

**Annual Corporate Governance Report 2017**

## Introduction

Good governance contributes to the long term success of a company and creates trust and engagement between a company and its stakeholders. The Board of Directors (the 'Board') of the Bank of Cyprus Holdings Plc (the 'Company') is committed to the highest standards of corporate governance and aims to ensure on an ongoing basis that the Company is a modern, transparent, competitive and sustainable organisation. By adopting best practices in corporate governance and corporate administration, the Company achieves a dynamic and effective communication between the Board, management and shareholders, leading to the successful implementation of its strategy.

A key objective of the governance framework of the Company together with its subsidiaries (the 'Group') is to ensure compliance with applicable legal and regulatory requirements. The Company is subject to the Code of Corporate Governance of the Cyprus Stock Exchange (the 'CSE Code' available on [www.cse.com.cy](http://www.cse.com.cy)) as well as the Directive on Governance and Management Arrangements of the Central Bank of Cyprus (the 'CBC Directive on Governance').

The Company has also elected to comply with the UK Corporate Governance Code 2016 published by the Financial Reporting Council in the UK (the 'UK Code' which is available on [www.frc.org.uk](http://www.frc.org.uk)).

### Part A

The Company has adopted both the CSE Code and the UK Code, has incorporated their provisions in the Group's Corporate Governance Policy and fully implements their principles. The policy together with the Board Manual, the terms of reference of the Board committees and the practices followed by the Board and its committees, constitute important foundations for maximising shareholder value.

### Part B

The Company confirms that it has complied with the provisions of the CSE Code throughout 2017. The Directors further consider that the Company has also complied with the provisions of the UK Code, other than as set out herein:

- From 1 March 2017, following the resignation of Mr. Wilbur Ross, to 20 November 2017 and in anticipation of European Central Bank ('the ECB') approval for the appointment of Mr. James B. Lockhart, the Nominations & Corporate Governance Committee ('the NCGC') comprised of only two members, one independent and one non-independent non-executive Director. Mr Lockhart decided not to take up the appointment in order to pursue alternate business opportunities, and Mrs Grobler was appointed to the NCGC on 20 November 2017.
- Additionally, the Human Resources & Remuneration Committee (the 'HRRC') for part of the year following the resignation of Mr. Marios Kalochoritis on 27 June 2017 and until the appointment of Mrs Bar-Gera following ECB approval on 27 October 2017, comprised of only two members, both of whom were independent.

Details of how the Company has applied the provisions of the CSE Code throughout 2017 are set out in this Corporate Governance Report and in the Remuneration Policy Report which follows. The narrative that follows also covers how the Company has applied the main and supporting principles and disclosure requirements set out in the UK Code.

The Group considers that it has a robust governance framework with a clear organisational structure, well defined, transparent and consistent lines of responsibility and effective processes through which to identify, manage, monitor and report risks to which it is or might be exposed. It has appropriate internal control mechanisms, including sound administrative and accounting procedures, Information Technology ('IT') systems and controls. The Company continually monitors and reviews internally, at least once a year, its governance framework and that of its subsidiary companies (where applicable) through effective oversight.

The Directors are aware that in case they have material concerns about the overall governance of the Group, these should be reported without delay to the Board and, if their concerns are not satisfactorily addressed, the Directors should report these concerns to the Central Bank of Cyprus ('CBC').

## Introduction (continued)

### Part B (continued)

The Board has delegated authority to committees of the Board to support its oversight of risk and control. The committees are the Group Audit Committee ('the AC'), the Group Risk Committee ('the RC'), the NCGC, the HRRC and the Technology Committee ('the TC'). Details of these committees are set out in section 5 of this report. The chairperson of each committee reports on matters discussed during committee meetings to the subsequent scheduled meetings of the Board and minutes of these meetings are tabled at the Board as soon as possible for noting and/or discussion, as necessary. The committee terms of reference are reviewed annually by the relevant committees and by the Board and are available on the Group's website [www.bankofcyprus.com](http://www.bankofcyprus.com) or by request to the Company Secretary.

### 1. Board of Directors

The authorities of the members of the Board derive from the Articles of Association of the Company, and are specified by the CSE and UK Codes, the relevant Companies, Stock Exchange and Banking Laws and the Directives of the CBC. The role of the Board and its committees is well described and analysed in the Board Manual that has been fully revised to incorporate all additional responsibilities that emanate from the UK Code.

The Board is responsible for ensuring that the management maintains an appropriate system of internal controls which provides ongoing assurance of effective operations, internal financial controls and compliance with rules and regulations. It has the overall responsibility for the Group and approves and oversees the implementation of the Group's strategic objectives, risk strategy and internal governance.

#### 1.1 The Role of the Board

The Board's role is to provide leadership of the Group and promote the Group's vision, values, culture and behaviour, within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board is collectively responsible for the long-term success of the Group; it sets the Group's strategic objectives, integrates sustainability into the way business is conducted, ensures that the necessary financial and human resources are in place for the Group to meet its objectives and reviews management performance. The Board also ensures that its obligations towards its shareholders and other stakeholders are understood and met.

Furthermore, the Board has the responsibility to present a fair, balanced and understandable assessment of the Company's position and prospects, including in relation to the annual and interim financial statements and other price-sensitive public reports and reports required by regulators and by law.

There is a clear division of responsibilities at the head of the Company between the running of the Board and the executive responsibility for the running of the Company's business. The day to day operations of the Group have been delegated to management.

The Board is the decision-making body for all matters of importance because of their strategic, financial or reputational implications or consequences. Specific decisions and matters are reserved for approval by the Board and these are reviewed and updated regularly. Matters requiring Board approval are:

- The Group's long-term objectives and strategy.
- Overall risk policy and risk management procedures.
- The Group's Risk Appetite Statement.
- Annual and three-year budgets and business plans.
- Capital expenditures for amounts over €20 million.
- Unusual transactions.
- Mergers, acquisitions and disposals of the Group's assets for amounts over €20 million.
- Intra-group guarantees, indemnities and security.
- Directors' conflicts of interest.
- The selection, appointment, re-appointment of Directors of the Company and the termination of the services of the Chief Executive Officer.
- Overseeing corporate governance and the succession planning.
- Promoting the appropriate culture, values and ethics of the Group.
- The establishment and oversight of policies for selecting, developing and replacing senior management and heads of internal control functions.
- The Remuneration Policy.
- The declaration of a Recovery Emergency Situation.

