Report

The Accountant’s Report includes a qualified opinion with respect to the financial information for the year ended 31 December 2013. The qualification relates to the inability of the Issuer to measure the shares issued (a) in consideration of a bail-in of uninsured deposits and debt securities pursuant to the provisions of the relevant Bail-in Decrees (as defined in “*History of the BOC Group, the Restructuring, the Recapitalisation and the Disposals*” incorporated by reference herein) issued and enforced by the Resolution Authority (as defined herein) in 2013; and (b) in consideration for the acquisition of certain assets and liabilities of Cyprus Popular Bank Public Co Ltd (**Laiki Bank**) in 2013, pursuant to the provisions of the relevant Bail-in Decree, issued and enforced by the Resolution Authority at their fair value as required by IFRS. For more information please refer to the Accountant’s Report or Note 54.6.1 to the Historical Financial Information.

Emphasis of Matter in the Accountant’s Report

The Accountant’s Report also includes an emphasis of matter with respect to the Issuer’s ability to continue as a going concern, and the fact that the Group was in breach of the regulatory liquidity ratios in Cyprus on the date of the Accountant’s Report. The Accountant’s Report is not qualified in this respect. For more information please see the Accountant’s Report, Note 4 to the Historical Financial Information, “*Risk Factors—Funding and Liquidity Risks—The BOC Group is dependent on customer deposits and central bank funding for liquidity and any difficulties in securing these sources of liquidity may materially adversely affect the BOC Group’s business, financial condition, results of operations and prospects*” and “*Risk Factors—Business Risks—The Accountant’s Report is qualified with respect to the financial information for the year ended 31 December 2013 and includes an emphasis of matter. The Q3 Review Report includes an emphasis of matter*”.

Emphasis of Matter in the Q3 Review Report

The Q3 Review Report also includes an emphasis of matter with respect to the Issuer’s ability to continue as a going concern, and the fact that the Group was in breach of the regulatory liquidity ratios in Cyprus on the date of the Q3 Review Report. The Q3 Review Report is not qualified in this respect. For more information please see the Q3 Review Report, Note 5 to the Third Quarter Financial Information, “*Risk Factors—Funding and Liquidity Risks—The BOC Group is dependent on customer deposits and central bank funding for liquidity and any difficulties in securing these sources of liquidity may materially adversely affect the BOC Group’s business, financial condition, results of operations and prospects*” and “*Risk Factors—Business Risks—The Accountant’s Report is qualified with respect to the financial information for the year ended 31 December 2013 and includes an emphasis of matter. The Q3 Review Report includes an emphasis of matter*”.

Non-IFRS information and other statistics

This Offering Circular also presents or incorporates by reference certain financial measures that are not measures defined under IFRS, including regulatory capital, risk weighted assets, funding and other risk measures. In addition, this Offering Circular presents or incorporates by reference certain other operational statistics that are not measures of financial performance under IFRS. No non-IFRS information should be considered as an alternative to any IFRS financial measure. Such measures, as defined by the Group, may not be comparable to other similarly described measures used by other companies, as non-IFRS measures are

not uniformly defined and other companies may calculate them in a different manner from the Group. The Group believes that these non-IFRS measures are important aids to understanding the Group's performance, operations and capital position. All non-IFRS disclosures are unaudited and labelled as such.

In this Offering Circular and the information incorporated by reference herein:

NPE(s) means non-performing exposures, which is not an accounting term, but a term used to comply with a reporting standard calculated on the basis of forbearance and the related definitions and policies communicated in July 2014 in the EBA Final Draft Implementing Technical Standards (ITS);

NPL(s) means non-performing loans which were reported in accordance with the Directive on Loan Impairment and Provisioning Procedures of 2014 as published by the CBC in February 2014 and, from 31 December 2014, NPLs and provisions were reported in accordance with the EBA reporting standards and the Loan Provisioning Directive;

90+DPD means loans past-due for more than 90 days and those that are impaired. Impaired loans are loans which are not considered fully collectable and for which a provision for impairment has been recognised on (i) an individual basis or (ii) for which incurred losses exist at their initial recognition or (iii) for customers in the debt recovery services unit of the restructuring and recoveries division (**Debt Recovery**); and

90+DPD Ratio means loans past-due for more than 90 days and those that are impaired (impaired loans are those which are not considered fully collectable and for which a provision for impairment has been recognised on (i) an individual basis or (ii) for which incurred losses exist at their initial recognition or (iii) for customers in Debt Recovery) divided by gross customer loans (gross loans are reported before the fair value adjustment on initial recognition relating to loans acquired from Laiki Bank (calculated as the difference between the outstanding contractual amount and the fair value of loans acquired)).

Comparability of Financial Information

The Group has re-presented and re-classified certain financial information, which is included in its publicly available audited financial statements for the years ended 31 December 2013, 2014 and 2015, in the Historical Financial Information. These re-presentations and re-classifications were made in order for the presentation to take into account the effects of disposals, and other changes in the presentation of the relevant financial statement line items to conform with the latest period presented, and to present them in such a way that the analysis of the results of continuing and discontinued operations respectively, is comparable for all periods presented in the Historical Financial Information. The Historical Financial Information is therefore different in certain respects from the Group's audited financial statements for the years ended 31 December 2013, 2014 and 2015 previously published and available on the Group website.

Rounding and negative amounts

Certain figures contained in, or incorporated by reference in, this Offering Circular, including financial, statistical and operating information, have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly, and figures shown as totals in certain tables may not be an exact arithmetic aggregation of the figures which precede them. In addition, certain percentages in this Offering Circular have been calculated using rounded figures.

Negative amounts in, or incorporated by reference in, this Offering Circular are shown between brackets or otherwise indicated by the surrounding text (such as describing such amount as "negative").

Market and Industry Information and Other Data

All references to market share, market data, industry statistics and industry forecasts in, or incorporated by reference in, this Offering Circular consist of estimates compiled by industry professionals, competitors, organisations or analysts of publicly available information, including governmental sources, or of the Group's own knowledge of its sales and markets. Certain statements made in, or incorporated by reference

in, this Offering Circular are based on the Group's own proprietary information, insights, opinions or estimates, and not on any third-party or independent source; these statements contain words such as 'the Group believes', 'the Group expects', 'the Group sees', and as such do not purport to cite, refer to or summarise any third-party or independent source and should not be so read.

Industry publications and governmental statistics generally state that their information is obtained from sources believed to be reliable but that the accuracy and completeness of such information is not guaranteed and that the projections they contain are based on a number of significant assumptions.

Although the Group believes these sources to be reliable, the Group does not have access to the information, methodology and other bases for such information and has not independently verified the information. Where third-party information has been sourced in this Offering Circular or in information incorporated by reference herein, the source of such information has been identified. The information in, or incorporated by reference in, this Offering Circular that has been sourced from third parties has been accurately reproduced with reference to these sources in the relevant paragraphs and, as far as the Group is aware and able to ascertain from the information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading.

The Group makes certain statements in this Offering Circular or in information incorporated by reference herein regarding its competitive and market position. The Group believes these statements to be true, based on market data and industry statistics, but the Group has not independently verified the information. The Group cannot guarantee that a third party using different methods to assemble, analyse or compute market data or public disclosure from competitors would obtain or generate the same results. In addition, the Group's competitors may define their markets and their own relative positions in such markets differently than the Group does and may also define various components of their business and operating results in a manner which makes such figures non-comparable with the Group's.

All references to a "branch" or "branches" in this Offering Circular or in information incorporated by reference herein denote a place or places where the Group has a physical presence and do not necessarily denote that the Group either maintains a retail branch or provides counter or other client services at such location.

Statistical information included in the section entitled "*The Macroeconomic Environment in Cyprus*" which is incorporated by reference herein is calculated based on publicly available information from the Statistical Service of Cyprus (known as CYSAT) unless otherwise indicated.

Statistical information included in the section entitled "*The Banking Sector in Cyprus*" which is incorporated by reference herein is calculated based on publicly available information from the Central Bank of Cyprus (the **CBC**) unless otherwise indicated.

References to Laws, Rules and Regulations

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

IMPORTANT INFORMATION RELATING TO THE USE OF THIS OFFERING CIRCULAR AND THE OFFER OF COVERED BONDS GENERALLY

This Offering Circular 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 Offering Circular 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 stabilising manager(s) (the **Stabilising Manager(s)**) (or persons acting on behalf of any stabilising manager(s)) in the applicable Pricing Supplement 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, stabilisation may not necessarily occur. 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 cease 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 action or over-allotment shall be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

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 Offering Circular and, in relation to the terms and conditions of any particular Series of Covered Bonds, the applicable Pricing Supplement. 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 Offering Circular or a new Offering Circular, if appropriate, will be published.

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

PRINCIPAL PARTIES

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

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 "*Description of Principal Documents— 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 Bonds 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 Offering Circular, 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 Pricing Supplement 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.

Pricing Supplement

A pricing supplement (the **Pricing Supplement**) 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 Offering Circular and must be read in conjunction with the Conditions and the Offering Circular. The terms and conditions applicable to any particular Series are the Conditions as completed or amended by the applicable Pricing Supplement.

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 Bonds 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 Pricing Supplement (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 Offering Circular.

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 Pricing Supplement 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 Pricing Supplement).

Floating Rate Covered Bonds

The applicable Pricing Supplement 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 Pricing Supplement.

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 Pricing Supplement.

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 Pricing Supplement). 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 Pricing Supplement).

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 Bonds

All Covered Bonds will rank *pari passu* and pro rata without any preference or priority among themselves, irrespective of their Series, for all purposes except for their respective Issue Dates, Interest Commencement Dates, interest rates and/or Issue Prices.

See further "*—Cross-collateralisation*" below.

Taxation

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

Status of the Covered Bonds

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

Cover Pool Register

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

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

Payments on the Covered Bonds

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

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

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

Where the Issuer is subject to dissolution proceedings and the Cover Pool

is sold or otherwise disposed of in its entirety, all amounts/proceeds of such disposal shall be applied on any Business Day in accordance with the Cover Pool Disposal Priority of Payments (as set out in Sections 43 to 45 (inclusive) of the Cypriot Covered Bond Law).

Security for the Covered Bonds

In accordance with the Cypriot Covered Bond Law and the laws of any other relevant Member State, by virtue of the Covered Bond Legislation, the Issuer's rights under and pursuant to the Transaction Documents and the assets comprising, 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. 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 Offering Circular.

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 Pricing Supplement 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 Pricing Supplement.

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 Pricing Supplement 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 Pricing Supplement 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 Pricing Supplement 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 Pricing Supplement) (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 Pricing Supplement (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 Pricing Supplement. 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 Luxembourg Stock Exchange for Covered Bonds issued under the Programme to be admitted to trading on the Euro MTF Market and to be admitted to listing on the Official List of the Luxembourg Stock Exchange. As specified in the applicable Pricing Supplement, a Series of Covered Bonds may be unlisted.

Clearing Systems

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

Selling Restrictions

There are restrictions on the offer, sale and transfer of the Covered Bonds in the United States and the European Economic Area (including the United Kingdom 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 Bonds 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 and any non-contractual obligations arising out of or in connection therewith will be governed by, and construed in accordance with, English law.

The Covered Bonds and any non-contractual obligations arising out of or in connection therewith 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 Offering Circular, 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**, in relation to a Loan Asset, shall each loan comprising the Cover Pool which is a claim deriving from a loan or credit facility of any nature comprising the aggregate of all principal sums, interest, costs, charges, expenses, and other moneys (including all additional loan advances under such loans and credit facilities) due or owing due or owing with respect to that loan under the relevant mortgage terms by a Borrower on the security of a mortgage and/or pre-notation from time to time outstanding or, as the context may require, the Borrower's obligations in respect of the same.

See further "*Overview of the Covered Bonds 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.

Insolvency Event means in respect of the Issuer: (a) an order is made or an effective resolution passed for the winding up of the relevant entity; or (b) the relevant entity stops or threatens to stop payment to its creditors generally or the relevant entity ceases or threatens to cease to carry on its business or substantially the whole of its business; or (c) an encumbrancer takes possession or a receiver, administrator, administrative receiver or other similar officer is appointed to the whole or any material part of the undertaking, property and assets of the relevant entity or a distress, diligence or execution is levied or enforced upon against the whole or any material part of the chattels or property of the relevant entity and, in the case of any of the foregoing events, is not discharged within 30 days; or (d) the relevant entity is unable to pay its debts as they fall due, other than where the Issuer is Bank of Cyprus Public Company Limited and any of the events set out in paragraphs (a) to (c) occurs in connection with a substitution in accordance with Condition 16;

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 Bonds 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 euro;
- (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 Bonds 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 Bonds Legislation—Complementary Assets*" below.

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

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

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

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

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

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

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

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

See further "*Overview of the Covered Bonds 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 Bonds 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 Bonds 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 Bonds 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 Principal Documents — Trust Deed — Servicing*".

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

Following the removal of the Issuer from the Register of Approved

**from the Register of
Approved Institutions**

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

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

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

Where the Issuer is removed from the Register of Approved Institutions but no CBBA has been appointed by the Competent Authority, the Issuer must, within a time period specified by the Competent Authority, provide to the Competent Authority and the Covered Bondholders details of a scheme specifying the measures it will take in order to service the Covered Bonds then outstanding in accordance with the terms of their issue (the **Scheme**).

**Appointment of the Covered
Bond Business Administrator**

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

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

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

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

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

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

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

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

Powers of the Covered Bond Business Administrator

Where the CBBA reasonably believes that following a potential initiation of dissolution proceedings the Cover Pool will not be adequate to fully cover the claims of the relevant Cover Pool Creditors, the CBBA may, with the consent of the Competent Authority and the required majority of Covered Bondholders, require:

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

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

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

(when subject to dissolution proceedings), applying, by analogy, the provisions of the Companies Law, the Cooperative Societies Laws of 1985 to 2010 or any other law relating to the inspection of books and records of the Issuer by its creditors.

See further "*Overview of the Covered Bonds 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, 19 November 2015 and 21 December 2016) 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, 19 November 2015 and 21 December 2016) 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 Pricing Supplement, 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 Offering Circular 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 Offering Circular, 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 Offering Circular 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 Cypriot, European and Global Economies and the Financial Markets

Economic conditions in Cyprus have had, and may continue to have, a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group's business and performance are materially dependent on the economic conditions in, and future economic prospects of, Cyprus where the Group's operations and earnings are predominantly based and generated. As at 31 December 2015, 93.1% and 92.4% of the Group's total assets and total liabilities, respectively, and 98.0% of the Group's total revenue from continuing operations in 2015, were derived from operations in Cyprus. As at 30 June 2016, 93.8% and 92.9% of the Group's total assets and total liabilities, respectively, and 92.9% of the Group's total income from continuing operations for the first half of 2016 were derived from operations in Cyprus. As one of the largest deposit-taking institutions and providers of loans in Cyprus, the Group's assets and liabilities are mostly comprised of loans to, and deposits from, Cypriot businesses and households which, in turn, are materially affected by economic conditions in Cyprus. As at 30 June 2016, the Group accounted for approximately 29.0% of total deposits and 41.4% of gross loans in the Cypriot banking system (source: CBC data 30 June 2016).

The Cypriot economy has faced, and continues to face, substantial macroeconomic pressures as a result of the recession from the second half of 2011 until the end of 2014 that followed the global financial crisis. The recession resulted in an overall reduction in private consumer spending and household purchasing power and business investment, as well as a significant rise in unemployment. These factors resulted in reduced demand for financial products and services from the Group, a deterioration in its asset quality, a reduction in deposits from 2013 to 2014 and increases in loan impairment charges from 2013 to 2015. For a discussion on the current and historical economic environment in Cyprus, see "*The Macroeconomic Environment in Cyprus*" incorporated by reference herein. While the Cypriot economy began to show signs of recovery in 2015, the economic outlook remains challenging, mainly as a result of high levels of NPEs (as defined in "*Presentation of Financial and Other Information*") and relatively high unemployment rates compared to

other EU countries. The Cypriot economy is also vulnerable to any volatility in the economic conditions in Europe and globally (see "*Economic and political developments in Europe and globally could have a material adverse effect on the Group's business, financial condition, results of operations and prospects*" below). In a statement issued in January 2016, the International Monetary Fund (the **IMF**) stated that there was a need to re-energise reform implementation in Cyprus to protect confidence and longer-term growth and that the accelerated workout of **NPLs** was critical to reviving lending and improving growth prospects. However, with Cyprus' exit from the Cyprus Economic Adjustment Programme (**EAP**) in March 2016, Cyprus will no longer have access to financial assistance from the European Stability Mechanism (the **ESM**) or IMF in order to stabilise the economy if it deteriorates. Cyprus may also become less responsive to the need for further fiscal and other structural reforms required for sustained, long term growth in public finances. Gross domestic product (**GDP**) growth was 2.8% year-on-year seasonally adjusted in January - September 2016 and is expected to remain between 1.9% to 2.5% over the period from 2017 to 2021 according to the IMF (source: World Economic Outlook Database October 2016). This is significantly below pre-recession levels, reflecting the IMF's expectation of subdued private consumption and investment volumes.

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 Group's business, financial condition, results of operations and prospects. In particular, the value of the Group's assets (a significant proportion of which forms part of the Issuer's domestic loan portfolio) and the ability of its clients and counterparties to meet their financial obligations, could be adversely affected and could cause loan impairment charges to rise and fee and commission income to reduce or cause the Group to incur further mark-to-market losses.

Economic and political developments in Europe and globally could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Following a lengthy period of recession in many economies around the world, including Europe, in the wake of the global financial crisis, global economic growth has returned, although at a relatively modest pace and unevenly across countries. The current outlook for the global economy and financial markets has been shaped by deteriorations in emerging market economies which have been particularly affected by a combination of recent economic events including a significant drop in oil and other commodity prices in 2015, tighter external financial conditions, China's economic slowdown, and other economic distresses related to geopolitical factors, which have continued to affect the stability of global financial markets. In addition, on 23 June 2016, the United Kingdom held a referendum on its continued membership of the EU (the **UK Referendum**) in which a majority of voters voted for the United Kingdom to leave the EU. The result of the UK Referendum has also had an effect on global and European financial markets and may have an effect on the European or global economy (see below). Many European economies also continue to face significant economic challenges stemming from weak GDP growth, high levels of private or public debt and elevated unemployment rates. Increasing downside risks on the back of a weaker external environment and heightened geopolitical risks may restrict economic recovery in Europe, which remains greatly dependent on accommodative monetary policy, with a corresponding material adverse effect on the Group's business, financial condition, results of operations and prospects.

