

INVESTOR COMPENSATION AND INSURANCE COVERAGE SCHEME

The Investment Firms Law ("IF Law") was amended in February 2004, in order to be harmonised with Directive 97/9/EC of the European Parliament and the Council of 3rd March, 1997, on investor compensation schemes. In view of the above amendment, two separate compensation funds were established, one for clients of investment firms and one for clients of credit institutions which offer investment services, as defined in Article 3 of Directive 93/22/EEC. The latter is known as the Investor Compensation Fund ("ICF") for Clients of Banks.

The above amendment enabled the two competent supervisory authorities, i.e. the Central Bank of Cyprus ("CBC") and the Cyprus Securities and Exchange Commission ("CySEC") to proceed with the issue of relevant Regulations for the operation of the two Funds.

According to the regulations for the establishment and operation of the ICF for clients of banks, all Cyprus incorporated banks, which offer Investment Services as defined in Annex I of the Law (87(I)/2017, are obliged to become members of the ICF. Branches of such banks which operate in other countries outside the Republic of Cyprus are also obliged to become members of the ICF.

Banks having their registered office in a third country which maintain a branch in the Republic or provide in the Republic investment and/or non-core services on a cross-border basis, must also become members of the ICF provided that no cover by a similar Fund of a third country, at least equivalent to the one prescribed by the Cyprus Regulations, is extended to its covered clients in the Republic.

According to the Regulations which were issued by the CBC and approved by the House of Representatives in April, 2004, the object of the ICF is to secure the claims of the covered clients against banks, members of the ICF, through the payment of compensation in cases where the bank concerned is unable, due to its financial circumstances and when no realistic prospect of improvement in the above circumstances in the near future seems possible:

- (a) to return to its covered clients funds owed to them or funds which belong to them but are, directly or indirectly, held by the bank in the context of providing investment services to the said clients or
- (b) to hand over to covered clients financial instruments which belong to them and which the bank concerned holds, manages or keeps on their account.

The ICF does not cover:

1. Institutional and professional Investors such as:
 - (a) Investment Firms (IFs)
 - (b) Legal entities associated with the member of the Fund and, in general, belonging to the same group of companies as the participating HB Group member
 - (c) Banks
 - (d) Cooperative credit institutions
 - (e) Insurance companies
 - (f) Collective investment organizations in transferable securities and their management companies
 - (g) Social insurance institutions and funds
 - (h) Investors classified by the member as professionals, upon their request
2. States and supranational organizations
3. Central, federal, confederate, regional and local administrative authorities
4. Enterprises which have 'Close Ties' with the member of the Fund
5. Managerial and administrative staff of the member of the Fund
6. Shareholders of the member of the Fund, whose participation, directly or indirectly, in the capital of the member of the Fund amounts to at least 5% of its share capital, or its partners who are personally liable for the obligations of the member of the Fund, as well as persons responsible for the carrying out of the financial audit of the member of the Fund as provided by the Law, such as its qualified auditors
7. Investors having in enterprises connected with the member of the Fund and, in general, of the group of companies, to which the member of the Fund belongs, positions or duties corresponding to the ones listed in points 5 and 6 above
8. Second-degree relatives and spouses of the persons listed in points 5, 6 and 7 above, as well as third parties acting on behalf or with the authority of these persons
9. Investor-clients who file claims arising out of transactions involving individuals convicted of a criminal offence pursuant to the Prevention and Suppression of Money Laundering Activities Law of 2007 or investor-clients responsible for events which have caused financial difficulties to the participating member or which have contributed to the aggravation of its financial situation or which have profited from these facts
10. Investors in the form of a company (corporate investors), which due to its size, is not allowed to draw a summary balance sheet in

accordance with the Companies Law, Cap. 113 of the Republic of Cyprus, or a corresponding law of a Member State of the European Union

In the cases of points [(5), (6), (7) and (8)], the Fund suspends the payment of compensation informing the interested parties accordingly, until it reaches a final decision as to whether such cases apply.

The total payable compensation to each covered client of an ICF's member may not exceed €20.000, irrespective of the number of accounts held, currency and place of offering the investment service.

The Funds are prohibited from paying compensation to individuals for whom criminal proceedings under the provisions of the Prevention and Suppression of Money Laundering Activities Law of 2007 are pending against them.

The above Regulations have been amended and were published in the Official Gazette of the Government on 8 June 2007.

The Bank is a member of the ICF.

The Regulations for the Establishment and Operation of an Investor Compensation Fund for Clients of Banks can be found on the CBC website.

Close Ties ('Close Links') are defined in Section 2(1) of the Investment Services and Activities and Regulated Markets Laws of 2007