## **1. Board of Directors** (continued)

### **1.1 The Role of the Board** (continued)

The appointment, replacement, transfer or removal from office of the heads of internal control functions is subject to Board approval. The appointment of individuals who may have a material impact on the risk profile of the Group is also subject to Board approval. Their appropriateness for the role is monitored on an ongoing basis.

The Board is responsible for determining the nature and extent of the principal risks the Group is willing to take in achieving its strategic objectives and ensuring the maintenance of an effective risk management and oversight process across the Group. The Board approves the Group Risk Appetite Statement on an annual basis and receives regular updates on the Group's risk environment and exposure to the Group's material risk types through the Risk Report reviewed monthly.

Detailed information relating to Group risk management is set out in Notes 44 to 47 of the Consolidated Financial Statements and the Additional Risk and Capital Management Disclosures section of the 2017 Annual Financial Report.

#### **1.1.1 Information and Support**

The Board meets on a regular basis and has a formal schedule of matters for consideration which is annually reviewed. The Board receives regular reports and presentations from the Group Chief Executive Officer ('Group CEO') and other senior management on strategy and developments in the operations of the Group. The Board considers reports from each of the Board committees while regular reports are also provided on the Group's risk appetite, top and emerging risks, risk management, credit exposures and the Group's loan portfolio, asset and liability management, liquidity, litigation, compliance and reputational issues.

The key areas of focus in 2017 for the Board, inter alia, were:

- Group strategy and long term objectives in light of the regulatory and economic environment:
  - Three-year financial plan.
  - Acquisitions and divestments.
  - Resolution Plan & Minimum Requirement for own funds and Eligible Liabilities (MREL).
  - Setting up of Shipping Centre.
  - Compliance with Liquidity Cover Ratio ('LCR').
  - Issue of Tier 2 Notes for Bank Of Cyprus Public Company Ltd ('BOC PCL').
  - IT strategy.
  - Deposit strategy.
- Risk and governance:
  - Approval of the Group's Risk Appetite Statement.
  - Approval of Internal Capital Adequacy Assessment Process ('ICAAP') Report.
  - Approval of Internal Liquidity Adequacy Assessment Process ('ILAAP') Report.
  - Discussion of International Financial Reporting Standards 9 ('IFRS9') implementation progress.
  - Review of monthly risk reports.
  - Action Plan to implement Supervisory Review and Evaluation Process (SREP) recommendations.
  - Approval of the Group Recovery Plan.
  - Approval of appointments to the Board and major subsidiary boards, review of corporate governance matters and Board Performance evaluation.
- Directors & Officers (D & O) liability insurance.
- Budget and performance oversight:
  - Review of the monthly management accounts.
  - Approval of the annual budgets and capital plans.
  - Review of the performance of the Group's business divisions, its major subsidiaries and business units
  - Review and approval of Group financial results (monthly, quarterly and annual).
- External environment:
  - Review of the banking industry outlook.
  - Review of the political, economic and regulatory environment of Cyprus including possible effects of Brexit on the Cyprus economy.
  - Investors and stakeholder perspectives.

## **1. Board of Directors** (continued)

### **1.1 The Role of the Board** (continued)

#### **1.1.1 Information and Support** (continued)

- Monitoring key regulatory issues affecting the Group:
  - Supervisory Review and Evaluation Process ('SREP').
  - Ongoing supervisory dialogue and approval of relevant responses to the Single Supervisory Mechanism ('SSM').
  - Discussion of new regulatory developments and requirements.
  - Key regulatory correspondence and related responses.
  - Legal issues/actions against the Group.
- Review the progress of managing non-performing exposures ('NPE')
  - Major and international corporate restructurings.
  - NPE strategy.
  - Ramping-up servicing of Retail NPEs.

In early 2017 the Board approved a report on BOC UK Oversight which put forward several recommendations for better monitoring of the BOC UK subsidiary.

### **1.2 Composition of the Board of Directors**

As at 31 December 2017 the Board comprised of ten Directors: the Group Chairman who was independent on appointment, two executive Directors and seven non-executive Directors. The Board has determined six of the non-executive Directors to be independent non-executive Directors in accordance with the provisions of the UK Code and the CSE Code. On 7 February 2017 Mrs Lyn Grobler was appointed to the Board as an independent non-executive Director following approval by the ECB. In March 2017 the Board appointed Mr. James B. Lockhart III, pending the approval of the ECB, to replace Mr. Wilbur L. Ross who had resigned on 1 March 2017, following his appointment as U.S. Secretary of Commerce. However, before finalisation of his assessment, Mr. Lockhart decided not to take up the appointment in order to pursue alternate business opportunities. On June 27 2017, Mr. Marios Kalochoritis resigned from the Board to take up an appointment as Senior Advisor to the Group CEO. On 27 October 2017 Mrs Anat Bar-Gera was appointed to the Board as an independent non-executive Director following approval by the ECB.

On 23 January 2018 the Board appointed two new independent non-executive Directors, Mrs Paula Hadjisotiriou and Mrs Maria Philippou pending the approval of the ECB. The names and brief biographical details including each Director's background, experience and independent status are set out in section 4 of this report.

The NCGC annually reviews the structure, size, tenure and composition of the Board (including skills, knowledge, experience, independence and diversity) to ensure that there is an appropriate mixture of skills, experience as well as gender. This includes a review of tenure and an assessment of the skills profile of the Board to ensure that the Board and committees comprise of Directors having an all-embracing perception of the Group's activities and the risks associated with them. The Committee also ensures plans are in place for the selection, appointment and orderly succession of executive Directors and senior managers. In addition, where any appointment or resignation will alter the overall size of the Board, a review is undertaken to ensure that the composition remains appropriate. The Board considers its current size and composition appropriate to provide the broad range of skills and experience necessary to govern the business effectively while enabling full and constructive participation by all Directors given the size and operations of the Group and the time demands placed on the Directors.