Key external economic factors which both affect and indicate the economic condition and prospects of Europe and other regions include unemployment levels, consumer and government spending levels, government monetary and fiscal policies, inflation rates, credit spreads, currency exchange rates, the availability and cost of capital and funding, market indices, investor sentiment and confidence in the financial markets, consumer confidence, the liquidity in financial markets, the level and volatility of equity prices, commodity prices and interest rates, real estate prices, and changes in customer behaviour. In particular, any period of unpredictable movements, severe dislocations and liquidity disruptions in the financial markets in the Eurozone or elsewhere, as a result of the UK Referendum or otherwise, could lead to a reduction in the demand for some of the Group's banking services and products and may also impede the Group's ability to raise capital. This could result in, among other things, the issuance of capital and funding of different types or under different terms than otherwise would have been issued or realised, or the

incurrence of additional or increased funding and capital costs compared to the costs borne in a more stable market environment. Furthermore, some of the Group's risk management strategies may not be as effective at mitigating risks as such strategies would be under more normal market conditions. This could potentially have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Furthermore, political or other factors and events outside of the Group's control, such as heightened geopolitical tensions, war, acts of terrorism, pandemic or other natural disasters or other similar events, may have an adverse effect on European and global economic conditions which could, in turn, have a material adverse effect on the Group's business, financial condition, results of operations and prospects. The particular examples of these factors include, but are not limited to:

- Changes in the level of interest rates imposed by the European Central Bank (**ECB**);
- The passing and implementation of an increasing number of EU regulations and directives relating to the banking, financial services and insurance sectors;
- Political instability or military conflict that impacts Europe and/or other regions;
- Potential further deterioration in the economic, social and political conditions in Greece and the fiscal position of Greece. Although the Group has exited its operations in Greece, the Group remains exposed 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 2016, the net exposure (**Net Exposure**)¹ of the Group to Greece comprised (a) net on-balance sheet exposures (excluding foreclosed properties) totalling €12.8 million which was principally comprised of funding exposures to the subsidiaries of Laiki Bank in Greece, (b) 639 foreclosed properties with a book value of €164.2 million, (c) off-balance sheet exposures totalling €118.6 million (primarily due to financial and other guarantees) and (d) lending exposures to Greek entities in the normal course of business in Cyprus totalling €81.4 million and lending exposures in Cyprus with collaterals in Greece totalling €144.3 million;
- Any significant change to, or volatility in, the general economic or political conditions in central and eastern European countries, particularly Russia, Ukraine, Romania and Serbia. Central and eastern European countries share a common history of volatile capital markets and exchange rates, political, economic and financial instability and, in many cases, underdeveloped political, financial and legal systems and infrastructures. A significant proportion of Group's deposits and other business in Cyprus are dependent on expatriate businesses and persons from these countries, particularly Russia and Ukraine. In addition, a material deterioration in political and/or economic conditions in Russia, Romania, Ukraine and Serbia could adversely affect the Group's liquidity and capital because of its exposure to these countries. The Group's Net Exposure to Russia as at 30 June 2016 was €45.3 million, comprised primarily of NPEs. The Group's Net Exposure to Romania as at 30 June 2016 was €262.3 million, comprised primarily of loans and real property and a funding exposure to Laiki Bank's Romanian bank and financial services subsidiaries which were inherited by the Issuer in 2013. As at 30 June 2016, the Group had a Net Exposure to Ukraine of €59.5 million in relation to deferred consideration to be paid to it under a repayment programme extended until June 2019 with respect to the sale of its Ukrainian operations. The Group's Net Exposure to Serbia as at 30 June 2016 was €41.5 million, comprised primarily of a funding exposure to Laiki Bank's Serbian bank which were inherited by the Issuer in 2013;
- Taxation and other political, economic or social developments affecting Cyprus, Russia, the United Kingdom or the EU;

¹ "Net Exposure" means, in relation to a country, loans to entities incorporated or resident in such country, minus liabilities to entities incorporated or resident in such country, plus any off-balance sheet exposures to entities incorporated or resident in such country and properties in such country.

- Adverse public perception of low tax jurisdictions which has increased following heightened international focus on global tax scandals, including the leak of papers from a Panamanian law firm in early 2016, may result in a material adverse effect on the Group's deposits and business from international customers. The International Banking Services division (**IBS**) was responsible for 26.5% of the Group's deposits as at 30 June 2016 and 30.6% and 33.8% of the Group's net fee and commission income for 2015 and the first half of 2016, respectively;
- Any material adverse effect on the financial and political resources of the EU as a result of the continuing Syrian war and the related refugee crisis, the resolution of which remains subject to divergent political debate between the member states of the EU (**EU Member States**);
- A continuation or worsening of the significant volatility in global stock and currency exchange rate markets that has resulted from the announcement of the result of the UK Referendum. There is also considerable uncertainty as to the impact of the result of the UK Referendum on the general economic conditions in the UK, the EU, the financial services industry and the legal and regulatory environment. Such volatility and uncertainty may persist or worsen throughout the process of negotiation that may be required to determine the future terms of the UK's relationship with the EU; and
- A recurrence of the EU sovereign debt and banking stress triggered by political and fiscal uncertainty associated with Greece, Spain, Italy and the result of the UK Referendum, stalling reform efforts in EU periphery economies.

The Issuer has been and could in the future be materially adversely affected by the weakness or the perceived weakness of other financial institutions.

Financial institutions have a high level of interdependence as a result of credit, trading, clearing and other relationships between them. As a result, a default or threatened default or concerns about a default or threatened default by one institution could affect other institutions and lead to significant market-wide liquidity problems and financial losses for other financial institutions. It may even lead to defaults of other financial institutions, which is a risk sometimes referred to as "systemic risk". A systemic risk event may also have a material adverse effect on financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, to which the Group is exposed.

Systemic risk in the global financial industry is still at an elevated level. High sovereign indebtedness, low capital levels at many banks and the high interconnectivity between the largest banks and certain economies are important factors that contribute to this systemic risk. Against the backdrop of the global financial crisis, during which the lack of liquidity and high costs of funding relative to official rates in the interbank lending market reached unprecedented levels, the Group is subject to the risk of deterioration of the commercial weakness or perceived weakness of other financial institutions within and outside Cyprus, particularly those within the EU. These risks could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Risks Relating to Asset Quality, Provisions and Capital

The Group's financial condition and prospects are materially affected by its ability to reduce the high level of NPEs in its existing portfolio and the price at which it is able to dispose of these NPEs.

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 €18.2 billion as at 31 December 2014 to €17.2 billion as at 31 December 2015 and to €16.3 billion as at 30 June 2016. The 90+DPD Ratio (as defined in "Presentation of Financial and Other Information") has remained relatively high compared with other European banks. 90+DPD (as defined in "Presentation of Financial and Other Information") loans were 44.0% of the Group's gross loan exposure as at 30 June 2016, compared to 50.1% as at 31 December 2015. At 30 June 2016, the Group held a 90+DPD portfolio of €9.3 billion, reflecting an 18.1%

reduction from €11.3 billion at 31 December 2015. A significant proportion of the Group's NPEs are comprised of loans to borrowers in the Cypriot real estate and construction sectors, where asset prices continued to decline and have only begun to stabilise in the first half of 2016. As at 31 December 2015 and 30 June 2016, loans to borrowers in the Cypriot real estate and construction sectors which were classified as 90+DPD were 40.3% and 37.1%, respectively, of the Group's portfolio of 90+DPD loans in Cyprus.

As the Group's NPEs comprise a significant proportion of its loan portfolio and require a significant portion of the Issuer's capital to be held against them, the Group's ability to provide new loans and resume the growth of its loan portfolio remains constrained and there can be no assurance that the Group will be able to continue the reduction in the level of its NPEs at the current rate. In particular, the Group's ability to reduce the level of its NPEs is significantly dependant on its ability to restructure and/or rehabilitate these loans. A significant proportion of the Group's NPEs are loans to borrowers in the real estate and construction sectors in Cyprus, and, the willingness and ability of delinquent or defaulting borrowers to agree to a voluntary restructuring of their loans is materially dependent on the continuing recovery of the Cypriot economy, particularly the Cypriot real estate market (see "*As a significant proportion of the Group's loan portfolio is secured primarily by Cypriot real estate and the Group has a significant portfolio of real estate in Cyprus, mainly as a result of the enforcement of loan collateral, the Group's business, financial condition, results of operations and prospects are materially affected by changes in the demand for, and prices of, Cypriot real estate*" below), and the implementation of an effective and efficient insolvency and foreclosure process in Cyprus, none of which are factors within the Group's control. While the Issuer believes that the implementation of the New Foreclosure Laws and the Insolvency Framework Laws (each as defined and discussed in "*Financial Services Regulation and Supervision*" incorporated by reference herein) is likely to improve its ability to recover from borrowers who have defaulted on their loans and shorten the recovery period, these laws remain unsettled and it is unclear as to how certain provisions within these laws will work, or work together, in practice. A number of cases have been presented to the Cypriot District Courts in connection with the New Foreclosure Laws. The majority have resulted in positive outcomes for the Issuer, as mortgagee, and a few concluded against the Issuer. As at the date of this Offering Circular, however, there are a number of further cases pending in the courts, the outcome of which remains unknown. While the judgment of one District Court is not binding on another, any discrepancy in court findings creates uncertainty, which in turn can lead to delays in the legal process as a result of similar challenges being made and thereby, delays in recovery periods (see "*Financial Services Regulation and Supervision—Laws relating to Foreclosures*" incorporated by reference herein). Moreover, the significant guarantor and debtor protections that exist under the Insolvency Framework Laws could make it difficult for the Issuer to recover from delinquent or defaulting borrowers and, as applicable, guarantors. Accordingly, there can be no assurance that the reforms implemented by the New Foreclosure Laws and the Insolvency Framework Laws will be effective in improving the Issuer's ability to reduce the Issuer's portfolio of NPEs.

While any sale of NPEs or portfolios of NPEs by the Group would reduce the level of its NPEs and release the provisions held against them, the sale could result in a loss being recorded, which could have a material adverse effect on the Group's income for the relevant financial period and the Group's capital position in the longer term. Further, the Sale of Credit Facilities Law relating to the sale of loans which became effective on 25 November 2015 imposed a new process to sales of NPEs which remains untested and includes certain provisions which could potentially restrict the Group's ability to sell delinquent loans (see "*Financial Services Regulation and Supervision—Additional Cypriot Regulatory Requirements Applicable to the Issuer—Sale of Credit Facilities Law*" incorporated by reference herein).

As a significant proportion of the Group's loan portfolio is secured primarily by Cypriot real estate and the Group has a significant portfolio of real estate in Cyprus, mainly as a result of the enforcement of loan collateral, the Group's business, financial condition, results of operations and prospects are materially affected by changes in the demand for, and prices of, Cypriot real estate.

The Group has substantial exposure to the Cypriot real estate market as the majority of its NPE portfolio is secured by mortgages over real estate in Cyprus. As at 30 June 2016, mortgages accounted for 89.1% of the total collateral held by the Group in Cyprus. The total carrying value of the Group's Cypriot real estate assets

resulting from the enforcement of loan collateral amounted to €887.2 million as at 30 June 2016. As at 30 June 2016, 9.4% of the Group's real estate assets were residential buildings and land, while another 90.6% were commercial buildings and land, of which 6.2% was concentrated in golf resort properties. Accordingly, the Group's business, financial condition, results of operations and prospects would be materially affected by changes in the demand for, and prices of, Cypriot real estate.

Cyprus' real estate market began to decline from late 2008 onwards as Cyprus suffered significant declines in real estate prices, particularly during the period of recession from the second half of 2011 to 2014. Although the rate of decline decreased in 2015, the trend is continuing.

Should the Cypriot real estate market fail to recover, suffer further declines in prices, or continue to perform poorly, the Group's ability to restructure NPEs secured by real estate would be adversely affected and the corresponding decline in the recovery value of real estate assets held as collateral could lead to higher impairment provisions for the Group. In relation to real estate over which the Group has obtained control, the Group could incur significant ongoing costs to maintain the value of its real estate portfolio in Cyprus. Furthermore, any decline in real estate prices could be exacerbated if a significant proportion of the real estate for sale in Cyprus comprises of foreclosed real estate. In any event, the Group's ability to realise the value of its real estate portfolio is dependent on a number of external factors over which the Issuer has no control, such as foreign investor demand (which has historically been a material source of demand for Cypriot real estate) and government policies with respect to real estate investment requirements for Cypriot citizenship and residency. Accordingly, for any one or more of the foregoing reasons, any declines in the prices or demand for Cypriot real estate could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Increases in new provisions could materially adversely affect the Group's financial condition and results of operations.

In connection with its lending activities, the Group provides for loan losses, which are recorded in its profit and loss account. As at 30 June 2016, the Group's provision for loan losses was €3.8 billion excluding fair value adjustment on initial recognition and provision for off-balance sheet exposures. The Group's overall level of provisions is based on its assessment of prior loss experience, the volume and type of lending being conducted, industry standards, past due loans, economic conditions and other factors related to the recoverability of various loans. For a discussion of the Group's provisioning policies, see "*Risk Management—Credit Risk—Provisioning*" incorporated by reference herein.

As a result of deteriorating economic conditions, changes in regulatory or accounting requirements or other causes, it is possible that the Group's lending businesses may have to increase their provisions for loan losses in the future. In particular, the Group may have to increase its provisions as a result of any increases in its NPEs, deteriorations in asset valuations and/or requests by the ECB to do so.

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.

The Group is subject to ECB supervision which may result in requests that it increase its loan provisions, raise additional capital, or result in increased costs.

From November 2014, the Group 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 the European Union's Directive 2013/36/EU (**CRD IV**) and Regulation (EU) No. 575/2013 (**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 practice, ECB supervision

of the Group is carried out in cooperation with the CBC and joint decisions with the United Kingdom Prudential Regulation Authority (the **PRA**) are issued with respect to the Bank of Cyprus UK Ltd's (**BOC UK**) capital requirements.

CRD IV and the CRR comprise the European regulatory package designed to transpose the capital, liquidity and leverage standards of Basel III into the EU's legal framework, and became effective on 1 January 2014. CRR established the prudential requirements for capital, liquidity and leverage that entities need to comply with. It has direct effect in all EU Member States. CRR introduced significant changes in the prudential regulatory regime applicable to banks, including amended minimum capital adequacy ratios, changes to the definition of capital and the calculation of risk weighted assets, and the introduction of new measures relating to leverage, liquidity and funding. CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which will be largely fully effective by 2019, although some transitional provisions provide for phase-in until 2024. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency. Unlike the CRR, CRD IV needs to be transposed into national laws and allows national regulators to impose additional capital buffer requirements. In August 2014, the CBC issued a directive on Governance and Management Arrangements transposing certain aspects of CRD IV into Cypriot law. For more detail on CRD IV and the CRR, see "*Financial Services Regulation and Supervision—Main Banking/Financial Services Regulatory Requirements*" incorporated by reference herein.

On 23 November 2016, the European Commission published legislative proposals for amendments to the CRR, the CRD IV, Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 on the establishment of a framework for the recovery and resolution of credit institutions and investment firms (the **BRRD**) and the Single Resolution Mechanism Regulation No 806/2014 (the **SRM Regulation**) and proposed an amending directive to facilitate the creation of “non-preferred” senior debt (the **Proposals**). The Proposals cover multiple areas, including the Pillar II framework, the leverage ratio, mandatory restrictions on distributions, permission for reducing own funds and eligible liabilities, macroprudential tools, a new category of “non-preferred” senior debt, the minimum requirement for own funds and eligible liabilities (**MREL**) framework and the integration of the total loss absorbing capacity standard into EU legislation as mentioned above. The Proposals have yet to be considered by the European Parliament and the Council of the European Union and therefore remain subject to change. The final package of new legislation may not include all elements of the Proposals and new or amended elements may be introduced through the course of the legislative process. Until the Proposals are in final form, it is uncertain how the Proposals will affect the Issuer or the Group or holders of the Notes. See also "*As a result of the implementation of the BRRD and SRM Regulation in Cyprus and the United Kingdom, the relevant authorities have wide powers to impose resolution measures on the Issuer which could materially adversely affect the Group and unsecured creditors of the Issuer*" and "*The Group is subject to minimum requirements for own funds and eligible liabilities*".

The ECB, as the Group's competent authority, has power, among others, to request changes in the provisioning policy or treatment of items in terms of own funds requirements, for the purposes of CRD IV, as well as requirements in relation to capital and liquidity. Accordingly, loan provisioning, additional capital and other requirements, whether based on an interpretation of current rules or the application of new rules or guidance, 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. Loan provisions, 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, results of operations and prospects of the Group.

Changes in financial reporting standards or policies could materially adversely affect the Group's reported results of operations and financial condition and may have a material adverse effect on capital ratios.

The Group prepares its financial statements in accordance with the International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the EU (IFRS) and, accordingly, from time to time the Group is required to adopt new or revised accounting standards issued by recognised bodies, including the International Accounting Standards Board. In July 2014, the International Accounting Standards Board announced IFRS 9 on financial instruments which will replace IAS 39 and is expected to become effective for annual periods beginning on or after 1 January 2018, subject to endorsement by the EU. An IFRS 9 implementation project has been initiated by the Group. The project covers all aspects of IFRS 9, although the greatest amount of work is expected to be required to develop the methodologies to calculate the impairment of customer loans and advances based on the expected credit loss model, since IFRS 9 moves away from the current incurred loss model to an expected credit loss model, and requires more judgment in considering information for current and future provisioning. The expected credit losses model will result in earlier recognition of credit losses and thus a higher provision charge because it includes not only credit losses already incurred, but also losses that are expected in the future. The credit loss expense is also likely to be more volatile as expectations and judgments may change. In addition, as the balance sheet of the Group grows, more day-one provisions are recorded and this may also increase the provision charges. This volatility will be reflected in the Group's income statement and CET1 capital. It is also expected that there will be additional movements within the three stages stipulated by the standard and, thus, further volatility in the provisioning charge as the Group progresses further with the restructuring and recovery of loans. The assessment of the impact of IFRS 9 is ongoing and may significantly change upon its full application reflecting business models and balance sheet dynamics at the time, therefore making it impractical to quantify any potential effect at present. Changes in business models or policies, including as a result of choices made by the Group, could have a material adverse effect on the Group's reported results of operations and financial condition and may have a corresponding material adverse effect on capital ratios.

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. At 30 June 2016, the Group had recognised deferred tax assets of €451.1 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 "*History of the BOC Group, the Restructuring, the Recapitalisation and the Disposals*" incorporated by reference herein).

The deferred tax asset recognised at the time of 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, expiring in 2028, at the prevailing tax rate (currently 12.5%). If the Issuer does not generate sufficient future taxable profits to utilise its deferred tax assets fully prior to their expiry, the Issuer will have to write-off these deferred tax assets which would reduce the Group's net profit and, in turn, the Group's capital.