The Group carries out a review of the ongoing fitness and probity of Board and Executive Committee (ExCo) members on an annual basis, whereby they are required to confirm any changes in their circumstances in respect of their compliance with the CBC Directive on the Assessment of the Fitness & Probity of the members of the management body and managers of authorised credit institutions ('CBC Fitness & Probity Directive'). Following the review of 2017, no changes were reported. The Board concluded that each of the Directors has the requisite standard of fitness, probity and financial soundness to perform his/her functions effectively.

## 1. Board of Directors (continued)

### 1.2 Composition of the Board of Directors (continued)

#### Executive Directors

The Group CEO and the Group Deputy CEO & Chief Operating Officer ('DCEO & COO') are employees of BOC PCL. The Group CEO's termination of employment is subject to four months' notice to be given by either party. The DCEO & COO's employment is mainly based on the provisions of the collective agreement in place, which provides for notice or compensation by the BOC PCL based on years of service and for a four month prior written notice by the executive director in the event of a voluntary resignation.

#### Non-Executive Directors

Non-executive Directors are not Company employees and do not participate in the daily management of the Group. They are responsible for monitoring executive activity and contributing to the development of strategy. Their role is to constructively challenge the Company's existing strategy and contribute to the development of new strategies, to scrutinize the performance of senior management in meeting agreed goals and objectives, to monitor the reporting of the performance, and to satisfy themselves on the integrity of financial information and that the systems of financial controls, compliance and risk management frameworks and the internal control framework are robust and defensible.

#### 1.2.1 Meetings of the Board of Directors

During 2017 the Board held 12 meetings. Further details on the number of the meetings of the Board and its committees and attendance by individual Directors are set out below. In March 2017 the Board held an offsite two day meeting specifically focused on strategy.

#### Board of Directors 1/1/2017-31/12/2017

Name	Board of Directors	AC	HRRC	NCGC	RC	AC & RC Joint
Josef Ackermann (Chairman)	12/12			7/7		
Maksim Goldman (Vice Chairman)	12/12			7/7	8/9	5/5
Wilbur L. Ross (Vice-Chairman) <sup>1</sup>	0/2			0/0	0/0	0/0
Anat Bar-Gera <sup>2</sup>	1/1		2/2			
Arne Berggren	12/12	7/8			9/9	5/5
Lyn Grobler <sup>3</sup>	11/11			1/1		
Michael Heger	12/12	8/8	6/6			5/5
John P. Hourican	12/12					
Marios Kalochoritis <sup>4</sup>	8/8		1/2		2/3	1/1
Christodoulos Patsalides	12/12					
Michael Spanos	11/12		6/6			
Ioannis Zographakis	12/12	8/8			9/9	5/5
<b>Total meetings<sup>5</sup></b>	<b>12</b>	<b>8</b>	<b>6</b>	<b>7</b>	<b>9</b>	<b>5</b>

1 Resigned on 1 March 2017

2 Appointed on 27 October 2017

3 Appointed on 7 February 2017

4 Resigned on 27 June 2017

5 The number of Board meetings at BOC PCL level was 16 during the year 2017. The attendance of these meetings can be found on page 240.

Agendas and papers are circulated in a timely manner prior to each meeting and all members of the Board are informed in writing of forthcoming Board meetings to allow them adequate time to review the relevant information to enable them to fully discharge their duties.

The Company Secretary is closely involved in preparing the schedule of all Board and committee meetings and the agendas for these meetings, in conjunction with the Chairman, ensuring that relevant information is dispatched timely to all members of the Board.

**1. Board of Directors** (continued)

**1.2 Composition of the Board of Directors** (continued)

**1.2.1 Meetings of the Board of Directors** (continued)

Under the supervision of the Chairman of the Board, the Company Secretary's responsibilities include facilitating the flow of information within the Board and its committees, between senior management and non-executive Directors and between heads of internal control functions and non-executive Directors, as well as facilitating the induction, development and evaluation of members of the Board.

All Directors have access to the advice and services of the Company Secretary and the Corporate Governance Compliance Officer (the 'CGCO') who can provide relevant information related to Board procedures and the CSE and UK Codes. Independent professional advice is also available to the Directors at the Group's expense if and when required. Committees of the Board have similar access and are provided with sufficient resources to undertake their duties. All Directors have the benefit of directors' and officers' liability insurance in respect of legal actions against them.

**1.2.2 Term of Appointment, Retirement and Re-election of Directors**

Non-executive Directors are appointed for an initial three-year term and are typically expected to serve two three-year terms. The Board may invite Directors to serve additional periods once their performance has been assessed as adequate. A non-executive's term of office will not extend beyond 12 years in total and any re-appointment beyond 6 cumulative years will be subject to rigorous review and should take into account the need for progressive refreshing of the Board.

According to the Articles of Association of the Company, all Directors retire each year and if eligible and assuming satisfactory performance, are subject to re-election by shareholders. The following Directors, being eligible, offered themselves for re-election and were re-elected at the Annual General Meeting (the 'AGM') in 2017: Josef Ackerman, Maksim Goldman, Michael Spanos, Arne Berggren, Lyn Grobler, Michael Heger, John Patrick Hourican, Christodoulos Patsalides and Ioannis Zographakis. Anat Bar-Gera and James B. Lockhart III were elected to the Board effective from the date of approval of their appointment by the ECB. The names of Directors submitted for election or re-election are accompanied by sufficient information such as biographical details and any other relevant information in the AGM documentation to enable shareholders to take an informed decision.

The Board may at any time appoint any person who is willing to act as Director and who fulfils the criteria as these are determined in the Board Nominations Policy, either to fill a vacancy or as an addition to the existing Board, but the total number of Directors should not exceed 13. Any Director so appointed is subject to election at the AGM following his/her appointment.