Funding and Liquidity Risks

The Group is dependent on customer deposits and central bank funding for liquidity and any difficulties in securing these sources of liquidity may materially adversely affect the Group's business, financial condition, results of operations and prospects.

In managing its liquidity risk, the Group is dependent on external sources of funding, through deposits, interbank and wholesale markets, and central banks (the ECB and the CBC). The ability of the Group to access these funding sources on favourable economic terms, or at all in circumstances, where the Cypriot

economy substantially deteriorates, is subject to a variety of factors, including a number of factors outside of its control, such as liquidity constraints, general market conditions and the level of confidence in the Cypriot banking system.

As a result of the Cypriot economic recession and certain events prior to March 2013, during which Cyprus' and the Group's credit ratings were downgraded and the Cypriot banking sector experienced a significant overall reduction in deposits, the Group's access to interbank and wholesale markets became restricted and the Issuer had to rely heavily on central bank funding for liquidity. See "*History of the BOC Group, the Restructuring, the Recapitalisation and the Disposals*". Despite the return and stabilisation of the amount of customer deposits in Cyprus as a percentage of the Group's total funding over the course of 2015 and the first half of 2016, the Group remains reliant on central bank funding and continues to be in breach of many of its regulatory liquidity requirements as a result of prioritising the repayment of Emergency Liquidity Assistance (ELA) funding (the most significant portion of which was assumed by the Issuer pursuant to the Laiki Transfer Decrees) over the meeting of its regulatory liquidity requirements. While reliance on ELA funding adversely affects the Group's prescribed liquidity ratios because ELA funding is short-term and a significant portion of the Group's liquidity is used to repay ELA funding, neither the ECB nor the CBC has imposed any fines or taken any other supervisory actions within their remit with respect to these breaches, other than having imposed strict reporting requirements on the Issuer with respect to its cash flow and liquidity position. In addition, the ECB and the CBC have imposed a number of operating restrictions on the Group, including prohibiting the distribution of dividends by the Issuer and the provision of variable remuneration to Group employees, as well as requiring the Issuer to obtain the prior approval of the ECB before providing capital or funding to any subsidiary.

Although the Group expects gradually to come into compliance with its liquidity ratios, once the ELA funding is repaid in full, any failure by the Group to manage its liquidity effectively after the repayment of such ELA funding, or further breaches after repayment, could result in the Group not being able to meet its obligations when they fall due or in the regulators taking a different position with respect to breaches of liquidity requirements. Currently, the Group's two principal sources of funds are customer deposits, particularly retail deposits, and central bank funding. As at 31 December 2015 and 30 June 2016, customer deposits accounted for 73.7% and 79.3%, respectively, and central bank funding accounted for 23.1% and 16.7%, respectively, of the Group's funding. As at 31 December 2015 and 30 June 2016, the Group's ELA funding was €3.8 billion and €2.4 billion, respectively, and comprised 85.4% and 77.4%, respectively, of the Group's central bank funding.

The availability of ongoing funding from customer deposits is subject to factors such as depositors' concerns relating to the economy in general, the financial services industry and the Group specifically, and any significant deterioration in economic conditions in Cyprus. Any of these factors separately or in combination could lead to a sustained reduction in the Group's ability to access customer deposit funding on appropriate terms in the future. By way of example, the bail-in of depositors of the Issuer in 2013 resulted in losses suffered by depositors which would have likely resulted in significant deposit outflows from Cyprus if the government of Cyprus (the **Government**) had not imposed restrictive measures and capital controls on the withdrawal of funds. Accordingly, any event or series of events which results in a prolonged period of uncertainty concerning the Cypriot economy, the banking sector or the Group could precipitate another loss of confidence by depositors, which could result in a withdrawal of deposits.

The preparation of the BOCH Prospectus (required to be published in connection with the Proposed Listing) required the Issuer to consider a detailed analysis of the Group's projected profit and loss, capital and liquidity reserves under both a base case scenario and a reasonable worst case scenario and an assessment of the current macro-economic and regulatory position of the Group. The reasonable worst case scenario was formulated using, amongst other things, macro-economic assumptions which simulate a recessionary environment in Cyprus. A deterioration in the Cypriot economy which precipitates a significant outflow of deposits from the Cypriot banking system (including the Issuer) could result in the Issuer having to rely on ELA funding of up to €2.8 billion under a reasonable worst case scenario in the Issuer's working capital assessment and given that the provision of ELA funding is subject to approval by the ECB governing

council, the Directors of the Issuer do not regard it as a committed liquidity facility for the purposes of the working capital statement and, as a result, the statement of working capital set out in the BOCH Prospectus is qualified accordingly. As a consequence of such reliance on ELA funding, certain requirements may be imposed on the Issuer by the CBC and/or the ECB.

Access to central bank funding may not always be available (see "*—Government and ECB actions intended to support liquidity may be insufficient or discontinued, thus the Group may be unable to obtain the required liquidity*" below) and is subject to funding provision rules. The available amount of funding is tied to the value of the collateral the Group provides, including the market value of retained covered bonds, as well as the value of the Group's loan portfolio, which may also decline in value. If the value of the Group's assets declines, then the amount of funding the Issuer can obtain from these facilities may be reduced. In addition, ELA funding is short-term and is typically provided for a period of two to four weeks. The availability of this funding and its terms are at the discretion of the ECB and the CBC. The Board of Directors of the Issuer does not regard ELA funding as a committed liquidity facility for the purposes of the working capital assessment. Further, if securities or other assets that are currently used by the Issuer as collateral 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.

If there is a material decrease in the Group's customer deposits and/or the Group is unable to obtain the necessary liquidity either from central banks (including in the form of ELA or otherwise), the Group may not be able to maintain its current levels of funding without disposing of a number of the Group's assets or having to raise additional capital. In addition, in such circumstances the Issuer may become subject to restrictive measures and capital controls by the Government and/or other measures taken with respect to the Issuer under the BRRD regime and SRM Regulation (see "*Financial Services Regulation and Supervision—Main Banking/Financial Services Regulatory Requirements—Bank Recovery and Resolution*" incorporated by reference herein), which, individually or together, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

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 and regulators 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 and other assets deemed appropriate as collateral by their regulators and central banks.

In the Eurozone, the ECB and the national central banks adopted monetary easing policies and, consequently, made available monetary policy tools such as targeted longer-term refinancing operations, covered bond purchase programmes and an asset-backed securities purchase programme. An expanded asset purchase programme was launched in 2015 and expanded further in 2016 to include corporate bonds. Financial institutions in the Eurozone utilise these programmes and, given the interdependence between financial institutions in the Eurozone, the cessation of these programmes and any other accommodative monetary policies could have a material adverse effect on the financial condition of these financial institutions, including the Issuer, and any deterioration, or perceived deterioration, in these financial institutions could also result in an adverse effect on the Issuer and the Group in terms of its perception and prospects. There can also be no assurance that the ECB or these national central banks will continue to adopt accommodative monetary policies or that the employment of these policies will be sufficient to address the fiscal risks which remain.

In the event that 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.

The Group's 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 adversely affected 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 adversely 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 pay higher rates of interest on its interbank borrowings and/or provide higher amounts of collateral, particularly cash collateral, to secure its transactions with international counterparties or adversely affect the Issuer's ability to enter into transactions. The higher cost of these transactions may have an adverse effect on the Issuer's ability to hedge its foreign currency and other market risk exposures and to manage its liquidity reserves.

Market Risks

A prolonged period of low or negative market interest rates or changes in interest rates may negatively affect the Group's net interest 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.

In the Eurozone, the ECB and the national central banks have adopted monetary easing policies which have exerted downward pressure on interest rates and yield curves, which may adversely affect the interest rate margin of the Group. Interest rates remain at historical lows and are expected to remain low (by historical standards) for the foreseeable future. A prolonged period of flatter than usual interest rate yield curves and negative interest rates could in particular have a material adverse effect on the Group's net interest income. In particular, net interest income may be adversely affected due to the inability of the Issuer to lower interest rates on customer deposits and accounts below 0% and by possible margin compression from lower interest rates. From a 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. Furthermore, a prolonged period of low inflation or deflation could materially adversely affect client behaviour, lead to customer deposit outflows and therefore adversely affect the Group's funding base.

In addition, changes in market interest rates may affect the interest rates the Group charges on its interest-earning assets differently from the way that it may affect the interest rates it pays on its interest-bearing liabilities, which could reduce the Group's net interest income. Since the Group's loans re-price quicker than its liabilities, a decrease in interest rates may cause the Group's net interest income to decrease. Alternatively, 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. Competitive pressures and/or fixed rates in existing loan commitments or loan facilities may also restrict the Group's ability to increase lending rates in the event of an increase in interest rates. Further, an increase in interest rates may reduce the Group's clients' capacity to repay, thereby increasing the Group's NPEs. Further, different types of assets and liabilities may be linked to different interest reference rates which may

expose the Group to basis risk. Accordingly, changes in interest rates or a failure to manage its basis risk effectively may have a material adverse effect on the business, financial condition and results of operations of the Group.

Changes in currency exchange rates may materially 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 enters hedging transactions 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 adverse effect on the business, financial condition and results of operations and prospects.

Risk of fluctuation of prevailing share and other securities prices.

The Group can be adversely affected by changes in the market price of securities that it holds (mainly equity and debt securities and mutual funds). Changes in the prices of 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 securities classified as "available for sale" affect the equity of the Group. As at 30 June 2016, the Group had a €839.7 million portfolio of mutual funds and debt and equity securities. The Group currently invests part of its liquid assets in debt securities issued mostly by governments. 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.

Business Risks

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

The Group faces significant competition from both domestic banks and international banks operating in Cyprus, particularly in relation to retail deposits as a result of the general scarcity of wholesale funding since the onset of the Cypriot economic recession in 2012. Further, a large number of domestic cooperative credit institutions were restructured and recapitalised by the Government in accordance with the Memorandum of Understanding (MoU) between Cyprus and the European Commission (the EC), the ECB and the IMF (the **troika**) and now represent increasing competition to the Issuer in the retail and small and medium size enterprise (SME) markets. Some of the foreign banks operating in Cyprus may have resources greater than those of the Issuer's and have refocused their operations to cater for domestic retail, SME and corporate clients, as well as international clients. Moreover, with respect to international clients, Cyprus as a country competes with other low tax jurisdictions focused on the provision of financial services. If the Issuer is unable to successfully compete with other institutions, these competitive pressures on the Group may have an adverse effect on its business, financial condition and results of operations.

The Group's ability to grow its business and maintain its competitive position depends, in part, on the success of new operations, products and services, including the newly established REMU, its strategy to expand the BOC UK operations and proposed digitalisation and paperless banking.

The Group intends to continue to explore and pursue opportunities to strengthen and grow its business generally. This includes the establishment of the Real Estate Management Unit (the **REM**U), the organic expansion of the BOC UK business operations and assets, as well as proposals to move towards digitalisation and paperless banking.

With the establishment of REMU, the Group aims to accelerate the monetisation of its real estate assets which, as a result of the recent Cypriot economic recession, are principally comprised of enforced loan collateral located in Cyprus and Greece. REMU's ability to sell these real estate assets will depend on factors which are outside of the Group's control, such as changes in the demand for, and prices of, Cypriot and Greek real estate, the availability of capital gains tax relief in Cyprus for purchases of real estate in connection with debt restructurings or other changes to the current property tax environment and the quality and location of the real estate assets which, in many cases, are in a state of disuse and disrepair. Any material failure by REMU to sell these assets could result in increased ongoing operational and maintenance costs for the Group and a reduction in non-interest income for the Group, any of which could have a material adverse effect on the profitability of the Group.

The Issuer has also targeted selective markets and client segments for growth, including BOC UK and its customer base. In December 2015, a new CEO was appointed to lead the UK bank into the next phase of its development. With a view to increasing its profitability and growing its business in the United Kingdom, the Group may launch new products and services and enter markets in new regions of the UK through BOC UK, its UK bank subsidiary. When seeking to expand its business, the Group may incur risks that may be material, including spending significant time, funds and other resources developing new products and services or improving BOC UK's existing offerings. If these products, services or improved offerings are not successful or not as innovative as envisaged, the Group may not be able to offset the costs of such initiatives, which may have a material adverse effect on the Group's income, revenues and/or cost base. The ability to successfully implement BOC UK's strategy or pursue business opportunities will also be impacted by factors such as general economic and business conditions, changes in government policy and regulatory requirements and constraints, many of which are outside the control of the Group. In particular, BOC UK's focus on the mortgage financing of buy-to-let real estate in the United Kingdom exposes it to volatility in UK house prices and changes in government policies and tax laws which may make the purchase of buy-to-let properties a less viable investment and, therefore, reduce the demand for the related mortgage financing. The Group may also become subject to new or stricter UK regulatory requirements as a result of expanding its products, services and operations, or the supervision by existing supervisory authorities may increase its administrative, operational and management expenses (including management attention and time) to comply with such new or stricter requirements and supervision.

The success of the Group's business, financial condition, results of operations, prospects and competitive position in general also depends, in part, on the success of new products and services offered to clients, including any shifts to digitalisation and paperless banking. However, the Group cannot guarantee that these new products and services will be responsive to client demands or successful once they are offered or that they will be successful in the future. In addition, clients' needs or desires may change over time, and such changes may render its products and services obsolete, outdated or unattractive and the Group may not be able to develop and deploy new products that meet clients' evolving needs. The Group's success is also dependent on its ability to anticipate and leverage new and existing technologies that may have an impact on products and services in the banking industry. Technological changes may further intensify and complicate the competitive landscape and influence client behaviour. If the Group's products and services employ technology that is not as attractive to clients as that employed by its competitors, if it fails to employ technologies desired by clients before its competitors do so, such as digitalisation or paperless banking, or if it fails to execute effectively on targeted strategic technology initiatives, its business, financial condition, results of operations and prospects could be materially adversely affected. In addition, if the Group cannot respond in a timely fashion to the changing needs of its clients, it may lose clients, which could in turn materially adversely affect its financial condition, results of operations, prospects and competitive position.

Accordingly, if the Group's strategies are not implemented successfully, or if the Group's strategies do not yield the anticipated benefits or leads to unforeseen liabilities, or if the Group is unable to successfully monetize its real estate portfolio, launch new products or services, improve offerings or pursue other business opportunities in time or at all in the United Kingdom or its core market in Cyprus, this could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group is exposed to insurance and reinsurance risks.

The Group, through its subsidiaries EuroLife Ltd (**EuroLife**) and General Insurance of Cyprus Ltd (**GIC**), provides life insurance and general insurance, respectively, and is exposed to certain risks particular to these businesses. For a portfolio of life insurance contracts, the principal risk is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. The risk of a general insurance contract derives from the uncertainty of the amount and time of occurrence of a claim, such as natural disasters which are unpredictable both in terms of occurrence and scale. In addition, liabilities which stem from claims that have occurred in the past but have not been fully settled could turn out to be higher than expected. In particular, liability insurance claims may often take years to settle and may result in higher settlement or court costs than anticipated.

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 actuarial and statistical techniques. Accordingly, the level of insurance risk is determined by the frequency of the claims, the severity and the evolution of claims from one year to another.

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 Accountant's Report is qualified with respect to the financial information for the year ended 31 December 2013 and includes an emphasis of matter. The Q3 Review Report includes an emphasis of matter.

The Accountant's Report is qualified, with respect to the financial information for the year ended 31 December 2013. The qualification relates to the inability of the Issuer to measure the shares issued (a) in consideration of a bail-in of uninsured deposits and debt securities pursuant to the provisions of the relevant Bail-in Decrees issued and enforced by the Resolution Authority in 2013; and (b) in consideration for the acquisition of certain assets and liabilities of Laiki Bank in 2013, pursuant to the provisions of the relevant Bail-in Decree, issued and enforced by the Resolution Authority at their fair value as required by IFRS. 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 "*History of the BOC Group, the Restructuring, the Recapitalisation and the Disposals*" incorporated by reference herein.

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.

Each of the Accountant's Report and the Q3 Review Report contain an emphasis of matter with respect to the Issuer's ability to continue as a going concern, and the fact that the Group is currently in breach of the regulatory liquidity ratios in Cyprus.

The emphases of matter are not qualifications to the audit opinions contained in the Accountant's Report or the Q3 Financial Information.

Operational Risks

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

The Group relies on an experienced and qualified management team. In particular, Dr. Josef Ackermann, Chairman, and Mr. John Patrick Hourican, Group Chief Executive Officer, and certain other key members of management have been a driving force behind the Group's restructuring and strategy following the economic recession in Cyprus. The loss of the services of key members of management or certain key employees, particularly to competitors, in circumstances where a suitable replacement cannot be found in a timely manner, an inability to attract experienced and qualified employees and an inability to adequately incentivise existing employees may have a material adverse effect on the Group's business, financial condition and results of operations. Mr. Hourican's existing employment contract is due to expire in February 2018. A failure to identify successors of a similar professional calibre could delay and affect the Group's ability to implement its corporate strategies, including the reduction of its portfolio of NPEs and the resumption of growth in its core markets, and, accordingly, have a material adverse effect on the Group's business, financial condition and results of operations.

Staff rationalisation measures and a failure to manage trade union relationships effectively could have a material adverse effect on the Group's business, operations, financial condition and results of operations.

Staff rationalisation measures taken by the Issuer, such as the voluntary exit plan (VEP) provided by the Group in February and June 2016 to its employees in Cyprus, could weaken employee relations and result in labour disputes, which could adversely affect the Group's business, financial condition and results of operations. In the past, the Issuer has implemented and may in the future continue to implement measures to increase efficiency, exploit synergies and respond to changing customer preferences. These measures could weaken the Group's employee relations and result in labour disputes that could have a negative impact on its reputation and the Group's business, financial condition and results of operations.

In addition, any failure to manage trade union relationships effectively may also 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.

The proper functioning of the Group's business requires precise documentation, recordkeeping and archiving, the lack of which could have a material adverse effect on the Group's reputation, business, results of operations and financial condition and prospects.

The proper functioning of the Group's business requires precise documentation, recordkeeping and archiving. Incomplete documentation, inaccurate documentation, documentation not properly executed by counterparties, inadequate recordkeeping or archiving, including the inability to promptly reproduce the information stored in a demonstrable authentic, unchanged, unmodified or unaltered fashion, and the loss of documentation (both physical and electronic) could materially adversely affect the Group's business operations in a number of ways.

Technical limitations, end of lifecycles, erroneous operational decisions, human mistakes, outdated computer systems and programmes for the storage of older data, system failures, system decommissioning, underperforming third party service providers and inadequate and incomplete arrangements with third party service providers (including where the business continuity and data security of such third parties proves to be inadequate), may all lead to the production of incomplete or insufficient documentation or data, the loss or inaccessibility of documentation or data, and non-compliance with regulatory requirements or with internal monitoring requirements or policies. Furthermore, data required for making adequate decisions may not always be readily available or not be available in a format that allows processing without human intervention. In those circumstance, the Group may need to manually collect data from its various systems or from within different business units and convert it into a format compliant with reporting requirements. Deficiencies in its documentation, recordkeeping and archiving, or in obtaining accurate and complete information, for any one or more of the foregoing reasons, could materially adversely affect the Group's reputation, business, results of operations, financial condition and prospects.

Failure to effectively improve or upgrade the Group's information technology infrastructure and management information systems in a timely manner could have a material adverse effect on its operations.

The ability of the Group to remain competitive depends in part on its ability to upgrade its information technology on a timely and cost-effective basis. The Group must continually make significant investments and improvements in its information technology infrastructure in order to remain competitive. The Group cannot provide assurance that it will be able to maintain the level of capital expenditures necessary to support the improvement or upgrading of its information technology infrastructure. Any failure to effectively improve or upgrade the Group's information technology infrastructure and management information systems in a timely manner could have a material adverse effect on its business, results of operations, financial condition and prospects.

The Group is currently contemplating the introduction of a digital transformation programme. There can be no assurance that the Group will realise the anticipated benefits associated with this upgrade programme in the timeframe planned, or at all. Technological advances between the date of the Offering Circular and full implementation of the programme may be faster than the upgrade programme anticipates, resulting in the risk that the Group may need to make further investments in its information technology landscape.

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 rely 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. The secure transmission of confidential information over the internet and the security of the Group's systems are essential to its maintaining customer confidence and ensuring compliance with data privacy legislation. If the Group or any of its third-party suppliers fails to transmit customer information and payment details online securely, or if they otherwise fail to protect customer privacy in online transactions, or if third parties obtain and/or reveal the confidential information of any member of the Group, the Group may lose customers and potential customers may be deterred from using the Group's products and services, which could expose the Group to liability and could have a material adverse effect on its business, financial condition, results of operations and prospects.

The Issuer's computer systems, software and networks have been and will continue to be vulnerable to unauthorised access, loss or destruction of data, unavailability of service, computer viruses or other malicious code and other events, which may be caused by misconfiguration of systems, failure of security updating (patching) or outdated systems. For example, the Issuer's systems are not yet fully payment card industry data security standard (**PCI DSS**) compliant so there is a risk of improper management of

cardholder data as required by PCI DSS. In addition, the data centres of the Group are located in relative proximity to each other, which increases the likelihood that both data centres could be significantly impacted in the event of natural disasters.

A number of threats may derive from human error, fraud or malice on the part of employees, even if trained in information security, 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.

The Issuer relies on the remote access service, either by employees working remotely or service providers who support the Issuer's systems. The reliance on service providers to support the Issuer's systems and infrastructure is due to the expanded landscape of systems required to support operations and may lead to systems compromises or information leaks.

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, 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.

The Group uses internal risk management methodologies and models which incorporate assumptions, judgements and estimates that may change over time or that may ultimately turn out not to be accurate, which could materially and adversely affect the Group's business, results of operations, financial condition and prospects.

The Group could incur losses as a consequence of decisions that are principally based on the output of methodologies or models or due to errors in the development, implementation or use of such methodologies or models. Such errors can be caused by insufficient quality or quantity of data, flawed expert opinions, incorrect implementation or application of the model, unverified model assumptions, uncaptured behaviour, incomplete algorithms and computations or any other technical weaknesses. Uncaptured behaviour, which is behaviour that a model does not take into account, could relate to client behaviour, market behaviour or the behaviour of the Group.

The Group's risk management techniques and strategies may not be fully effective in mitigating the Group's risk exposure in all economic market environments or against all types of risk, including risks that the Group fails to identify or anticipate. Some of the Group's tools and metrics for managing risk are based upon the use of observed historical market behaviours. The Group applies statistical and other tools to these observations to arrive at quantifications of risk exposures. These tools and metrics may fail to predict future risk exposure or may not be sufficiently conservative and, as such, could fail to correctly manage an existing, or to identify in a timely manner a future, material adverse event which could result in a material adverse effect on the business, financial condition, results of operations and prospects of the Group.

When the Group's management establishes provisions for loan losses in the Group's businesses at a level it deems appropriate, it makes an assessment based on historical data, such as prior loss experiences, the volume and type of lending being conducted by the Group, industry standards, past due loans, economic conditions, recovery periods and potential amounts of liquidation expenses and other factors related to the Group's ability to collect on its loan portfolio. Accordingly, the establishment of provisions for loan losses requires management to exercise its judgement and to have available meaningful historical data. If this judgement proves to be incorrect or if the historical data is unavailable or limited for any reason, including

due to the historical material economic dislocation experienced by Cyprus during 2013, or if the underlying risk management methodologies and models turn out not to be accurate, which for example, could come to light as a result of increases or decreases in non-performing assets or for other reasons, the Group's ability to forecast or make a judgement about future events based on past performance may be limited and the Group may have to increase or decrease its provisions for loan losses in the future. Any increase in the provisions for loan losses, any loan losses in excess of the previously determined provisions or changes in the estimate of the risk of loss and loss given default (i.e., the value of the asset lost upon default) inherent in the portfolio of performing loans could have a material adverse effect on the business, financial condition, results of operations and prospects of the Group.

Conduct and Reputational Risks

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 CBC Governance Directive (as defined in "*Management and Corporate Governance*" incorporated by reference herein) and any failure to comply with these rules could result in significant penalties.

Any failure to identify, manage and control these conduct risks or correct any deficiencies could result in a material adverse effect on the Group's reputation, business, financial conditions, results of operations and prospects.

The Group is subject to reputational risk.

Reputational risks may arise from past, present or potential failures in corporate governance or management practices that could lead to a misconduct event. The reputation of the Group may also be impacted by any fraudulent activity or litigation against the Group as well as from negative media or press coverage. Failure to appropriately manage reputational risks may reduce, directly or indirectly, the attractiveness of the Group to stakeholders, including depositors, borrowers and other customers, and may lead to negative publicity, loss of revenue, litigation, higher scrutiny and/or intervention from regulators, regulatory or legislative action, loss of existing or potential client business and difficulties in recruiting and retaining talent. Sustained damage arising from conduct and reputation risks could have a materially negative impact on the Group's operations and the value of the Group's franchise, which could have a material negative impact on the Group's financial condition and prospects.

There are ongoing investigations and proceedings which relate to the Issuer's operations and prior board and management conduct during the period preceding the Bail-in Decrees (see "*Business Description—Litigation and Related Matters, including Regulatory Proceedings and Investigations*"). The outcome of one or more of these investigations or proceedings could result in the Issuer, or members of its prior Board or members of its management team being named as defendants in additional proceedings which could adversely affect the Issuer's reputation. In addition, as a result of the deterioration of the Cypriot economy and banking sector in 2012, the CBC commissioned a report into Laiki Bank's and the Issuer's acquisition of Greek government bonds which were perceived to have contributed to a significant capital shortfall at both banks and various corporate actions involving the Issuer's international operations during the pre-bail-in period. The report ultimately focused on these issues with respect to the Issuer and on alleged significant governance and conduct issues within the Issuer during the pre-bail-in period. Under the supervision of the CBC and ECB, the Issuer has taken steps to improve its corporate governance and internal controls and procedures. Nonetheless, the risk of further reputational damage to the Issuer remains.

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

The Group is subject to rules and regulations related to money laundering, anti-bribery and terrorism financing. Compliance with anti-money laundering, anti-bribery and anti-terrorist financing rules entails significant cost and effort, including obtaining information from clients and other third parties. Non-compliance with these rules may have serious consequences, including adverse legal and reputational consequences. Although the Group has anti-money laundering, anti-bribery and counter-terrorism financing policies and procedures which aim to ensure compliance with applicable legislation and strive for zero tolerance of any violations, it may not always be successful in identifying all instances of fraud or human error and, therefore, may not be able to comply at all times with all rules applicable to money laundering, anti-bribery and terrorism financing as extended to the whole Group and applied to its workers in all circumstances. In particular, the Group relies on a wide network of corporate service providers (**Introducers**) for a significant proportion of its international banking business in Cyprus and has limited oversight of Introducers' interactions with prospective customers. As a general statement, a violation, or even any suspicion of a violation, of any of these rules may have serious legal and financial consequences, which could have a material adverse effect on a financial institution's reputation, business, results of operations, financial condition and prospects.

Regulatory and Legal Risks

The Group is exposed to various forms of legal risk, particularly in relation to the alleged misselling of securities issued by the Issuer, the bail-in of shareholders, uninsured depositors and other creditors of the Issuer pursuant to its Recapitalisation from March 2013 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 alleged misselling to retail and institutional 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 of the Issuer effected by the Resolution Authority pursuant to the Bail-in Decrees (the **Recapitalisation**) from March to July 2013. The Issuer is under a number of investigations by the Cyprus Securities and Exchange Commission (**CySEC**) and the Hellenic Capital Markets Commission (the **HCMC**) and there is a risk that the outcome or conclusions of these investigations could result in an increase in legal claims brought against the Issuer. Moreover, as a result of increased regulatory scrutiny by the CySEC in the wake of the Recapitalisation, the number of investigations by the CySEC could increase. Some actions have also been instituted against the Issuer by borrowers who obtained loans in 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, or it has failed to take sufficient provisions, or at all, against legal proceedings that are decided unfavourably with respect to the Group, these claims or legal proceedings could have a material adverse effect on its financial condition and reputation. For a discussion of these misselling 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 "*General Information—Litigation*". 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 an adverse 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.

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, results of operations and prospects.

In particular, the CBC has issued and/or amended a number of directives which have adversely affected the Issuer's ability to originate new loans and the CBC has also imposed stringent requirements and processes in terms of its management of NPLs (as defined in "*Presentation of Financial and Other Information*"), see "*Financial Services Regulation and Supervision—Additional Cypriot Regulatory Requirements Applicable to the Issuer—CBC Credit Risk Directives*" incorporated by reference herein. Furthermore, while the Sale of Credit Facilities Law is intended to assist Cypriot banks with the management of their delinquent loans, it remains untested and includes certain provisions which could potentially restrict the Issuer's ability to sell delinquent loans to purchasers (see "*Financial Services Regulation and Supervision—Sale of Credit Facilities Law*" incorporated by reference herein).

The Group's operations are contingent upon licences issued by financial authorities in the countries in which the Group operates, including the United Kingdom. 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. In particular, in light of recent case law and decisions by the Financial Ombudsman Services established under FSMA (the **Ombudsman**), BOC UK has notified the FCA in relation to its re-examination of loans re-priced by it during 2008 and 2009 in order to determine the extent of any borrower detriment and the level of potential remediation or redress required. While the financial impact of any such remediation or redress required is not expected to be material in the context of the Group, the FCA may impose penalties or take other regulatory measures which could have a material adverse impact on the reputation of BOC UK or the Group. The imposition of significant penalties, the revocation of licences for any member of the Group or the taking of any other significant regulatory measure against any member of the Group could have a material adverse effect on the Group's reputation, business, results of operations, financial condition, and prospects.

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. For example, BOC UK is subject to the supervision of the PRA and joint decisions of the ECB and PRA are issued with respect to the BOC UK's capital requirements. Increased regulatory intervention may lead to requests from regulators to carry out wide-ranging reviews. 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, the PRA 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.

The Group is also subject to EU regulations with direct applicability and to EU directives which are adopted and implemented through local laws by the European Economic Area Member States, in which it operates. 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 within the scope of EMIR. Accordingly, the introduction of EMIR is likely to increase the costs of transacting OTC derivative contracts for the Group. In addition, MiFID II, MiFIR and MAR could also require the implementation of additional compliance and other processes which could result in increased costs for the Group. MiFID II, MiFIR and MAR (each as defined in “*Financial Services Regulation and Supervision*” incorporated by reference herein) 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.

The Mortgage Credit Directive (as defined and described in “*Financial Services Regulation and Supervision*” incorporated by reference herein) has introduced a number of requirements for secured credit and home loans including enhanced consumer information requirements, business conduct rules, calculation of the annual percentage rate in accordance with a prescribed formula, a ban on certain “bundling” practices and a creditworthiness assessment before granting the loan and requirements on early repayment. Such changes may adversely affect the Issuer's business model and require substantial investment in systems and controls to meet the requirements of the Mortgage Credit Directive.

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.

Legislative action and regulatory measures in response to the global financial crisis may materially adversely affect the Group and the financial and economic environment in which it operates.

In the wake of the global financial crisis, the general political environment has evolved unfavourably for banks and the financial industry, resulting in the adoption of more stringent legislative and regulatory measures, despite the fact that these measures can have adverse consequences on lending and other financial activities, and on the economy. The impact of these measures has changed, and the continuing introduction of new legislative and regulatory measures is likely to change the environment in which the Group and other financial institutions operate substantially, and it is not always possible to predict what effect they will have on the Group.

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 Group), 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 under the EU Single Supervisory Mechanism Regulation 1024/2013 (the **SSM Regulation**). The assumption by the ECB of its supervisory responsibilities under the SSM Regulation and implementation of a more demanding and restrictive regulatory framework, which is continuing to develop, with respect to,

amongst other things, capital ratios, leverage, liquidity and disclosure requirements, notwithstanding the benefit to the financial system, will imply additional costs for banks. In addition, changes in law to address tax compliance issues such as compliance with the United States Foreign Account Tax Compliance Act of 2010 (**FATCA**) and the Common Reporting Standard agreement of 6 May 2014 (the **Common Reporting Standard**) (see "*Financial Services Regulation and Supervision—Tax related Regulations*" incorporated by reference herein), formally referred to as the Standard for Automatic Exchange of Financial Account Information, released by the Organisation for Economic Co-operation and Development (**OECD**) have significantly increased the Group's compliance costs.

Compliance with new regulations might also restrict certain types of transactions, affect the Group's strategy and limit or imply the modification of the rates or fees charged by the Group 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, results of operations of the Issuer and prospects.

As a result of the implementation of the BRRD and SRM Regulation in Cyprus and the United Kingdom, the relevant authorities have wide powers to impose resolution measures on the Issuer which could materially adversely affect the Group and unsecured creditors of the Issuer.

The BRRD has been fully implemented in Cyprus and the United Kingdom (see "*Financial Services Regulation and Supervision—Main Banking/Financial Services Regulatory Requirements—Bank Recovery and Resolution*" incorporated by reference herein).

Under the BRRD regime, bank supervisory authorities in the EU are provided with wide resolution powers and tools intended to manage the failure of an institution in an orderly way and ensure the continuity of essential services. These resolution powers include a sale of business tool (which allows the relevant resolution authority to sell all or part of the failing bank to another entity), a bridge institution tool (which involves identifying the "good" assets or essential functions of the failing bank and separating them into a new entity, such as a bridge bank, that would be sold to another entity, with the existing bank holding the "bad" or non-essential functions then be liquidated), an asset separation tool (which involves the bad assets of the failing bank being put into an asset management vehicle) and a debt write down (or bail-in) tool. For banks established in a participating member state of the Single Supervisory Mechanism, such as the Issuer, the resolution authority is the SRB which is an independent agency established under the SRM Regulation or such other successor authority or authorities having primary responsibility for resolution of the Issuer and/or the Group (the **Resolution Authority**).

Credit institutions to which the BRRD applies that are subsidiaries of other credit institutions to which the BRRD applies, such as BOC UK, may be subject to independent resolution action by their national resolution authorities in addition to those taken by the resolution authority supervising the parent entity. Any such measures could have a material adverse effect on the Issuer or BOC UK, including its shareholders and unsecured creditors, including holders of Covered Bonds issued under the Programme.

The Group is subject to minimum requirements for own funds and eligible liabilities

To support the effectiveness of bail-in and other resolution tools, Article 130(1) of the BRRD requires that from 31 January 2016 EU member states shall apply the BRRD's provisions requiring EU credit institutions and certain investment firms (collectively, **BRRD Institutions**) to maintain MREL, subject to the provisions of the MREL regulatory technical standards (**RTS**).

The draft RTS on the setting of MREL by resolution authorities such as the SRB had originally provided that resolution authorities had up to 48 months to fully phase in MREL. The final RTS have amended this such that the transitional period is now required to be "as short as possible". The SRB included the need to implement a harmonised framework for MREL in its priorities for 2016, and indicated on 12 January 2016 that it would "strive to obtain MREL decisions for the major banking groups within the Banking Union

during 2016". Under the Proposals, the EBA (as defined below) would be mandated to draft new regulatory technical standards to specify the criteria for the basis on which the setting of MREL is to be determined in accordance with the new rules, if adopted. As at the date of this Offering Circular, the SRB has not set MREL for BOC and it remains difficult to predict with certainty when a binding MREL decision will be taken by the SRB in respect of the Issuer, and the ultimate impact it will have in respect of the institutions comprising the Group.

Article 45(7) of the BRRD provides that the MREL for an individual BRRD institution will be set by the resolution authority for the member state in which the BRRD institution is authorised. The resolution authority must consult a competent authority before determining the MREL. The calculation of MREL should consider the need, in case of application of the bail-in tool, to ensure that the institution is capable of absorbing an adequate amount of losses and of being recapitalised by an amount sufficient to restore its Common Equity Tier 1 (**CET 1**) ratio to a level sufficient to maintain the capital requirements for authorisation and to sustain market confidence.

Article 45 of the BRRD mandates the European Banking Authority (the **EBA**) to deliver a report to the EC on the implementation of MREL. The final report was issued on 14 December 2016, the content of which will inform the EC's proposal on the 'harmonised application' of MREL, which is expected on 31 December 2016. As a result of the status of the implementation, it is difficult to predict with certainty when MREL will be set, and the ultimate impact it may have in respect of the institutions comprising the Group.

Certain actions of the Group are restricted by its regulators.

The Restructuring Plan in relation to the Issuer 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. These restrictions were affirmed by the ECB, in its capacity as SSM, including a prohibition on the distribution of dividends by the Issuer and the provision of variable remuneration to Group employees as well as a requirement that the Issuer obtain the prior approval of the ECB before providing capital or funding to any subsidiary. Following SREP 2016, the ECB's prohibition on variable pay was lifted and replaced with a limitation on variable remuneration to 10% of net revenues. These restrictions may prevent the Group from undertaking actions that are otherwise in the best interests of the Group. Notwithstanding the Restructuring Plan, the distribution of dividends by the Issuer may also be restricted by applicable law or regulation, for example due to the requirement to maintain adequate regulatory capital. If the ECB or CBC imposes additional requirements or restrictions or fail to lift these restrictions in time as anticipated, the Group's business, financial condition, results of operations or prospects could be adversely affected.