**1.2.3 Conflicts of interest**

The Board Manual documents procedures relating to Directors' conflicts of interest, and sets out how these are to be identified, reported and managed to ensure that the Directors act at all times in the best interests of the Company. The Board Manual is reviewed and revised if necessary, at least annually.

The Group's Policy on Conflicts of Interest which applies to all employees and Directors sets out their duty to avoid, manage and disclose actual, potential or perceived conflicts of interest. The policy is reviewed annually and is communicated throughout the Group.

The Board has adopted a Dealing Code for transactions in the Company's securities by Persons Discharging Managerial Responsibilities (PDMRs). The Dealing Code complies with the European Market Abuse Regulation. All Directors have complied with the Dealing Code during 2017. All Directors and PDMRs have been informed about their obligations under the Dealing Code in writing.

None of the Directors had, during the year or at year end, a material interest, directly or indirectly in any contract of significance with the Group (See Note 49 of the Consolidated Financial Statements).

## **1. Board of Directors** (continued)

### **1.2 Composition of the Board of Directors** (continued)

#### **1.2.4 Time commitment**

The Board has determined the time commitment expected of non-executive Directors to be 35-40 days per annum. Time devoted to the Group can be considerably more when serving on Board committees.

The NCGC considers, amongst others, whether a potential Director is able to devote the requisite time and attention to the Company's affairs, prior to the Board's approval of the individual's appointment.

The CBC Fitness and Probity Directive which incorporates the provisions on the management body of credit institutions in Article 91 of the European Capital Requirements Directive ('CRD IV'), determines that a Director cannot hold more than one of the following combinations:

- One executive directorship with two non-executive directorships
- Four non-executive directorships

Executive or non-executive directorships held within the same group, count as a single directorship. Directorships in organisations which do not pursue predominantly commercial objectives do not count for the purposes of the above guidelines.

BOC PCL has been classified as a 'significant institution' under the European Union (Capital Requirements) Regulation 2014. The ECB which supervises BOC PCL following the European Union Regulation 468/2014 which established the framework for cooperation within the SSM between the ECB and national competent authorities may in exceptional cases, and taking into consideration the nature and complexity of the business of the Group, authorise members of the Board to hold one additional directorship.

At the time of their appointment, the CBC was the relevant competent authority to grant permission to five of the Directors to hold one additional non-executive directorship to those permitted by article 91 of the CRD IV. During the year ended 31 December 2017, all Directors were within the directorship limits set out for 'significant institutions'. Mr. Wilbur Ross who resigned on 1 March 2017 had held five non-executive directorships at the time.

The Directors hold positions on the management bodies of other companies as noted in their biographical details included in section 4 of this report. Such participation does not prevent them from devoting the necessary time and attention to their duties as members of the Board of the Company and is within the limits set by the CBC Fitness and Probity Directive. It was estimated that in 2017 each non-executive Director spent at least 38 days on board-related duties. The Board considered the time commitment of all Directors and concluded that each Director devotes the requisite time for the effective performance of his/her duties.

#### **1.2.5 Group Chairman and Group Chief Executive Officer**

The respective duties of the Chairman of the Board and the Group CEO are clearly and distinctly segregated. The two roles are separate and they distinguish between the running of the Board and the executive responsibility for running the Company's business. The terms of reference of these two roles are set out in writing in the Group Board Manual which has been approved by the Board.

The Chairman ensures the effective functioning of the Board on all aspects of its role including:

- Providing leadership to the Board.
- Ensuring that the Board determines the nature and extent of the significant risks the Group is willing to embrace in the implementation of its strategy.
- Ensuring that the members of the Board have sufficient time to consider strategic and other critical issues and obtain answers to any questions or concerns they may have and are not faced with unrealistic deadlines for decision making.
- Encouraging the active participation of members of the Board.
- Ensuring conflicts of interests are disclosed and members abstain from participating in the decision-making and voting on any matter on which they may have a conflict of interest.
- Ensuring that adequate time is allowed for discussion of complex or contentious or strategic issues and, where appropriate, arranging for informal meetings beforehand to enable thorough preparation for the Board discussion.
- Promoting high standards of corporate governance.



**1. Board of Directors** (continued)

**1.2 Composition of the Board of Directors** (continued)

**1.2.5 Group Chairman and Group Chief Executive Officer** (continued)

The Chairman commits a substantial amount of time to the Group. There were no changes to the other significant commitments of the Chairman during the year ended 31 December 2017. During the year the Chairman and the non-executive Directors met without the executive Directors present, to discuss a range of business matters.

The Group CEO is responsible:

- To develop and present to the Board the strategy of the Group.
- To execute the approved strategy.
- To lead the senior management team in the day-to-day running of the business.
- To make decisions on all matters affecting the operations, performance and strategy of the Group's business with the exception of those matters reserved for the Board.

The Group CEO's service contract is reviewed at least every three years. The last review took place in March 2017 and his contract was extended, on 28 March 2017, from January 2018 until December 2018.

**1.2.6 Senior Independent Director**

The Senior Independent Director ('SID') is available to shareholders and Directors if they have concerns that are not resolved through normal communication channels. He provides a sounding board for the Chairman, providing support to the Chairman in delivering his objectives. He chairs an executive session of the non-executive Directors to assess the performance of the Chairman as part of the annual evaluation of Board performance provided for in the CBC Governance Directive.

**1.3 Board Balance and Independence**

Both the CSE Code and the UK Code provide that at least 50% of the Board, excluding the Chairman, should be independent non-executive Directors, so that no individual or small group of individuals can dominate the Board's decision-taking.

The NCGC and the Board consider the independence status of each Director on appointment. In addition, the independence status of each Director is reviewed on an annual basis to ensure that the determination regarding independence remains appropriate.

In 2017 the Board considered the principles relating to independence contained in the CSE Code and the UK Code, as well as the CBC Fitness and Probity Directive and concluded that the status of each Director as determined remained appropriate. The status of each Director is presented in the biographical details in section 4 of this report.

Mr. Maksim Goldman is a senior executive of a corporation controlled by a significant shareholder in the Company and therefore he is not considered independent by reference to the provisions of the CBC Directive on Fitness and Probity, the CSE Code and the UK Code.

The Board comprises a majority of independent non-executive Directors to ensure that no individual or small group can dominate its decision making. The Board considers that each non-executive Director brings independent challenge and judgement to the workings of the Board, through their character, objectivity and integrity.

A relevant 'Confirmation of Independence' based on the independence criteria of provision A.2.3 of the CSE Code is signed annually by each of the independent non-executive Directors and is submitted to the Cyprus Stock Exchange together with the Corporate Governance Report.

**1.3.1 Appointments to the Board**

The Board recognises the need to identify the best qualified and available people to serve on the Board. It is responsible for the appointment of Directors. In accordance with the Board Nominations Policy all appointments are made on merit against objective criteria (including skills and experience) with due regard for the benefits of diversity on the Board. The Board plans for its own renewal with the assistance of the NCGC which regularly reviews Board composition, tenure and succession planning.

**1. Board of Directors** (continued)

**1.3 Board Balance and Independence** (continued)

**1.3.1 Appointments to the Board** (continued)

The NCGC, prior to assessing candidates, identifies the skills and experience required for the role, assesses the time commitment involved and, having regard to the formal assessment of the skills profile of the Board and succession planning, recommends the nomination to the Board. The recruitment process for non-executive Directors is supported by an experienced third party professional search firm which develops an appropriate pool of candidates and provides independent assessments of the candidates. The Group then works with that firm to shortlist candidates, conduct interviews/meetings (including meetings with members of the NCGC) and complete comprehensive due diligence. In accordance with the Board Nominations Policy, the assessment process and the due diligence process is extensive and includes self-certification confirmations of probity and financial soundness and external checks involving a review of various publicly available sources.

The process also involves the NCGC satisfying itself as to the candidate's ability to devote sufficient time to the role, independence, fitness and probity and assessing and documenting its consideration of possible conflicts of interest. The NCGC then makes recommendations to the Board.

The process described above was followed in the selection of Mrs Anat Bar-Gera in April 2017. Egon Zehnder, an external search consultancy firm with no other connection to the Company, was engaged in respect of this non-executive Director appointment.

Letters setting out the terms of appointment of each of the non-executive Directors, including the time commitment expected of each of them, are available on request from the Company Secretary. Directors are required to devote adequate time to the business of the Group, which includes attendance at regular meetings, training sessions and briefings and preparation time for meetings. In addition, non-executive Directors are normally required to sit on at least one committee of the Board, which involves the commitment of additional time. Certain non-executive Directors such as the SID and committee chairpersons are required to allocate additional time in fulfilling those roles.

**1.3.2 Directors' induction and ongoing development**

Full, formal and tailored induction programmes, with particular emphasis on risk management and internal control systems are arranged for newly appointed Directors. The programmes also entail a series of meetings with senior executives and other Directors to enable new Directors to familiarise themselves with the business, management and governance structure including the function of the Board and the role of the committees. The Company Secretary under the supervision of the Chairman develops programmes based on the Director's individual needs. Following appointment, each Director receives a relevant package and undergoes an induction programme.

Focused training of the Board is arranged in conjunction with scheduled Board meetings where information is provided to ensure that Directors receive adequate insight into a particular area through presentations by Group Businesses and briefings with senior management. Dedicated training sessions also take place on particular issues (refer to table below for 2017 training schedule) usually identified by the Directors themselves and the Company Secretary. A training schedule is prepared at the beginning of each year and Directors are expected to attend accordingly.

All the members of the Board were provided on appointment with an information pack which includes, among others, the Board Manual, key legislation, directives and regulations and the Company's Articles of Association. As demonstrated in the table below, during the year specialised training sessions with the contribution of external advisors were provided, covering issues relating to the duties and responsibilities of Board members.

**1. Board of Directors** (continued)

**1.3 Board Balance and Independence** (continued)

**1.3.2 Directors' induction and ongoing development** (continued)

**Training sessions for the Board members during 2017**

Name	False Assurance	AML Essentials	Market Abuse Regulations	MiFID II Board Oversight and Obligations
J. Ackermann	√	√	√	√
M. Goldman	√	√	√	√
W. L. Ross	N/A	N/A	N/A	N/A
A. Bar-Gera	N/A	√	√	√
A. Berggren	√	√	√	√
L. Grobler	√	√	√	√
M. Heger	√	√	√	√
J. Hourican	√	√	√	√
M. Kalochoritis	√	N/A	N/A	N/A
C. Patsalides	√	√	√	√
M. Spanos	√	√	√	√
Y. Zographakis	√	√	√	√

The training material is distributed to all Directors regardless of attendance. In 2017 there were several e-learning sessions relating to Anti-Money Laundering, Market Abuse Directive / Market Abuse Regulation and MiFID II Directive.

Directors are also offered the option of attending suitable external educational courses, events or conferences designed to provide an overview of current issues of relevance to Directors. The Company Secretary ensures all Directors are provided with relevant information on a timely basis to enable them to consider issues for decision-making and discharge of their oversight responsibilities. The Directors also have access to the advice of the Group external legal advisors and to independent professional advice, at the Group's expense, if and when required. Board committees have similar access and are provided with sufficient resources to undertake their duties. The Directors also receive comprehensive guidance from the Company Secretary on Board procedures as well as guidance on duties and obligations by the CGCO.

In the performance of their roles, executive Directors develop and refresh their skills and knowledge of the Group's business and operations through regular interactions, meetings and briefings with senior management and through presenting on the Group's business to investors and analysts. They remain abreast of developments affecting the financial services sector and banking by representing the Group's interests at conferences, advisory groups and other events and meetings with regulators and other authorities.