The Group is exposed to risks in relation to compliance with anti-corruption laws and the imposition of economic sanctions programmes against certain countries, citizens and entities.

The Group is required to comply with the laws and regulations of various jurisdictions where it conducts operations. In particular, the Group's operations are subject to various anti-corruption laws, including the key principles of the United Kingdom Bribery Act of 2010 as part of the Group's Anti-Bribery Policy, and economic sanction programmes, including those administered by the United Nations and the EU, as well as those of the United States Department of Treasury's Office for Foreign Assets Control. The anti-corruption laws generally prohibit providing anything of value for the purposes of obtaining or retaining business or securing any improper business advantage. As part of its business, the Group may deal with entities whose employees are considered government officials. In addition, economic sanctions programmes restrict the Group's business dealings with certain sanctioned countries, individuals and entities. In particular, the Group is exposed to risks in relation to the EU's economic sanctions programme against Russia and certain Russian citizens and businesses, which was imposed as a result of 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.

Although the Group has internal policies and procedures and several monitoring measures designed to ensure compliance with applicable anti-corruption laws and sanctions regulations, these policies and procedures

cannot provide complete assurance that the Group's employees, directors, officers, partners, agents, service providers or introducers will not take actions in violation of its policies and procedures (or otherwise in violation of the relevant anti-corruption laws and sanctions regulations) for which the Issuer or they may be ultimately held responsible. In particular, the Group relies on a network of Introducers for a significant proportion of its international banking business in Cyprus and has limited oversight over introducers' interactions with prospective customers. Litigation or investigations relating to alleged or suspected violations of anti-corruption laws and sanctions regulations could lead to financial penalties being imposed on the Group, limits being placed on the Group's activities, the Group's authorisations and licenses being revoked, damage to the Group's reputation and other consequences that could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. Further, violations of anti-corruption laws and sanctions regulations could be costly. In recent years, enforcement of these laws and regulations against financial institutions in the UK has become more aggressive, resulting in several landmark fines against UK financial institutions. The UK's Financial Conduct Authority (the **FCA**), in particular, has made financial crime and anti-money laundering a key topic to be addressed under its 2016/2017 Business Plan. Furthermore, following the entry into force of the MLD4 and Transfers of Funds Regulation on 25 June 2015, new regulations will come into force before the deadline for national implementation of 26 June 2017, which will affect the scope of the regulatory requirements that the Group must comply with.

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

Changes in consumer protection laws in the jurisdictions where the Group has operations could limit the fees that the Group 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 House of Representatives of Cyprus 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 "*Financial Services Regulation and Supervision—Additional Cypriot Regulatory Requirements Applicable to the Issuer—Interest Rates*" incorporated by reference herein. 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 924/2009 on cross-border payments in euro laid the foundations of the single euro payments area 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, financial condition and prospects.

The Group must comply with data protection and privacy laws and failure to do so could have a material adverse effect on the Group's business, financial condition and reputation.

The Group's operations are subject to a number of laws relating to data privacy, including the Cyprus Law on the Processing of Personal Data (Protection of the Individual) of 2001. The requirements of these laws may affect the Group's ability to collect and use personal data, transfer personal data to countries that do not have adequate data protection laws and also to utilise cookies in a way that is of commercial benefit to the Group. Enforcement of data privacy legislation has become increasingly frequent and could result in any member of the Group being subjected to claims from its customers that it has infringed their privacy rights, and it could face administrative proceedings (including criminal proceedings) initiated by the Commissioner for the

Protection of Personal Data in Cyprus. In addition, any enquiries made, or proceedings initiated by, individuals or regulators may lead to negative publicity and potential liability for the Group.

The Group is exposed to tax risk and the failure to manage this risk may have an adverse effect 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 adversely affect the Group's business, financial condition and results of operations.

For example, in line with the MoU, the Government 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 at 1 January 2013 and the special levy paid by banking institutions on deposits. 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.

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 Pricing Supplement 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 Pricing Supplement 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 Pricing Supplement 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.

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 Pricing Supplement, the Extended Final Maturity Date thereof.

The expected credit ratings of the Covered Bonds, if applicable, are set out in the applicable Pricing Supplement 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, Directive 2001/24/EC on the reorganisation and winding up of credit institutions (the **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 Pricing Supplement 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 Pricing Supplement) (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 Pricing Supplement (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 Pricing Supplement 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 Offering Circular 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 Offering Circular 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 Bonds Legislation*". There are a number of aspects of Cypriot law which are referred to in this Offering Circular with which potential Covered Bondholders are likely to be unfamiliar. Particular attention should be paid to the sections of this Offering Circular 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 Offering Circular. 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 Offering Circular and any such change could materially adversely impact the value of the Covered Bonds affected by it.

DOCUMENTS INCORPORATED BY REFERENCE

This Offering Circular should be read and construed in conjunction with:

- (a) the following sections of the BOCH Prospectus:
- (i) the sub-sections entitled “*Introduction*”, “*Conditions, Waivers and Modification*”, “*Structure*” and “*The Scheme Resolutions*” forming part of the section entitled “*The Scheme of Arrangement*” of pages 57 to 59 of the BOCH Prospectus;
 - (ii) the section entitled “*Business Description*” on pages 71 to 88 of the BOCH Prospectus;
 - (iii) the introductory 4 paragraphs and the sub-sections entitled “*Restructuring and Recoveries Division*”, “*Restructuring tools*”, “*Watch Forum*”, “*Real Estate Management Unit*” and “*Debt Recovery*” forming part of the section entitled “*Restructuring and Recoveries Division and Real Estate Management Unit*” on pages 89 to 93 and 101 to 103 of the BOCH Prospectus;
 - (iv) the section entitled “*History of the BOC Group, the Restructuring, the Recapitalisation and the Disposals*” on pages 104 to 112 of the BOCH Prospectus;
 - (v) the section entitled “*Risk Management*” on pages 113 to 125 of the BOCH Prospectus;
 - (vi) the section entitled “*Management and Corporate Governance*” on pages 126 to 147 of the BOCH Prospectus;
 - (vii) the section entitled “*Selected Financial Information*” on pages 150 to 154 of the BOCH Prospectus;
 - (viii) the section entitled “*Accountant’s Report and Historical Financial Information*” on pages 216 to 464 of the BOCH Prospectus;
 - (ix) the section entitled “*The Macroeconomic Environment in Cyprus*” on pages 478 to 481 of the BOCH Prospectus;
 - (x) the section entitled “*The Banking Sector in Cyprus*” on pages 482 to 484 of the BOCH Prospectus; and
 - (xi) the section entitled “*Financial Services Regulation and Supervision*” on pages 485 to 526 of the BOCH Prospectus,

except that references in the BOCH Prospectus to “Bank” shall be read as “Issuer”, so far as the context admits.

- (b) the unaudited interim condensed consolidated financial statements of the Issuer for the nine month period ended 30 September 2016 (that includes comparative information for the nine month period ended 30 September 2015) (the **Third Quarter Financial Information**).

Each of the above documents has been previously published or are published simultaneously with this Offering Circular and has been filed with the Luxembourg Stock Exchange. Such documents shall be incorporated by reference in and form part of this Offering Circular, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Offering Circular 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 Offering Circular.

Copies of documents incorporated by reference in this Offering Circular may be obtained from (i) the registered office of the Issuer, and/or (ii) the website of the Luxembourg Stock Exchange (www.bourse.lu).

The table below sets out the relevant page references for the Historical Financial Information and the Third Quarter Financial Information. Any information not listed in the cross reference list but included in the documents incorporated by reference herein is given for information purposes only.

Any other information incorporated by reference that is not included in the cross-reference list below is considered to be additional information to be disclosed to investors rather than information required by the Luxembourg Stock Exchange.

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OFFERING CIRCULAR SUPPLEMENT

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 Offering Circular which is capable of affecting the assessment of any Covered Bonds and whose inclusion in this Offering Circular 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 Offering Circular or publish a replacement Offering Circular 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 Pricing Supplement (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 "Form of Pricing Supplement" for a description of the content of the Pricing Supplement 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 Pricing Supplement (**Specified Denomination**) in the currency specified in the applicable Pricing Supplement (**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 21 December 2016 (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 21 December 2016 (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 Pricing Supplement for this Covered Bond (or the relevant provisions thereof) are set out in Part A of the Pricing Supplement attached to or endorsed on this Covered Bond which complete these Terms and Conditions (the **Conditions**). References to the **applicable Pricing Supplement** are, unless otherwise stated, to Part A of the Pricing Supplement (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 Euro MTF Market of the Luxembourg Stock Exchange the applicable Pricing Supplement will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu). If this Covered Bond is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Pricing Supplement 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 Pricing Supplement 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 Pricing Supplement and/or the master definitions and construction schedule made between the parties to the Transaction Documents on or about 21 December 2016 (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 Pricing Supplement. 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 Pricing Supplement.

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 Pricing Supplement 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 S.A. (**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 Pricing Supplement (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 Pricing Supplement, 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 Pricing Supplement, amount to the broken amount specified in the applicable Pricing Supplement (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 Pricing Supplement; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, 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 Pricing Supplement 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 Pricing Supplement.

- (i) ISDA Determination for Floating Rate Covered Bonds

Where **ISDA Determination** is specified in the applicable Pricing Supplement 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

Pricing Supplement) 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 Pricing Supplement 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 Pricing Supplement;
- (B) the Designated Maturity is the period specified in the applicable Pricing Supplement; and
- (C) the relevant Reset Date is the day specified in the applicable Pricing Supplement.

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 Pricing Supplement, 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 Pricing Supplement 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 Pricing Supplement) 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 Pricing Supplement) 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 Pricing Supplement, 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 Pricing Supplement 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 Pricing Supplement 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 Pricing Supplement 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 Pricing Supplement, 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 Pricing Supplement) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Pricing Supplement), 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 Condition 4.2(b)(i) or 4.2(b)(ii) above, as the case may be, and in each case in accordance with paragraph (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 Pricing Supplement), 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 Pricing Supplement; 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 Pricing Supplement and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (i) in any case where Specified Periods are specified in accordance with Condition 4.2(a)(ii), the **Floating Rate Convention**, such Interest Payment Date (1) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (II) below shall apply *mutatis mutandis*, or (2) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (I) such Interest Payment Date shall be brought forward to the immediately preceding Business Day, and (II) each subsequent Interest Payment Date shall be the last Business Day in the month which falls within the Specified Period after the preceding applicable Interest Payment Date occurred; or
 - (ii) the **Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
 - (iii) the **Modified Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
 - (iv) the **Preceding Business Day Convention**, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.
- (c) **Day Count Fraction** means, in respect of the calculation of an amount of interest for any Interest Period:
- (i) if **Actual/Actual (ICMA)** is specified in the applicable Pricing Supplement:
 - (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 Pricing Supplement) 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 Pricing Supplement, 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 Pricing Supplement, the actual number of days in the Interest Period divided by 365;
- (iv) if **Actual/365 (Sterling)** is specified in the applicable Pricing Supplement, 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 Pricing Supplement, 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 Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

"D¹" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D¹ will be 30; and

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

- (d) **Determination Date** has the meaning given in the applicable Pricing Supplement.
- (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 Pricing Supplement 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 Pricing Supplement 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 Pricing Supplement 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 Pricing Supplement 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 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 Pricing Supplement), **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 Pricing Supplement; 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 Pricing Supplement) (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 Pricing Supplement.

Calculation Amount has the meaning given in the applicable Pricing Supplement.

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.

Covered Bond Swap Rate means, in relation to a Series of Covered Bonds, the exchange rate specified in the Covered Bond Swap relating to such Covered Bonds or, if the relevant Covered Bond Swap Agreement has terminated, the applicable spot rate;

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 Pricing Supplement (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 Pricing Supplement.

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 Pricing Supplement.

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 Pricing Supplement.

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 3 of Schedule 2 to 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 Pricing Supplement.

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

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

6. Redemption and Purchase

6.1 Final redemption

- (i) Unless previously redeemed in full or purchased and cancelled as specified below, each Covered Bond will be redeemed by the Issuer at par at its Final Redemption Amount in the relevant Specified Currency on the Final Maturity Date specified in the applicable Pricing Supplement.
- (ii) If an Extended Final Maturity Date is specified in the applicable Pricing Supplement 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 Pricing Supplement, 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 Pricing Supplement 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 Pricing Supplement 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 Pricing Supplement (**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 Pricing Supplement 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 Pricing Supplement 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 Pricing Supplement.

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 Pricing Supplement (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 Pricing Supplement (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 Pricing Supplement, 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 Pricing Supplement (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 Pricing Supplement (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 Pricing Supplement, 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 Pricing Supplement or, if no such amount is so specified in the applicable Pricing Supplement, 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 Condition 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 Pricing Supplement 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; or
 - (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.
- (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 law implementing an intergovernmental approach thereto, 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 Offering Circular 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; and
- (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.

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

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

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

16. Substitution of the Issuer

- (a) If so requested by the Issuer, the Trustee shall, in accordance with Section 35 of the Cypriot Covered Bond Law, with the prior consent by Extraordinary Resolution of the Covered Bondholders, agree with the Issuer to the substitution in place of the Issuer of any other body incorporated in any country in the world as the debtor in respect of the Covered Bonds, any Coupons and the Trust Deed (the **New Company**) upon notice by the Issuer and the New Company to be given in accordance with Condition 15 (*Notices*), *provided that*:
- (i) the Issuer is not in default in respect of any amount payable under the Covered Bonds or the Trust Deed;
 - (ii) the Issuer and the New Company have entered into such documents (the **Documents**) as are necessary to give effect to the substitution and in which the New Company has undertaken in favour of the Trustee and each Covered Bondholder to be bound by these Conditions and the provisions of the Trust Deed as the debtor in respect of the Covered Bonds in place of the Issuer (or of any previous substitute under this Condition 16);
 - (iii) if the New Company is resident for tax purposes in a territory (the **New Residence**) other than that in which the Issuer prior to such substitution was resident for tax purposes (the **Former Residence**), the Documents contain an undertaking and/or such other provisions as may be necessary to ensure that the Trustee and each Covered Bondholder has the benefit of an undertaking in terms corresponding to the provisions of this Condition 16, with the substitution of references to the Former Residence with references to the New Residence;
 - (iv) the New Company and the Issuer have obtained all necessary governmental approvals and consents for such substitution and for the performance by the New Company of its obligations under the Documents;
 - (v) legal opinions shall have been delivered to the Trustee (with a copy of such legal opinions also to be provided to the Rating Agencies) from lawyers of recognised standing in the jurisdiction of incorporation of the New Company, in England and in Cyprus as to matters of law relating to the fulfilment of the requirements of this Condition 16 and that the Covered Bonds and any Coupons and/or Talons are legal, valid and binding obligations of the New Company;
 - (vi) each Rating Agency has been notified by the Issuer of the proposed substitution;
 - (vii) each stock exchange on which the Covered Bonds are listed shall have confirmed in writing to the Trustee that, following the proposed substitution of the New Company, the Covered Bonds will continue to be listed on such stock exchange; and

- (viii) if applicable, the New Company has appointed a process agent in England to receive service of process on its behalf in relation to any legal proceedings arising out of or in connection with the Covered Bonds and any Coupons.
- (b) Upon such substitution the New Company shall succeed to, and be substituted for, and may exercise every right and power, of the Issuer under the Covered Bonds, any Coupons and the Trust Deed with the same effect as if the New Company has been named as the Issuer therein, and the Issuer shall be released from its obligations under the Covered Bonds, Coupons and/or Talons and under the Trust Deed.
- (c) After a substitution pursuant to Condition 16(a) the New Company may, in accordance with Section 35 of the Cypriot Covered Bond Law, with the consent by Extraordinary Resolution of the Covered Bondholders, effect a further substitution. All the provisions specified in Conditions 16(a) and 16(b) shall apply *mutatis mutandis*, and references in these Conditions to the Issuer shall, where the context so requires, be deemed to be or include references to any such further New Company.
- (d) After a substitution pursuant to Condition 16(a) or 16(c) any New Company may, in accordance with Section 35 of the Cypriot Covered Bond Law, with the consent by Extraordinary Resolution of the Covered Bondholders, reverse the substitution, *mutatis mutandis*.
- (e) The Documents shall be delivered to, and kept by, the Principal Paying Agent. Copies of the Documents will be available free of charge during normal business hours at the specified office of the Principal Paying Agent.

17. Governing Law and Jurisdiction

The Covered Bonds and any non-contractual obligations arising out of or in connection therewith 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 Pricing Supplement, 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 Pricing Supplement, 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 S.A. (**Clearstream, Luxembourg**); and
- (b) if the Global Covered Bonds are not issued in NGCB form, be delivered on or prior to the issue date of the relevant Series to a common depository (the **Common Depository**) for Euroclear and Clearstream, Luxembourg.

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

Where the Global Covered Bonds issued in respect of any Series are in NGCB form, the applicable Pricing Supplement 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 Pricing Supplement.

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 Pricing Supplement and subject, in the case of Definitive Covered Bonds, to such notice period as is specified in the applicable Pricing Supplement), 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 Pricing Supplement 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 (other than Temporary Global Covered Bonds) where TEFRA D is specified in the applicable Pricing Supplement 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 Pricing Supplement.

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 PRICING SUPPLEMENT

Set out below is the form of the applicable Pricing Supplement 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 Pricing Supplement but denotes directions for completing the applicable Pricing Supplement.

Pricing Supplement dated [●]

NO PROSPECTUS IS REQUIRED IN ACCORDANCE WITH DIRECTIVE 2003/71/EC (AS AMENDED) FOR THE ISSUE OF COVERED BONDS DESCRIBED BELOW.

BANK OF CYPRUS PUBLIC COMPANY LIMITED (the Issuer)

Issue of [Aggregate Nominal Amount of Series] [Title of Covered Bonds]

Under the

€3 billion Covered Bond Programme

PART A – CONTRACTUAL TERMS

Any person making or intending to make an offer of the Covered Bonds 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 Directive 2003/71/EC (as amended including by Directive 2010/73/EU, the **Prospectus Directive**) or to supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer.

This document constitutes the Pricing Supplement for the Covered Bonds described herein. This document must be read in conjunction with the Offering Circular dated 21 December 2016 [as supplemented by the supplement[s] dated [date[s]]] (the **Offering Circular**). Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of this Pricing Supplement and the Offering Circular. Copies of the Offering Circular may be obtained from [address].

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the [Offering Circular].

(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). Italics denote guidance for completing the Pricing Supplement.)