**1.3.3 Board Performance Evaluation**

The Board is committed to regular and at least annual evaluation of its effectiveness and that of its committees. The internal evaluation of the performance of the Board, its committees and individual members conducted in March 2017 by the CGCO, indicated a strong and diverse composition of experiences that could however, be further enhanced by appointing more members with IT background and/or cybersecurity, while at the same time striving for gender diversity. The annual Board performance evaluation report made several recommendations and an action plan for the implementation of these recommendations was set up. The assessment carried out through on-line questionnaires considered overall performance relative to the role of the Board and its committees.

The outcome of the Board evaluation was considered by the NCGC and collectively discussed by the Board. Seven recommendations were made to enhance the Board process, although they were not material to the effectiveness of the Board. The Board accepted them and set up an action plan to incorporate those recommendations. Further, taking into account the evaluation report, the Board concluded that it continues to be effective and that each Director continues to make a valuable contribution to the deliberations of the Board. The Board also concluded that all the members of the Board have appropriate qualifications, broad relevant experience and continue to be effective and demonstrate continuing commitment to the role. The effectiveness of each of the four principal committees was also assessed as adequate.

## **1. Board of Directors** (continued)

### **1.3 Board Balance and Independence** (continued)

#### **1.3.3 Board Performance Evaluation** (continued)

The SID led the process of evaluation of the Chairman's performance based on a discussion during an executive session of the non-executives (without the Chairman). The Board concluded that the Chairman continues to lead the Board effectively, continues to make valuable contribution and demonstrates continuing commitment to the role.

#### **1.3.4 Loans to Directors and Other Transactions**

Details of loans to Directors and other transactions with the Group are set out in Note 49 of the Consolidated Financial Statements for the year ended 31 December 2017.

The Banking Law currently forbids the extension of any credit to independent members of the Board, but the CBC may exempt certain exposures from time to time having regard to the exceptionally low risk arising from the exposures concerned. Furthermore, any credit to be extended to non-independent members of the Board must comply with the following provisions of the Law:

- be approved by a resolution of the Board carried by a majority of two-thirds of the members that participated in the relevant Board meeting and the member concerned should neither be present during the discussion nor vote on the resolution,
- the exposure granted should be on the same commercial terms as would apply to customers for similar exposures in the ordinary course of banking practice,
- the total value of exposures in respect of all members of the Board should not exceed at any time 10% of BOC PCL's own funds, or such other lower percentage as the CBC may determine from time to time,
- the total value of any unsecured exposures granted to all members of the Board should not exceed at any time 1% of the BOC PCL's own funds or such other lower percentage as the CBC may determine from time to time,
- the total value of exposure to any member of the Board should not exceed at any time the amount of €500,000 or such other lower amount as the CBC may determine from time to time, and
- no financing is permitted to any executive member of the Board that does not comply with the commercial terms or exceeds the limits that apply to all staff or such other lower amount as the CBC may determine from time to time.

All members of the Board complied with the relevant provisions of the CSE Code and the Banking Law as at 31 December 2017.

## **2. Internal Controls**

The Board is responsible for the adequacy and effectiveness of the system of internal controls in the Group. This system ensures that:

- The effectiveness of the governance framework is monitored and periodically assessed and appropriate steps are taken to timely address any deficiencies.
- The appropriate compliance framework is in place.
- The integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with legal and supervisory requirements and relevant standards, is adequate.
- The appropriate information security framework for the protection of confidential information is in place.

The system of internal controls has been designed in accordance with the nature, scale and complexity of the Group's operations in order to provide reasonable but not absolute assurance against material misstatements, errors, losses, fraud or breaches of laws and regulations.

## 2. Internal Controls (continued)

The overall internal control systems of the Group include:

- A transparent organisational structure with clear reporting lines to Senior Management and the Board,
- Three lines of defence model for the management of risks across the Group,
- Board and Executive Committees with clear responsibilities,
- Policies and procedures,
- Monthly reporting by business lines to enable progress to be monitored, trends to be evaluated and variances to be acted upon,
- Monthly meetings of ExCo and Operating Committee (OpCo) to review performance,
- A Code of Conduct setting out the standards expected of all officers and employees, and
- A Whistleblowing Policy including processes and procedures to be followed for independent investigation of concerns raised by staff.

The Board confirms that, through the AC and the RC, has conducted reviews for the year ended 31 December 2017, regarding the effectiveness of the Group's internal control and information systems, as well as in relation to the procedures used to ensure the accuracy, completeness and validity of the information provided to investors. The reviews covered all systems of internal controls, including financial, operational and compliance controls, as well as risk management systems. In carrying out their reviews, the AC and RC receive regular business and operational risk assessments, regular reports from the Group Internal Audit Director, the Director of Group Compliance and the Group Chief Risk Officer ('GCRO'), internal and external audit reports, as well as regulatory reports. Additionally, the Board receives a confirmation on an annual basis by the Group CEO as to the effectiveness of compliance, risk management and information security system of internal controls.

The Board, through the AC and RC, has received confirmation that executive management has taken or is taking the necessary actions to remedy all weaknesses identified through the operation of the Group's framework of internal controls.

Based on the internal audit work carried out in 2017, significant steps have been made, which further strengthened the Group's system of internal controls. In particular, progress was made in the NPE management and the arrears management process, areas which pose the most important risks for the Group. Moreover, there is still room for improvement in certain areas within the information systems and information security environment. Overall, the Board through its committees has reviewed the effectiveness of the system of internal controls of the Group for the year ended 31 December 2017 and confirms its effectiveness.

The Board confirms that it is not aware of any violation of the Cyprus Securities and Stock Exchange Laws and Regulations.

The Group's financial reporting process is controlled using documented accounting policies and procedures supported by instructions and guidance on reporting requirements, issued to all reporting entities within the Group in advance of each reporting period. The submission of financial information from each reporting entity is subject to sign off by the responsible financial officer. Further analytical review procedures are performed at Group level. The internal control system also ensures that the integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with legal and supervisory requirements and relevant standards, is adequate.

The Group has in place an effective financial statement closing process by which transactions and events reflected in the Group's accounting records are processed to produce the financial statements, related disclosures and other financial reports.

The Annual Report pre its submission to the Board is reviewed and approved by the ExCo. The Board, through the AC scrutinises and approves the financial statements, results announcements and the Annual Report and ensures that appropriate disclosures have been made. This governance process ensures that both management and the Board are given sufficient opportunity to challenge the Group's financial statements and other significant disclosures before their publication.

## 2. Internal Controls (continued)

### 2.1 Going concern

The Directors have made an assessment of the Group's ability to continue as a going concern.

The conditions that existed during 2017 and the developments up to the date of approval of the Consolidated Financial statements that have been considered in the going concern assessment include, amongst others, the operating environment in Cyprus and of the Group (Note 4 of the Consolidated Financial Statements).

The Directors believe that the Group is taking all necessary measure to maintain its viability and the development of its business in the current economic environment.

The Directors, taking into consideration the factors described below and the uncertainties that existed at the reporting date, are satisfied that the Group has the resources to continue in business for a period of at least 12 months from the date of approval of the Consolidated Financial Statements and therefore the going concern principle is appropriate for the reasons set out below.

- The Common Equity Tier 1 (CET1) ratio and the total capital ratio on a transitional basis stood at 12.7% and 14.2% respectively at 31 December 2017, higher than the minimum required ratios (Note 4.2.1 of the Consolidated Financial Statements).
- The IFRS 9 impact on a transitional and on a fully phased-in basis, after the period of transition is complete, is expected to be manageable and within the Group's capital plan.
- The increasing level of Group customer deposits (increase of €1,340 million during 2017). Customer deposits stood at €17,850 million at 31 December 2017.
- The continuous improvement in the Group liquidity position and its liquidity ratios. Following the repayment of Emergency Liquidity Assistance ('ELA') in January 2017 (2016: €200 million), the Group achieved compliance with the Liquidity Coverage Ratio (LCR). The Group is also in compliance with the LCR add-on, which was introduced by the CBC as a macro-prudential measure and is applicable from 1 January 2018 (Notes 4.2.3 and 46 of the Consolidated Financial Statements). As at 31 December 2017, the Group was not in compliance with all liquidity regulatory requirements with respect to its operations in Cyprus, however, these ratios were abolished on 1 January 2018.
- The significant reduction of Group loans that are impaired or past due for more than 90 days (90+ DPD), which have decreased by 17% during 2017 and totalled €6,905 million at 31 December 2017 and the increase of provisions coverage to 61% compared to 54% in December 2016 (Note 4.2.2 of the Consolidated Financial Statements).
- The Cyprus government rating has been repeatedly upgraded following the consistent outperformance in public finances and the progress achieved in the banking sector. Most recently in March 2018, S&P Global Ratings affirmed its long-term sovereign rating at BB+, only one notch below investment grade, and maintained its outlook to 'positive'. In October 2017, Fitch Ratings upgraded its Long-Term Issuer Default ratings to 'BB' from 'BB-' with positive outlook. In July 2017, Moody's Investors Service upgraded the long-term issuer rating of the Cyprus sovereign to Ba3 from B1 to reflect Cyprus' economic recovery and maintained its outlook to positive. Moody's Investors Service reiterated its credit rating and positive outlook on the Cyprus sovereign in a February 2018 update.
- BOC PCL regained access to the debt capital markets in January 2017 with the issuance of €250 million unsecured subordinated Tier 2 Capital Note.

### 2.2 Group Code of Conduct and Whistleblowing Policy

The Group has set out the standards that are expected from all the employees and Directors of the Group in a Code of Conduct along with guidance on how these standards should be applicable.

The Group also has a Whistleblowing Policy in place for all staff, including Directors, which is in accordance with international practice. The policy is reviewed annually. Its general principles are:

- Concerns in good faith, about wrongdoing or malpractice can be raised in confidence without fear of victimisation, discrimination, disadvantage or dismissal.
- Procedures for the reporting of any matters of concern are clearly provided. The persons concerned must be able to bypass the main channels for whistleblowing if these prove inappropriate, and use the anonymous reporting line.
- Disclosures are managed in a timely, consistent and professional manner.
- The appointment of the Chairman of the AC, an independent non-executive Director as a Whistleblowing Champion with specific responsibilities.

The Board and Group CEO are committed to this policy, which encourages staff to raise concerns.

### 3. Other matters

On 18 January 2017 the Company became the sole shareholder of BOC PCL. This reorganisation was treated as a reorganisation of an existing entity that has not changed the substance of the reporting entity. The owners of BOC PCL before the reorganisation have the same absolute and relative interests in the net assets of the Group immediately before and after the reorganisation, since the assets and liabilities of the Group and the BOC group (being BOC PCL and its subsidiaries) are the same immediately before and after the reorganisation. Hence the Group is considered a continuation of BOC group.

On 19 January 2017, the Company was admitted to listing and trading on the London Stock Exchange ('LSE') and the CSE.

A common Board and committee structure applies with the same Directors sitting on the Board of Directors of the Company and on the Board of Directors of BOC PCL and on the committees of each of the two Boards.

The table below show attendance of the Directors on the meetings of BOC PCL throughout 2017.

#### Board of Directors of BOC PCL 1/1/2017-31/12/2017

Name	Board of Directors	AC	HRRC	NCGC	RC	AC & RC Joint	TC
Josef Ackermann (Chairman)	16/16			10/10			
Maksim Goldman (Vice Chairman)	16/16			10/10	16/19	7/7	
Wilbur L. Ross (Vice-Chairman) <sup>1</sup>	0/2			0/2	0/3	0/1	
Anat Bar-Gera <sup>2</sup>	3/3		2/2				2/2
Arne Berggren	16/16	10/11			19/19	7/7	
Lyn Grobler <sup>3</sup>	15/15			1/1			9/9
Michael Heger	16/16	11/11	10/10			7/7	9/9
John P. Hourican	16/16						
Marios Kalochoritis <sup>4</sup>	9/9		5/6		11/12	3/3	
Christodoulos Patsalides	16/16						
Michael Spanos	15/16		10/10				
Ioannis Zographakis	16/16	11/11			19/19	7/7	9/9
<b>Total meetings</b>	<b>16</b>	<b>11</b>	<b>10</b>	<b>10</b>	<b>19</b>	<b>7</b>	<b>9</b>

1 Resigned on 1 March 2017

2 Appointed on 27 October 2017

3 Appointed on 7 February 2017

4 Resigned on 27 June 2017

#### 3.1 Company Secretary

The Board appointed Mrs Katia Santis as Company Secretary.