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 Pricing Supplement: [●]
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. **Zero Coupon Covered Bond Provisions** [Applicable/Not Applicable]

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

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

PROVISIONS RELATING TO REDEMPTION

16. Notice periods for Condition 6.2 *(Redemption for taxation reasons)*:
Minimum period: [30] days
Maximum period: [60] days

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

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

- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s) of each Covered Bond and method, if [●] per Calculation Amount

any, of calculation of such amount(s):

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

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

18. Investor Put

[Applicable/Not Applicable]

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

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

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

19. 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 redemption for taxation reasons or on Event of Default: [●] per Calculation Amount

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.]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed for and on behalf of the Issuer:

Signature:	Signature:
Name:	Name:
Title:	Title:

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Listing and admission to trading: [Application [has been/will be/is expected to be] made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the Euro MTF 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 S.A. and [*other*]

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking S.A. 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 Pricing Supplement, 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) | Stabilising 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 BONDS LEGISLATION

The following is an overview of the provisions of the Covered Bonds Legislation relevant to the transactions described in this Offering Circular 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 Offering Circular.

Introduction

The Covered Bonds 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 Bonds Legislation has also received the positive opinion of the European Central Bank.

Registration

In accordance with the provisions of the Covered Bonds 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 Bonds Law; and
- (b) it fulfils the criteria set out in Article 5(3) of the Cypriot Covered Bonds 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 Bonds 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 Bonds 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 Bonds 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 Bonds Law and Part IV of the Cypriot Covered Bonds 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 Bonds Directive certain complementary assets (**Complementary Assets**) may be included in the Cover Pool. Subject to the provisions of the Covered Bonds 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 Bonds 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 Bonds 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 Bonds 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 Bonds 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 Bonds 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 Bonds 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 Bonds 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 Bonds 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 Bonds 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.

Required Redemption Amount means, in respect of any relevant Series of Covered Bonds, the amount calculated as the Principal Amount Outstanding of the relevant Series of Covered Bonds plus accrued interest.

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 Bonds 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 Bonds 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 Bonds 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 Bonds 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 bonds 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 Bonds Law, an institution with covered bonds 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 Bonds Directive further states that for the purposes of section 20 of the Cypriot Covered Bonds 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 Bonds 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 Bonds 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 Bonds 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 Bonds 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 Bonds 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 Bonds 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 Bonds 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 Bonds Legislation and (B) provide any other information the Competent Authority may have requested in relation to such matter

Pursuant to the Cypriot Covered Bonds 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 bonds 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 Bonds 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 bonds 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 Bonds 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 Bonds 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 Bonds Law;
- (ii) supervising the Covered Bond Monitor pursuant to Part VIII of the Cypriot Covered Bonds Law; and
- (iii) supervising the CBBA pursuant to Part IX of the Cypriot Covered Bonds 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 Bonds Directive) the conditions upon which assets will be included in the Cover Pool. The Cypriot Covered Bonds 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 Bonds 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

The Issuer

The Issuer was founded in 1899 and is a leading full-service bank and financial services group in Cyprus. For a detailed description of the history and development of the Group, see "*History of the BOC Group, the Restructuring, the Recapitalisation and the Disposals*" incorporated by reference herein.

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 (the **Companies Law**), 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 Cyprus Stock Exchange (**CSE**) and a secondary listing on the Athens Exchange (**ATHEX**). The Issuer is also a public company for the purposes of the Cyprus Income Tax Law, 118(I)/2002 (the **Income Tax Law**).

As at 30 October 2016 (being the last practicable date at which such figures could be obtained) the Issuer's issued share capital comprised 8,922,944,533 ordinary shares of a nominal value of EUR 0.10 each, all of which were fully paid up.

The Scheme of Arrangement

The Issuer (the current holding company of the Group) announced on 15 November 2016 details of proposals to change the Group's corporate structure by introducing a new parent company of the Issuer, incorporated in Ireland, with its tax residence in Cyprus, using a scheme of arrangement proposed to be made under sections 198 to 200 of the Cyprus Companies Law, between the Issuer and its shareholders, to be presented for approval to the Cyprus Court on 21 December 2016 (the **Scheme**).

BOCH was incorporated under the Irish Companies Act 2014 on 11 July 2016, as a public limited company under the name "Aion Cyprus Public Limited Company" and changed its name to "Bank of Cyprus Holdings Public Limited Company" on 10 August 2016. If the Scheme becomes effective, BOCH will become the holding company of the Issuer and conduct all of its operations through its holding of the Issuer and the Group.

The Scheme is subject to certain conditions (the **Scheme Conditions**). If the Scheme Conditions have been satisfied (or waived), the Scheme is expected to take legal effect (become **Effective**). Subject to the Scheme becoming Effective and the related applications for admission to listing and trading being successful, it is expected that the earliest date on which the Proposed Listing will become Effective is 13 January 2017. In the event that any of the Scheme Conditions are not satisfied (or waived) prior to 31 March 2017 (being the latest date by which the Scheme may become Effective, unless the Issuer and BOCH agree a later date and (if appropriate) the Court so allows), the Scheme will be cancelled and will not become Effective. If the Scheme does not become Effective, the current listings of the BOC Shares on the CSE and on ATHEX will continue and holders of BOC Shares will retain their current holdings.

For a detailed description of the Scheme and its principal features (including the Scheme Conditions), see the pages of the section of the BOCH Prospectus entitled "*The Scheme of Arrangement*" that are incorporated by reference herein.

Overview of the Group

The Group provides a wide range of financial products and services which include consumer and SME banking, corporate banking, international banking services and wealth, brokerage and asset management

services, life assurance and general insurance.

At 30 June 2016, based on CBC data, the Group was the largest bank in Cyprus based on loans and deposits, with a market share of loans of 41.4% and a market share of deposits of 29.0%.

The Group operates primarily in Cyprus with limited operations abroad. As at 30 June 2016, the Group had a total of 131 branches (of which 125 operated in Cyprus, one operated in Romania, four operated in the United Kingdom and one operated in the Channel Islands). The Group also provides 24-hour online, mobile and telephone banking. The Group has representative offices in Russia, Ukraine and China. At 30 June 2016, the Group employed 4,279 staff worldwide.

The Group's total revenue from continuing operations for the six months ended 30 June 2016 was €542.5 million and was €1.1 billion for the year ended 31 December 2015. The majority of the Group's revenue is derived from banking and financial services, which accounted for 95.0% of total revenue from continuing operations for the six months ended 30 June 2016 and 95.4% for the year ended 31 December 2015.

At 30 June 2016, the Group's total assets, total liabilities and total equity were €22.7 billion, €19.6 billion and €3.1 billion, respectively. As one of the largest deposit-taking institutions and providers of loans in Cyprus, the Group's assets are mostly comprised of loans to businesses and households in Cyprus. At 30 June 2016, gross loans and advances to customers in Cyprus before fair value adjustments on initial recognition was €19.3 billion and accounted for 91.4% of gross loans and advances to customers before fair value adjustments on initial recognition.

Gross loans analysis by customer sector

The following tables set out the breakdown of the Group's gross loans and advances to customers before fair value adjustments on initial recognition by customer sector at the dates indicated below:

	30 June	31 December		
	2016	2015	2014	2013
Gross loans and advances to customers by customer sector	(€'000)	(€'000)	(€'000)	(€'000)
Corporate	9,669,971	10,828,867	10,585,146	11,246,833
SMEs	4,549,471	4,683,786	4,924,808	6,098,937
Retail				
—housing	4,273,742	4,303,798	4,384,270	5,423,519
—consumer, credit cards and other	2,129,137	2,183,957	2,238,655	2,862,581
International banking services	396,505	528,795	603,557	1,004,374
Wealth management	64,573	63,272	69,952	107,075
Total	21,083,399	22,592,475	22,806,388	26,743,319

Gross loans and advances to customers classified as held for sale by customer sector

	31 December 2014
	(€'000)
Corporate	507,838
SMEs	163,152
Retail	
—housing	25,999
—consumer and other	204,867
International banking services	63,868
Total	965,724

Customer deposits

Customer deposits remain the Group's primary source of funding, with their contribution to the Group's total funding gradually increasing. Customer deposits (including those classified as held for sale where applicable) accounted for 79.3% of total funding at 30 June 2016, compared with 73.7%, 59.2% and 56.0% of total funding as at 31 December 2015, 2014 and 2013, respectively.

The following tables show a breakdown of the Group's customer deposits by type and geographical area at the dates indicated (deposits by geographical area are based on the originator country of the deposit):

	30 June		31 December	
	2016	2015	2014	2013
	(€'000)	(€'000)	(€'000)	(€'000)
Customer deposits				
<i>By type of deposit</i>				
Demand ⁽¹⁾	5,397,006	4,987,078	4,237,590	3,492,789
Savings ⁽²⁾	1,036,340	1,033,991	955,556	925,549
Time or notice ⁽³⁾	8,313,127	8,159,612	7,430,412	10,552,829
Total	14,746,473	14,180,681	12,623,558	14,971,167
<i>By geographical area</i>				
Cyprus	13,311,262	12,691,090	11,314,137	12,705,254
Russia ⁽⁴⁾	—	—	—	918,491
United Kingdom	1,429,578	1,486,551	1,304,844	1,244,186
Romania	5,633	3,040	4,577	30,055
Ukraine	—	—	—	73,181
Total	14,746,473	14,180,681	12,623,558	14,971,167

(1) Demand deposit means a deposit (interest-bearing or non-interest-bearing) that can be withdrawn without prior notice.

(2) Savings deposit means an interest-bearing deposit that can be withdrawn without prior notice and allows cash deposits at any time.

(3) Time or notice deposit means an interest-bearing deposit that cannot be withdrawn for a present 'fixed' term or period of time. The account holder is required to give notice of withdrawal a specified number of days in advance of making any withdrawal in order to avoid penalties.

(4) Classified as held for sale at 31 December 2014.

For a more detailed discussion of the Group's business and operations, see the following sections of the BOCH Prospectus which are incorporated by reference herein: "Business Description", "Restructuring and

Recoveries Division and Real Estate Management Unit”, “History of the BOC Group, the Restructuring, the Recapitalisation and the Disposals”, “Risk Management”, “The Macroeconomic Environment in Cyprus”, and “The Banking Sector in Cyprus” and “Financial Services Regulation and Supervision”.

Members of the Board of 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:

<u>Name</u>	<u>Position</u>	<u>Committee Membership</u>	<u>Latest Appointment Date</u>
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	Audit Committee Nominations and Corporate Governance Committee (as of 1 January 2017 Mr. Goldman will leave the Audit Committee and join the Risk Committee)	25 October 2016
Michael Spanos	Senior Independent Director	Human Resources and Remuneration Committee	25 October 2016
John Patrick Hourican	Group Chief Executive Officer and Non-Independent Executive Director		20 November 2014
Christodoulos Patsalides	Non-Independent Deputy Chief Executive Officer, Chief Operating Officer and Executive Director		24 November 2015
Arne Berggren	Independent Director	Audit Committee Risk Committee	25 October 2016
Marios Kalochoritis	Independent Director	Human Resources and Remuneration Committee Risk Committee	24 November 2015
Ioannis Zographakis	Independent Director	Audit Committee Risk Committee	24 November 2015
Michael Heger	Independent Director	Human Resources and Remuneration Committee Risk Committee (as of 1 January 2017 Mr. Heger will leave the Risk Committee and join the Audit Committee)	25 October 2016

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 the chairman of the Issuer, as a member of the board of directors at Investor AB and Renova Management AG and as a member of the international advisory board of Akbank. Dr. Ackermann 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 of the board of trustees of The Conference Board, among other posts. Dr. Ackermann also served as chairman of the Institute of International Finance and 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 June 2016, Mr. Ross became a director of Nexeo Solutions, Inc. (WL Ross Holding Corp, of which he was the chairman and chief executive officer). Mr. Ross is currently a member of the board of directors of: ArcelorMittal, 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; Sun Bancorp, Inc., a bank holding company; and the Issuer. 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 marine transport company, and International Automotive Components until November 2014; Plaspar Participacoes SA, a manufacturer of automotive interiors, until January 2014 and Air Lease Corporation, an aircraft leasing company from 2010 to December 2013; International Coal Group from April 2005 to June 2011, Montpelier Re Holdings Ltd., a reinsurance company, from 2006 to March 2010; The Greenbrier Companies, a supplier of transportation equipment and services to the railroad industry from June 2009 until January 2013. Mr. Ross was executive managing director of Rothschild Inc. for 24 years before acquiring that firm's private equity partnerships in 2000. Mr. Ross is a graduate of Yale University and of Harvard Business School. Through the course of Mr. Ross' career, he has served as a principal financial adviser to, investor in, and director of various companies across the globe operating in diverse industries, and he has assisted in restructuring more than \$500 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 privatisation advisor to New York City's 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 Group where he is responsible for coordinating the business development of various significant assets under management of the Renova Group. Mr. Goldman is currently the vice chairman of the Issuer and a member of the board of directors of United Company Rusal Plc, OAO "Volga", FC "Ural" and United Manganese of Kalahari. Previously, Mr. Goldman served as deputy chief legal 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 OAO Sual-Holding, which was the management company for OAO

"SUAL", the second largest aluminium producer in Russia, and also participated in the creation of United Company 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 from the University of California (Los Angeles).

John Patrick Hourican. *Group Chief Executive Officer and Non-Independent Executive Director.* Mr. Hourican was born in 1970. He currently serves as the GCEO of the Issuer. 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 leveraged 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 currently serves as a senior independent director of the Issuer; a managing director of M.S. Business Power Ltd, which provides consultancy services on strategic and business development (since 2008); the non-executive chairman of Lanitis Bros Ltd (since 2008); and the founding chairman of Green Dot (Cyprus) Public Co. Ltd (since 2004). 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 (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 T.V. Public Ltd (2000 to 2012), A. Petsas & Sons Public Ltd. (2000 to 2007), Cyprialife Insurance Ltd (then known as Laiki Cyprialife Insurance Limited) (1995 to 2000) and Coca-Cola İçecek (2012-2016). Mr. Spanos is a former director of the CBC's board of directors. Mr. Spanos holds a master's degree and a bachelor of arts degree in economics from North Carolina State University.

Marios Kalochoritis. *Independent Director.* Mr. Kalochoritis was born in 1973. He currently serves as a non-executive, independent director of the Issuer. He currently serves as the managing partner of Loggerhead Partners an investment consulting and advisory firm that he founded, based in Dubai. His expertise includes 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 turnaround situations. Previously, he spent close to 6 years in Cyprus where, as a co-founder and a managing director, he had set up and ran the operations and risk management of a global macro hedge fund. Prior to that he was a senior vice president for Bank Clariden Leu (now Credit Suisse) in Zurich and he headed business development for Central and Eastern Europe and Turkey. Between 2003 and 2006 he was the group chief financial officer for Amana Group in Dubai, a major regional construction and industrial group, where he led the group's corporate restructuring process. During 2001-2003 he was the co-founder and Vice President of a boutique financial intermediary in New York, backed by the Blackstone Group. He started his career at Enron in Houston where as a financial analyst and later an associate in the finance department, he worked and led investments and transactions in oil & gas, energy and other infrastructure opportunities around the world. He also interned with J.P. Morgan Chase (M&A team) in New York and McKinsey & Co in Athens. He holds a master's degree in business administration from Harvard Business School and a bachelor's of science degree in finance from Louisiana State University. He is a member of the Institute of Directors.

Arne Berggren. *Independent Director.* Mr. Berggren was born in 1958. He currently serves as a non-executive, independent member of the board of the Issuer. 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 chief executive officer 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 including a position on the board of directors at LBT Varlık Yönetim AS and DUTB Ltd. He is a graduate in economics of the University of Uppsala, Sweden and he continued at the Universities of Amsterdam, Geneva and New York for post graduate studies.

Ioannis Zographakis. *Independent Director.* Mr. Zographakis was born in 1963. He currently serves as a non-executive director of the Issuer. 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 United States, United Kingdom 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 Citibank Consumer Bank in Greece, before moving to the United States in 1996 as the director of finance for Citibank CitiMortgage. In 1997, he became the financial controller for Citibank's consumer finance business in the United States and then he was the director of finance and acting 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 2005, he moved back to Europe as Citibank's consumer lending head for EMEA and head of its UK Retail Bank. 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 United States, 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 a master's degree in business administration (management) from Carnegie Mellon University in the United States.

Christodoulos Patsalides. *Non-Independent Deputy Chief Executive Officer, Chief Operating Officer and Executive Director.* Dr. Patsalides was born in 1962. He currently serves as the Group's deputy chief executive officer and chief operating officer. From 1989 to 1996, Dr. Patsalides previously worked for the CBC in the Management of Government External Debt and Foreign Exchange Reserves department. In 1996, Dr. Patsalides joined the Issuer where he has held a number of positions in corporate banking, treasury and private banking, among others. From December 2013 to April 2016, Dr. Patsalides served as finance director and was responsible for finance, treasury, investor relations, economics research and procurement. In Dr. Patsalides' current capacities as the deputy chief executive officer and chief operating officer, he is responsible for human resources, corporate affairs, central operations, legal services, organisation and methods, information technology, business transformation and administrative operations. He has recently been appointed to the board of directors of the Cyprus anti-Cancer Society (a charity organisation). Dr. Patsalides holds a bachelor of science degree in economics from Queen Mary College in London and a master of science degree and a doctor of philosophy degree in economics from the London School of Economics.

Dr. Michael Heger. *Independent Director.* Dr. Heger was born in 1955. He currently serves as a non-executive, independent director of the Issuer. He began his career in 1980 as a manager in export finance and legal affairs for Waagner-Biro AG in Vienna, Austria. Having spent two years at Waagner-Biro AG, he moved to UniCredit Bank Austria Group, where he held various management positions, from 1982 to 2002. Between 2001 and 2002, he served as general manager and head of structured trade finance at Bank Austria AG. From 2002 to 2003, he served as the deputy general manager and head of international division for Raiffeisenlandesbank Niederösterreich-Wien AG. Dr. Heger then joined MPH Management and

Participation Holding S.A., a special purpose company for equity participation in commercial and industrial companies, financial institutions and in property developments as well as for financial and consulting services for domestic and international clients and commodity trading, as the general manager of finance and investment and head of the representative office. He occupied this role between 2004 and 2009, after which he served as general manager and chief executive officer of Metal Trade Overseas AG in Zug, Switzerland until 2012. Since 2013, he has served as the general manager of finance and investment and as an independent senior advisor for S.I.F International Holding S.A., Luxembourg at its representative office in Vienna. He holds a doctorate in law from the University of Vienna and obtained a postgraduate degree in law from the College of Europe in Bruges, Belgium.

Future Appointment

On 30 August 2016, the Issuer announced its intention to appoint Ms. Lyn Grobler to the Board of Directors. The appointment is subject to the approval at the ECB.

Ms. Lyn Grobler. Independent Director. Ms Grobler was born in South Africa. It is intended that she will serve as a non-executive independent director of the Issuer. Ms. Grobler has worked in information technology for 30 years. Ms Grobler managed a number of large scale global technology projects and strategies based in both London and South Africa before joining British Petroleum in 2000. Ms. Grobler worked at British Petroleum for 16 years, holding a variety of different roles across information technology and global trading, exiting as Vice President & Chief Information Officer, Corporate Functions, where she led the transformation of both the organisation and the digital landscape through introducing sustained change in process, capability and technology. Ms Grobler was appointed Group Chief Information Officer of Hyperion Insurance Group in 2016 and is a member of Hyperion's Group Executive Committee. Ms Grobler graduated in 1985 from Cape Peninsula Technology University in South Africa with a Higher National Diploma in Electronic Data Processing.

Executive Committee

The executive committee consists of the following members:

Name	Position
John Patrick Hourican	Group Chief Executive Officer
Christodoulos Patsalides	Deputy Chief Executive Officer and Chief Operating Officer
Michalis Athanasiou	Chief Risk Officer
Eliza Livadiotou	Finance Director
Charis Pouangare	Director Consumer and SME Banking
Panicos Nicolaou	Director Corporate Banking
Louis Pochanis	Director International Banking Services and Wealth, Brokerage & Asset Management
Aristos Stylianou	Executive Chairman, Insurance
Nick Fahy	Chief Executive Officer, Bank of Cyprus UK Ltd. & Bank of Cyprus (Channel Islands) Ltd
Anna Sofroniou	Director Real Estate Management Unit

Nick Smith

Director Restructuring and Recoveries

For a discussion of the Group's management and corporate governance arrangements, including those which are anticipated following the Scheme becoming Effective, see the section of the BOCH Prospectus entitled "*Management and Corporate Governance*" which is incorporated by reference herein.

RECENT TRENDS

The following financial information in relation to the Group has been extracted, or derived, from the Third Quarter Financial Information or has been extracted or derived from those of the Group's accounting records and financial reporting and management systems that have been used to prepare its financial information. All financial information included in this section is unaudited.

Review of the nine month period ended 30 September 2016

The Bank further reduced the level of ELA funding from €2.4 billion at 30 June 2016 to €1.3 billion at 30 September 2016 (€3.8 billion at 31 December 2015). At the date of this Offering Circular, the level of ELA funding was €0.3 billion. At the same time, the Group's customer deposits increased from €14.7 billion at 30 June 2016 to €15.6 billion at 30 September 2016, a 6.1% increase comprised of €831.6 million in Cypriot resident deposits (a significant proportion of which were Government deposits) and €65.1 million in non-Cypriot resident deposits. The Group's customer deposits increased by €1.5 billion, or 10.3%, from 31 December 2015 to 30 September 2016. The Group's market share for Cypriot resident deposits also increased from 27.2% at 30 June 2016 to 28.8% at 30 September 2016 (source: CBC data).

The Group's gross loans totalled €20,596 million at 30 September 2016, compared to €21,083 million at 30 June 2016 and €22,592 million at 31 December 2015. The Group's gross loans in Cyprus totalled €18,773 million at 30 September 2016 and accounted for 91% of Group gross loans.

At 30 September 2016, 90+DPD loans decreased by 5.4% to €8.8 billion from €9.3 billion at 30 June 2016 and by 22.6% from €11.3 billion at 31 December 2015. At 30 September 2016, the 90+DPD ratio decreased by 1.4 percentage points to 42.6% from 44.0% at 30 June 2016 and by 7.5 percentage points from 50.1% at 31 December 2015.

In December 2015, REMU was set up as part of the Group's efforts to provide solutions to distressed borrowers and properties acquired through repossession by moving to a model that involves on-boarding a larger volume of properties than in prior years. REMU is a specialised unit specially created to actively manage such properties (including selective investment and development) with an intention to more effectively manage monetisation of the Bank's real estate assets and portfolios in Cyprus, Greece and Romania. During the nine months ended 30 September 2016, REMU acquired €893.9 million of assets through the execution of debt for property swaps and disposed of real estate assets amounting to €109.8 million. At 30 September 2016, REMU had properties under management with a total carrying value of €1.3 billion.

Recent Trends

The Group maintains a leading position in Cyprus for lending and aims to provide lending to the more promising sectors of the recovering Cypriot economy as well as to viable businesses and consumers. New lending provided by the Group in Cyprus for the nine months ended 30 September 2016 was €667.2 million and the Group's market share for loans in Cyprus was 41.1% at 30 September 2016. The Cypriot economy continued to improve during the third quarter of 2016. Real GDP in the third quarter of 2016 grew 0.7% quarter-on-quarter (seasonally adjusted) as compared to growth of 0.8% quarter-on-quarter (seasonally adjusted) in the second quarter of 2016 (source: Cyprus Statistical Service, flash estimate dated 15 November 2016). The overall improvement of the Cypriot economy during the first three quarters of 2016 was reflected in ratings upgrades by the credit ratings agencies. In August 2016, Moody's Investor's Service Ltd (**Moody's**) affirmed its Cyprus government bond rating of 'B1' to reflect Cyprus' economic recovery and the expectation of continued economic growth and maintained its credit outlook at 'stable' to reflect balanced upside and downside risks. On 16 September 2016, Standard and Poor's Credit Market Services Europe Limited (**S&P**) raised Cyprus' long-term sovereign credit rating to 'BB' to reflect Cyprus' economic growth and debt reduction as well as improvement in the banking sector's asset quality. S&P maintained their 'positive' outlook to reflect the view that Cyprus could be further upgraded within the next twelve

months if the reduction of non-performing loans accelerates or if net government debt drops below 80% of GDP. On 21 October 2016, Fitch Ratings Limited (**Fitch**) upgraded its Cyprus long-term issuer default rating to 'BB-' to reflect continuing progress in economic adjustment particularly in terms of the economic recovery, the strengthening of the banking sector and fiscal management. Fitch maintained a 'positive' outlook to reflect the view that Cyprus could be further upgraded in the next twelve months if the economic recovery continues, overall asset quality improves, the government debt to GDP ratio declines and the current account deficit narrows with a sustained track record of access to capital markets at affordable rates. In November 2016, Moody's revised their outlook from 'stable' to 'positive'.

The Group continues to focus on its core operations in Cyprus as well as pursue a focused growth strategy in the UK, targeting entrepreneurs and the 'buy-to-let' market. For the nine months ended 30 September 2016, BOC UK has provided new lending of €327.6 million. In line with the Group's strategy to dispose non-core assets, the Group has decided to wind down the operations of BOC CI (completion of this process is targeted during 2016) and to relocate its business to other Group locations.

Further Developments

- The Scheme and the Scheme Resolutions were approved by an extraordinary general meeting of the shareholders of the Bank on 13 December 2016.
- At its meeting on 13 December 2016, the Board of Directors of the Bank approved the replacement of Mr Maksim Goldman as a member of the Audit Committee by Dr Michael Heger who is currently a member of the Risk Committee. At the same time, Mr Goldman will be assuming Dr Heger's position as a member of the Risk Committee. The changes will be effective as of 1 January 2017.
- On 21 December 2016 the Cyprus Court sanctioned the Scheme.

THE MORTGAGE AND HOUSING MARKET IN CYPRUS

The housing market

The housing market plays an important role in the Cyprus economy, with almost two thirds of fixed investment on average in the last twenty years consisting of building and civil engineering projects (source: CYSAT). Home ownership rates in Cyprus are very high: according to Eurostat, the ratio of owner-occupied homes in Cyprus was 73:0% in 2015 and has been relatively stable over an eight-year period (source: Eurostat).

A number of key factors have combined over successive periods to increase the demand for housing, including:

- the Turkish invasion of 1974 and the relocation of a sizeable portion of the population;
- economic expansion and a significant increase in disposable incomes over the period from the late 1970s to the early 2000s;
- increases in population, immigration and urbanisation that accompanied economic growth in the period from the late 1970s to the early 2000s;
- changes to traditional family structures, with an increasing trend for younger generations to move out of the family home at an earlier age;
- the accession of Cyprus to the EU and later accession to the euro zone, leading to a reduction in lending rates;
- credit expansion following EU accession, underpinned by significantly improved liquidity conditions in the Cypriot banking system; and
- the evolution of Cyprus into an attractive tourist destination and a significant centre for international business services.

Between 1980 and 2007 the resident population of Cyprus increased by 48.9%, total employment by 71.8%, annual growth in real GDP averaged 5.1%, nominal GDP increased 12.5 times and per capita income increased 7.3 times.

One important factor that contributed significantly to the expansion of housing demand in Cyprus was the Turkish invasion of 1974 and the resulting occupation of part of the island. This led to approximately 165,000 refugees needing housing in other areas of the island, and to the destruction or loss of significant infrastructure, including the main port in Famagusta and the Nicosia International Airport.

The relocation of young people from rural areas to urban areas, and changes in traditional family structures (younger people studying at tertiary level and preferring to live on their own) provided additional sources of demand for housing. As a result of these changes, the average household size in Cyprus decreased from 3.2 in 1992 (source: CYSAT) to 2.8 persons in 2012 and to 2.7 persons in 2015 (compared to the EU average of 2.3 persons in 2015) (source: Eurostat).

In addition, significant infrastructure projects together with increasingly sophisticated housing needs emerged as additional drivers of strong housing demand, helping to sustain real estate prices during the period from 2010 to 2015.

Liberalisation of interest rates in 2001 by the Central Bank of Cyprus (the **CBC**), the downward convergence

of interest rates after EU accession and Cyprus' participation in the euro zone in 2008 were the main driving factors in the acceleration of the demand for housing. These developments contributed to an environment of lower interest rates and market liquidity which, combined with the availability of longer term mortgage products, further drove increased demand for housing.

EU accession a participation in the euro zone also led to an increase in demand for retirement homes and holiday homes from foreign nationals drawn to Cyprus by a combination of a low tax regime, attractive weather conditions, a high standard of living and the comparatively lower cost of living.

The period from 2004 to 2009 saw a period of intense construction activity in Cyprus. Total gross output in the sector over the period, including building, civil engineering and land development, averaged 20.9% of GDP, with a peak in 2008 of 25.9% of GDP, according to the Cyprus Statistical Service. In contrast, total gross output in the preceding period from 1995 to 2003 averaged 15.2% of GDP. Total gross value added fell to 10.5% of GDP in 2013, being the last period for which data is available. Likewise, nominal value added averaged 10.9% of GDP over the period from 2004 to 2009, with a peak in 2008 of 12.3% of GDP. Nominal value added in the preceding period from 1995 to 2003 averaged 8.9% of GDP. In the more recent period from 2010 to 2015, nominal value added in the construction sector averaged 5.4% of GDP with a low in 2014 of 3.6% of GDP.

Based on the Central Bank of Cyprus' residential property index, residential property prices in Cyprus as a whole peaked in the third quarter of 2008 and have fallen by a total of 32.0% over the period 2008 to the second quarter of 2016, being the most recent period for which data is available. Total yearly average residential property prices fell by 6.5% in 2013, by 8.8% in 2014 and by 4.3% in 2015 from their prior years. Residential property prices fell by 1.6% and 1.7% year-on-year respectively in the first and second quarters of 2016. On a quarter-to-quarter basis, residential property prices have been generally stable for the last five quarters to the first quarter 2016.

Mortgage Market

Co-operative credit institutions were historically the major providers of residential mortgage loans in Cyprus 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 itself contributed to the overall demand for housing.

At 30 June 2016, the Issuer was the largest bank in Cyprus based on loans, with a market share of housing loans of 43%.

At 31 August 2016, residential mortgage loans in Cyprus in both the resident and non-resident sectors amounted to €12.9 billion, representing approximately 72% of the country's expected GDP for 2016. Mortgage loans outstanding have been declining in recent years from their all time high of €15.1 billion in June 2012, but have been stable since the middle of 2015.

Security

In Cyprus, the main security collateral for housing loans is the registration of a mortgage. Mortgages are 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 another, the Land Registry fee has recently been considerably reduced and in most cases, where no extra funds are advanced to the customer, there is no cost.

Prior to the disbursement of any loan, the Issuer's officers contact the Land Registry Department to confirm the uncontested ownership of the borrower and the priority of the mortgage.

Enforcing security

The enforcement of security in relation to 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 procedures for the enforcement of security established by the New Foreclosure Laws (see "*Financial Services Regulation and Supervision—Laws relating to Foreclosures—New enforcement procedure*" incorporated by reference herein).

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 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 filing shall, *inter alia*, 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**) in respect of 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 (part of RRD) dispatches written instructions to the Issuer's external lawyers in order to register an application for sale of the mortgaged property with 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 with 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 amounts due 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 event that the relevant debt is not settled within the above-mentioned period, the Issuer submits an 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 Department 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 court in order to register a MEMO (encumbrance) on the borrowers' and any 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 (for example, any 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 in respect of 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 to be determined by a decision of the relevant court.

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.

Delays in the procedures for the forced sale of immovable property through the Land Registry, led to the new procedures enacted under the New Foreclosure Laws.

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, given that certain criteria are met.

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 Issuer's lending policy. The principal Lending Criteria are set out below:

(a) Collateral / 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 Issuer 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 and borrowers' rights under such insurance policies are required to be assigned to the Issuer as primary beneficiary. In addition, the assignment of a borrower's rights under an appropriate life insurance policy is almost always 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 houses or apartments
- 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

- Borrowers' recurring / steady total monthly incomes are set out in their personal financial statements. For those 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, the highest instalment should be taken into account.

The debt servicing amount should be limited to 80% of the borrower's net disposable income; in the case of loans in foreign currencies, the total debt servicing amount should be limited to 65% of the borrower's net disposable income. A borrower's net disposable income is calculated as the difference between the "total monthly income" and the "total monthly expenditure" as presented on the borrower's personal financial statement.

- 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.
 - 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) Duration / Term

In cases where the owner / borrower 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

For both new loans and those that are being restructured the maximum age of the borrower or guarantor at the expiry of the loan should not exceed 70 years. If the final repayment date of the relevant loan extends past the borrowers' expected retirement age, all possible income sources of the borrower should be assessed to ensure ability to continue to meet interest and repayment obligations in retirement. For multiple borrowers, for the purpose of determining the duration of the repayment, the age of the youngest applicant should be taken into account, provided that he/she has the requisite credit profile.

(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 and any non-contractual obligations arising out of or in connection therewith is governed by, and construed in accordance with, 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, 19 November 2015 and 21 December 2016) 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 and any non-contractual obligations arising out of or in connection therewith is governed by, and construed in accordance with, 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, 19 November 2015 and 21 December 2016) 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 and any non-contractual obligations arising out of or in connection therewith is governed by, and construed in accordance with, English law.

For the purposes of this section "Agency Agreement" any capitalised terms have the meanings given to them in the Conditions above.

Interest Rate Swap Agreement

Some of the Loan Assets in the Cover Pool will pay from time to time a variable rate of interest for a period of time that may either be linked to the standard variable rate of the Issuer (the **Issuer Standard Variable Rate**) or linked to an interest rate other than the Issuer Standard Variable Rate, such as EURIBOR or a rate that tracks the ECB base rate. Other Loan Assets will pay a fixed rate of interest for a period of time. However, the Euro payments to be made by the Issuer under each of the Covered Bond Swaps may vary. To provide a hedge against the possible variance between:

- (a) the rates of interest payable on the Loan Assets in the Cover Pool; and
- (b) the payments to be made by the Issuer under the Covered Bond Swaps,

the Issuer, the provider of the Interest Rate Swaps (each such provider, an **Interest Rate Swap Provider**) and the Trustee may enter into one or more an interest rate swap transactions in respect of each Series of Covered Bonds under the Interest Rate Swap Agreement (the **Interest Rate Swap Agreement**) (each such transaction an **Interest Rate Swap**).

Under the terms of each Interest Rate Swap, in the event that the relevant rating of the Interest Rate Swap Provider or any guarantor of the Interest Rate Swap Provider's obligations is downgraded by a Rating Agency below the rating specified in the Interest Rate Swap Agreement (in accordance with the requirements of that Rating Agency), the Interest Rate Swap Provider will, in accordance with the Interest Rate Swap Agreement, be required to take certain remedial measures which may include providing collateral for its obligations under the Interest Rate Swaps, arranging for its obligations under the Interest Rate Swaps to be transferred to an entity with ratings expected by the Rating Agencies, procuring another entity with the ratings expected by the Rating Agencies to become co-obligor or guarantor in respect of its obligations under the Interest Rate Swaps (such guarantee to be provided in accordance with the then-current guarantee criteria of the Rating Agencies), or taking such other action as it may agree with that Rating Agency. A failure to take such steps within the periods set out in the Interest Rate Swap Agreement will, subject to certain conditions, allow the Issuer to terminate the Interest Rate Swap Agreement.

The Interest Rate Swap Agreement may also be terminated in certain other circumstances, together with any other events of default and termination events set out in the Interest Rate Swap Agreement (each referred to as an **Interest Rate Swap Early Termination Event**), which may include:

- at the option of any party to the Interest Rate Swap Agreement, if there is a failure by the other party to make timely payments of any amounts due under the Interest Rate Swap Agreement; and
- upon the occurrence of the insolvency of the Interest Rate Swap Provider or any guarantor of the Interest Rate Swap Provider's obligations, or the merger of the Interest Rate Swap Provider without an assumption of its obligations under the Interest Rate Swap Agreement.

Upon the termination of an Interest Rate Swap pursuant to an Interest Rate Swap Early Termination Event, the Issuer or the Interest Rate Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the Interest Rate Swap Agreement. The amount of this termination payment will be calculated and made in Euro. Any termination payment made by the Interest Rate Swap Provider to the Issuer in respect of an Interest Rate Swap will first be used (prior to the 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:

- (a) require that the Interest Rate Swaps in connection with such Selected Loans partially terminate to the extent that such Selected Loans include fixed rate loans and any breakage costs payable by or to the Issuer in connection with such termination will, following the 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
- (b) request that the Interest Rate Swaps in connection with such Selected Loans be partially novated to the purchaser of such fixed rate loans to the extent that such Selected Loans include fixed rate loans, such that each purchaser of Selected Loans will thereby become party to a separate interest rate swap transaction with the Interest Rate Swap Provider.

Governing Law

The Interest Rate Swap Agreement (and each Interest Rate Swap thereunder) and any non-contractual obligations arising out of or in connection therewith is governed by, and construed in accordance with, 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 Pricing Supplement, 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) and any non-contractual obligations arising out of or in connection therewith is governed by, and construed in accordance with, 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 Offering Circular 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).

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 will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Accordingly, payments of interest under the Covered Bonds coming within the scope of the Law will be subject to a withholding tax at a current rate of 10 per cent.

Prospective investors in the Covered Bonds should note that the Luxembourg draft bill n°7020 provides for an increase of the withholding tax rate under the Relibi Law from 10 per cent to 20 per cent with effect as from 1 January 2017.

FOREIGN ACCOUNT TAX COMPLIANCE ACT

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including Cyprus) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Covered Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Covered Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Covered Bonds, such withholding would not apply prior to 1 January 2019 and Covered Bonds issued on or

prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional Covered Bonds (as described under “*Terms and Conditions of the Covered Bonds—Further Issues*”) that are not distinguishable from previously issued Covered Bonds are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Covered Bonds, including the Covered Bonds offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Covered Bonds. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Covered Bonds, no person will be required to pay additional amounts as a result of the withholding.

PROPOSED FINANCIAL TRANSACTIONS TAX (“FTT”) FOR PARTICIPATING MEMBER STATES

On 14 February 2013, the European Commission published a proposal (the **Commission’s Proposal**) for a Directive for a FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**). However, Estonia has since stated that it will not participate.

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. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission’s Proposal 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.

The FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear.

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 Offering Circular (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 Pricing Supplement.

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 pursuant to an exemption from, or in a transaction not subject to, 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 Pricing Supplement 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 to be issued under this Offering Circular 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 would not, if the Issuer was not an authorised person, 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.

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.

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 Offering Circular 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 Luxembourg Stock Exchange for the Covered Bonds issued under the Programme to be admitted to the Official List and to be admitted to trading on the Euro MTF Market for a period of 12 months from the date of this Offering Circular.

Authorisations

The update of the Programme was authorised pursuant to a resolution of the Board of Directors of the Issuer passed on 14 November 2016. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of its obligations under the Covered Bonds.

Additional information about the Cover Pool

The Issuer will provide Monthly Investor Reports detailing, among other things, compliance with the Statutory Tests. This information will be available at the offices of 51 Stassinou Street, Ayia Paraskevi, Strovolos, 2002 Nicosia, Cyprus and on the website http://www.bankofcyprus.com/en-GB/Start/Investor-Relations/Debt_Securities/Covered-Bond/. The Issuer's website and the contents thereof do not form any part of this Offering Circular.

No significant change and no material adverse change

There has been no significant change in the financial or trading position of the Issuer or of the Group since 30 September 2016 and no material adverse change in the prospects of the Issuer or of the Group since 30 June 2016.

Litigation

Save as set out below, 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 Offering Circular which may have or have had in the recent past significant effects on the financial position or profitability of the Group.

As a major financial institution in Cyprus, the Group in the ordinary course of business is subject to enquiries and examinations, requests for information, audits, investigations and legal and other proceedings by regulators, governmental and other public bodies, actual and threatened, relating to the suitability and adequacy of advice given to clients or the absence of advice, lending and pricing practices, selling and disclosure requirements, record keeping, filings and a variety of other matters. In addition, as a result of the deterioration of the Cypriot economy and banking sector in 2012 and the subsequent Recapitalisation in 2013 as a result of the Bail-in Decrees, the Issuer is subject to a large number of proceedings and investigations that either precede, or result from the events that occurred during, the period of the Bail-in Decrees. Most ongoing investigations and proceedings of significance relate to matters arising during the period prior to the issue of the Bail-in Decrees. The extent of the impact of these matters, in which Group is or may in the future become involved, cannot be reliably measured with any certainty but may materially impact the reputation, operations, financial results, condition and prospects of the Group. As at 30 June 2016, in total the Group was subject to over 3,000 claims.

The Group has not disclosed an estimate of the potential financial effect on it of contingent liabilities arising from these matters where it is not practicable to do so because it is too early to do so or the outcome is too

uncertain or, in cases where it is practicable, where disclosure could prejudice conduct of the matters. Provisions have been recognised for those cases where the Group is able to estimate probable losses. Where an individual provision is material, the fact that a provision has been made is stated. Any provision recognised does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of legal proceedings and regulatory matters as at 30 June 2016 and hence it is not believed that such matters, when concluded, will have a material impact upon the financial position of the Group.

Investigations and litigation relating to securities issued by the Issuer

Approximately 1,200 institutional and retail customers have filed various separate actions against the Issuer alleging that the Issuer is guilty of miss-selling in relation to securities issued by the Issuer between 2007 and 2011. Remedies sought include the return of the money investors paid for their investments. Claims are currently pending before the courts in Cyprus and in Greece, as well as the decisions and fines imposed upon the Issuer in related matters by CySEC and/or HCMC.

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 (CCS) and 2011 Convertible Enhanced Capital Securities (CECS).

The Issuer is defending these claims, particularly with respect to institutional investors and retail purchasers who received investment advice from independent investment advisors. In the case of retail investors, if 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 significant difficulties. To date, a small number of cases have been tried in Greece. The Issuer has appealed against any such cases which were not ruled in its favour. The resolution of the claims brought in the courts of Greece is expected to take a number of years. Provision has been made based on management's best estimate of probable outcomes based on advice of legal counsel.

The Hellenic Capital Market Commission (HCMC) Investigation

The HCMC is currently in the process of investigating matters concerning the Group's investment in Greek government bonds from 2009 to 2011, including, inter-alia, related non-disclosure of material information in the Issuer's CCS and CECS and rights issue prospectus (tracking the investigation carried out by CySEC in 2013), Greek government bonds' reclassification, ELA disclosures and allegations by some Greek government bond investors regarding the Issuer's non-compliance with MiFID in respect of investors' direct investments in Greek government bonds.

The Cyprus Securities and Exchange Commission (CySEC) Investigations

CySEC is currently in the process of investigating:

- Matters concerning possible price manipulation attributable to the Issuer for the period from 1 November 2009 to 30 June 2010 post the investment in Banca Transylvania.
- The adequacy of provisions for the impairment of loans and advances in year 2011, which is at the final stages of completion.
- The adequacy of provisions for impairment of loans and advances in year 2013 in light of the results of the asset quality review carried out by the ECB in 2014.

Additionally, in late 2014 CySEC completed an investigation into the value of goodwill in Uniastrum Bank disclosed in the interim financial statements of the Group in 2012. In October 2016, CySEC issued a

decision, concluding that the Issuer was in breach of certain laws regarding disclosure in accordance, *inter alia*, with the Market Manipulation (Market Abuse) Law of 2005 and has imposed an administrative fine upon the Issuer of €25,000. CySEC also imposed higher fines upon certain former members of the Board of Directors and former management of the Issuer. On 24 October 2016, the Issuer filed a recourse before the Administrative Court against the decisions of CySEC and the fine imposed upon the Issuer.

In 2015, CySEC completed an investigation into the reclassification of Greek Government bonds in April 2010. This investigation is currently pending with the Attorney General and CySEC. See "*—General criminal investigations and proceedings*" below.

Bail-in related litigation

Depositors

A number of the Issuer's depositors, who allege that they were adversely affected by the bail-in, 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 Cypriot Resolution Law and the Bail-in Decrees were in conflict with the Constitution of Cyprus and the European Convention on Human Rights. They are seeking damages for their alleged losses resulting from the bail-in of their deposits. The Issuer is defending these actions.

Shareholders

Numerous claims were filed by shareholders in 2013 (some of whom are current shareholders) of the Issuer against the Government and the CBC before the Supreme Court of Cyprus in relation to the dilution of their shareholding as a result of the Recapitalisation pursuant to the Cypriot Resolution Law and the Bail-in Decrees issued thereunder. These proceedings sought the cancellation and setting aside of the Bail-in Decrees as unconstitutional and/or unlawful and/or irregular. The Issuer appeared in these proceedings as an interested party to support the position that the cases should be adjudicated upon in the context of private law. The Supreme Court of Cyprus ruled in these cases in October 2014 that the proceedings fall within private and public law and thus fall within the jurisdiction of the District Courts.

As at 31 October 2016, both the Cypriot Resolution Law and the Bail-in Decrees have not been annulled by a court of law and thus remain legally valid and in effect. It is expected that actions for damages will be instituted by the shareholders in due course before the District Courts of Cyprus.

Claims based on set-off

Certain claims have been filed by customers against the Issuer alleging 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. The Issuer intends to contest such claims.

Laiki Bank depositors and shareholders

The Issuer has been joined as a defendant with regards to certain claims which have been brought against Laiki Bank by its depositors, shareholders and holders of debt securities. These claims have been brought on grounds similar to the claims brought by the Issuer's bailed-in depositors and shareholders as described above. The Issuer, *inter alia*, maintains the position that it should not be a party to these proceedings.

Commission for the Protection of Competition Investigation

In April 2014, following an investigation which began in 2010, the Cypriot Commission for the Protection of Competition (the **CPC**) 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 and JCC Payment Systems Ltd (**JCC**), a card-processing business currently 75% owned by the Issuer.

The CPC also alleged that the Issuer's arrangements with American Express violated Cypriot and EU competition law. On both matters, the CPC has concluded that the Issuer (in common with other banks and JCC) breached relevant competition law requirements. For the time being, the proceedings before the CPC are not proceeding due to an Administrative Court decision holding that the composition of the CPC was contrary to law. This decision is subject to an appeal instituted before the Supreme Court of Cyprus by the Attorney General. The Issuer intends to file a recourse before the Administrative Court for the annulment of the CPC's decision in the event that such decision stands and if and when a fine is imposed in connection with the CPC's decision.

Provident fund cases

Twenty three claims which were pending before the Cypriot Labour Disputes Tribunal by certain of the Issuer's former employees with respect to their retirement benefits were withdrawn unreservedly and dismissed by the court in April 2016, following an out-of-court settlement to the satisfaction of the Issuer.

In December 2015, the Bank of Cyprus Employees Provident Fund (the **Provident Fund**) filed an action against the Issuer claiming €70 million allegedly owed as part of the Issuer's contribution by virtue of an agreement with the union dated 31 December 2011.

Employment litigation

Former senior officers of the Issuer have instituted a total of three claims for unfair dismissal and for Provident Fund entitlements against the Issuer and Trustees of the Provident Fund. As at 31 October 2016, one case had been dismissed as filed out of time but the plaintiff has appealed against this ruling.

Greek case

In connection with a legal dispute (one case by the Issuer against Themis Constructions (**Themis**) and one by Themis against the Issuer) relating to the Issuer's discontinued operations in Greece (the **Themis case**), a provision was recognised in previous periods (30 September 2014: €39.0 million) following a court judgment of the Athens Court of Appeal dismissing the Issuer's case and upholding the Themis' claim. This provision was reversed as at 31 December 2014 following the dismissal of the judgment by the Supreme Court of Greece in March 2015. The Supreme Court of Greece further ruled that these claims (the Issuer's claim against Themis for approximately €25 million which had been transferred to Piraeus Bank SA in March 2013, as well as Themis' claim against the Issuer for a similar amount) be reconsidered on the merits at the instigation of the affected party. Both cases are fixed to be heard in December 2016.

Swiss Francs loans litigation in Cyprus and the United Kingdom

Three hundred and nineteen actions have been instituted against the Issuer by borrowers who obtained loans in foreign currencies (mainly Swiss Francs). Borrowers have seen their monthly loan repayments increase significantly 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 borrowers and/or misrepresented matters, in violation of applicable law. The Issuer intends to contest such proceedings.

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

The French entity CNP Assurances S.A. had certain exclusive arrangements with Laiki Bank with respect to insurance products offered in, *inter alia*, Cyprus through the formation of a local company (CNP Cyprus Insurance Holdings Ltd (a company in which the Group now has a 49.9% shareholding, acquired as part of the acquisition of certain operations of Laiki Bank pursuant to Regulatory Administrative Act 104/2013)). CNP Assurances S.A. held 50.1% of the shares of CNP Cyprus Insurance Holdings Ltd 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 Assurances S.A. and Laiki Bank, a Shareholders' Agreement and a Distribution Agreement (to which Distribution Agreement CNP Cyprus Insurance Holdings Ltd was also a party).

Following the resolution of Laiki Bank, CNP Assurances S.A. and CNP Cyprus Insurance Holdings Ltd instituted arbitration proceedings in London under the rules of arbitration of the International Chamber of Commerce, alleging that the Issuer was a successor to Laiki Bank in respect of both the Shareholders' and Distribution Agreements and that the said Agreements were violated by the Issuer. The claims of CNP Assurances S.A. and CNP Cyprus Insurance Holdings Ltd amounted to approximately €240 million (including adjustments for taxes and pre-award interest as at March 2015). The Tribunal award was issued in September 2016, rejecting all claims made by the claimants with costs in favour of the Issuer.

UK property lending claims

The Issuer is the defendant in certain proceedings alleging that the Issuer is legally responsible for allegedly, *inter alia*, advancing and miss-selling loans for the purchase by UK nationals of property in Cyprus. The proceedings in the United Kingdom are currently stayed in order for the parties to have time to negotiate possible settlements.

General criminal investigations and proceedings

As part of the investigations and inquiries following and relating to the financial crisis which culminated in March 2013, the Attorney General and the Cypriot police (the **Police**) are conducting various investigations into the Issuer's investment in Greek Government bonds, including their reclassification in the Issuer's financial statements. The Issuer is cooperating fully with the Attorney General and the Police and is providing all information requested of it. See "*—The Hellenic Capital Market Commission (HCMC) Investigation*" and "*—The Cyprus Securities and Exchange Commission (CySEC) Investigations*" above for more details.

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 in 2012. The Issuer denies all allegations. The case is fixed for hearing on 12, 13 and 18 January 2017. The maximum penalty on the Issuer, if found guilty, will be the imposition of a fine that is not expected to have a material impact on the financial position of the Group.

The Attorney General has filed a separate 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 alleged offence refers to the non-disclosure of the purchase of the Greek Government Bonds during a specified period. The Issuer denies all allegations. A hearing for argument and objections before plea took place on 6 December 2016 and a further hearing regarding procedural directions took place on 20 December 2016. During this hearing the court also gave an interim ruling that certain arguments in relation to the invalidity of the charges can be dealt with before plea. The case is fixed for argument on 26 January 2017. The maximum penalty on the Issuer, if found guilty, will be the imposition of a fine that is not expected to have a material impact on the financial position of the Group.

Third party information

Where information in this Offering Circular has been sourced from third parties this information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.

Documents available

For the period of 12 months following the date of this Offering Circular, copies of the following documents will, when published, be available for inspection, and copies of the documents specified at (b) and (c) below are available free of charge, in each case 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 BOCH Prospectus, and any supplements thereto;
- (c) the most recently available audited consolidated annual financial statements of the Group, in each case together with the audit reports prepared in connection therewith, and the most recently available unaudited interim condensed consolidated financial statements (if any) of the Group;
- (d) 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;
- (e) a copy of this Offering Circular; and
- (f) any future supplements including Pricing Supplements to this Offering Circular and any other documents incorporated herein or therein by reference.

In addition, copies of this Offering Circular, any supplement to the Offering Circular, any documents incorporated by reference and each Pricing Supplement relating to Covered Bonds which are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the regulated market of the Luxembourg Stock Exchange will also be available for inspection free of charge from the website of the Luxembourg Stock Exchange, at *www.bourse.lu*.

Clearing systems

The Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Series of Covered Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. If the Covered Bonds are to be cleared through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

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 S.A., 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 Pricing Supplement. 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

Ernst & Young Cyprus Limited, member of the Institute of Chartered Accountants in England and Wales and the Institute of Certified Public Accountants of Cyprus, has audited, and rendered a qualified audit report on the accounts of the Group for the year ended 31 December 2013 and a qualified audit report on the accounts of the Group for the year ended 31 December 2014.

Ernst & Young LLP, member of the Institute of Chartered Accountants in England and Wales, has reported, in accordance with Statements of Investment Reporting Standards issued by the Auditing Practices Board in the United Kingdom, on the consolidated historical financial information as at and for the six months ended 30 June 2016 and as at and for the years ended 31 December 2013, 2014 and 2015, as stated in its accountant's report dated 30 November 2016 and included in the section of the BOCH Prospectus entitled "*Historical Financial Information*" which is incorporated by reference herein, as disclosed on page 4.

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REGISTERED OFFICE OF THE ISSUER

Bank of Cyprus Public Company Limited

51 Stassinou Street
Ayia Paraskevi
Strovolos
2002 Nicosia
Cyprus

ARRANGERS

BNP Paribas London Branch

10 Harewood Avenue
London NW1 6AA
United Kingdom

J.P. Morgan Securities plc

25 Bank Street
London E14 5JP
United Kingdom

DEALERS

**Bank of Cyprus Public
Company Limited**

51 Stassinou Street
Ayia Paraskevi
Strovolos
2002 Nicosia
Cyprus

BNP Paribas London Branch

10 Harewood Avenue
London NW1 6AA
United Kingdom

J.P. Morgan Securities plc

25 Bank Street
London E14 5JP
United Kingdom

Barclays Bank PLC

5 The North Colonnade
Canary Wharf
London E14 4BB
United Kingdom

HSBC France

103, avenue des Champs Elysees
75008 Paris
France

**Deutsche Bank
Aktiengesellschaft**

Grosse Gallusstrasse 10-14
60272 Frankfurt am Main
Germany

Merrill Lynch International

2 King Edward Street
London EC1A 1HQ

TRUSTEE

BNY Mellon Corporate Trustee Services Limited

One Canada Square, Canary Wharf
London E14 5AL
United Kingdom

PRINCIPAL PAYING AGENT

The Bank of New York Mellon
One Canada Square, Canary Wharf
London E14 5AL
United Kingdom

LEGAL ADVISERS

To the Issuer as to English law

Sidley Austin LLP
25 Basinghall Street
London EC2V 5HA
United Kingdom

To the Issuer as to Cypriot law

Chryssafins & Polyviou LLC
Anemomylious Building
8 Michalaki Karaoli Street
CY-1095 Nicosia
Cyprus

To the Dealers and Trustee as to English law

Allen & Overy LLP
One Bishops Square
London E1 6AD
United Kingdom

To the Dealers and Trustee as to Cypriot law

Keane Vgenopoulou & Associates LLC
2 Makarios Avenue, Atlantis Building
Mesa Geitonia
Limassol
Cyprus

AUDITORS TO THE ISSUER

Ernst & Young Cyprus Limited

Jean Nouvel Tower
6 Stasinou Avenue
1060 Nicosia
Cyprus

REPORTING ACCOUNTANTS TO BOCH

Ernst & Young LLP
1 More London Place
London SE1 2AF
United Kingdom

LISTING AGENT

The Bank of New York Mellon (Luxembourg) S.A.

Vertigo Building – Polaris
2-4 Rue Eugène Ruppert
L-2453 Luxembourg