#### 3.2 Group Internal Auditor

The Board appointed Mr. George Zornas as Group Internal Audit Director.

#### 3.3 Corporate Governance Compliance Officer

The Board appointed Mr. Marios Skandalis as CGCO.

## 4. Members of the Board of Directors

### 4.1 Non-Executive Directors

#### Josef Ackermann (Chairman)

Born in 1948. Dr Ackermann 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. Dr Ackermann also served as Vice-Chairman of the Foundation Board of the World Economic Forum. Dr Ackermann is 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. 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 has extensive experience in the financial services industry, having spent more than 40 years in various senior strategic, investment and oversight roles in Schweizerische Kreditanstalt and Deutsche Bank.

#### Term of Office:

Appointed  
to the Board of BOC PCL in November 2014  
and the Board in October 2016

#### External Appointment:

Investor AB  
Renova Management AG  
Honorary Chairman of the St. Gallen Foundation for  
International Studies  
Honorary Senate Member of the Foundation Lindau  
Nobel Prize winners Meetings at Lake Constance  
Vice Chair and Member of the Board of Trustees of the  
Conference Board

#### Independent:

On Appointment

#### Committee Membership:

Chairman of the Nominations and Corporate  
Governance Committee

#### Maksim Goldman (Vice Chairman)

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

Mr. Goldman has extensive experience in investments and business developments and benefits from oversight experience in a number of external directorships.



#### 4. Members of the Board of Directors (continued)

##### 4.1 Non-Executive Directors (continued)

###### Maksim Goldman (Vice Chairman) (continued)

**Term of Office:**

Appointed  
to the Board of BOC PCL in November 2014  
and the Board in October 2016

**External Appointment:**

United Company RUSAL Plc  
OAO 'Volga'  
FC 'Ural'

**Independent:**

No

**Committee Membership:**

Member of the Risk Committee  
Member of the Nominations and Corporate Governance  
Committee

###### Arne Berggren (Chairman of the Risk Committee)

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

Mr. Berggren has significant experience in corporate and bank restructurings, bank crises management and risk management and has extensive experience in oversight from a number of directorships.

**Term of Office:**

Appointed  
to the Board of BOC PCL in November 2014  
and the Board in October 2016

**External Appointment:**

Eusticon AB  
Pireaus Bank Group

**Independent:**

Yes

**Committee Membership:**

Chairman of the Risk Committee  
Member of the Audit Committee

###### Anat Bar-Gera

Born in 1958. Since 2015, Mrs Bar-Gera is the Chairwoman of Cyverse, a leading Switzerland-based cybersecurity company established with the aim of providing access to the most advanced cybersecurity solutions coming out of Israel and the Silicon Valley. Mrs Bar-Gera is currently a member of the expert network of the World Economic Forum and a former member of the Global Agenda Council on the future of the internet, of the World Economic Forum. Prior to this and for more than 20 years, Mrs Bar-Gera co-founded, scaled and exited a number of telecom and internet international companies operating primarily across Europe and Africa. In 1988, she joined UBS in Switzerland as an Associate in the M&As department, where she initiated and executed pan-European deals especially in the high-tech area. Mrs Bar-Gera graduated from INSEAD, France with an MBA and from the Hebrew University, Israel, with a Bachelor of Laws (LL.B.).

Mrs Bar-Gera has significant experience in start-ups and cybersecurity and benefits from oversight experience in a number of external directorships.

#### 4. Members of the Board of Directors (continued)

##### 4.1 Non-Executive Directors (continued)

###### Anat Bar-Gera (continued)

###### Term of Office:

Appointed to the Board of BOC PCL and the Board in October 2017

###### External Appointment:

Cyverse AG  
Swiss Mobile Data  
Expert Network of the World Economic Forum

###### Independent:

Yes

###### Committee Membership:

Member of the Human Resources and Remuneration Committee  
Member of the Technology Committee

###### Lyn Grobler

Born in 1964. Mrs Grobler is an experienced executive with a strong track-record in technology and IT roles. She was appointed Group Chief Information Officer (CIO) at Hyperion Insurance Group in 2016. Prior to this she was Vice President and CIO Corporate Functions at BP where she led the transformation of both the organisation and the digital landscape through introducing sustained change in process, capability and technology, having held a variety of roles across IT and global trading over 16 years. Before BP, Mrs Grobler managed large scale global technology projects and strategies within banking and trading based in both London and South Africa. Mrs Grobler has been recognised as one of the 25 most influential women in UK IT and has been shortlisted for CIO of the Year at the 2016 Women in IT awards. Mrs Grobler holds an HND in computer systems from Durban University in South Africa.

Mrs Grobler has significant experience in IT and digital transformation and benefits from oversight experience in a number of external directorships.

###### Term of Office:

Appointed to the Board of BOC PCL and the Board in February 2017

###### External Appointment:

Board Intelligence Ltd  
Hyperion Services Ltd  
Howden Broking Group

###### Independent:

Yes

###### Committee Membership:

Chairperson of the Technology Committee  
Member of the Nominations and Corporate Governance Committee

###### Paula Hadjisotiriou (subject to ECB approval)

Born in 1957. Mrs Hadjisotiriou is an experienced executive with a long career in senior management roles in financial institutions. She started her accountancy career at Howard, Wade & Jacob before moving to Pricewaterhouse Coopers. Following a eight-year tenor at the Latsis Group of Companies as Deputy General Manager of Internal Audit, she embarked between 1990-2015 on a career in banking, at first with Eurobank Ergasias S.A as Group Chief Financial Officer and then with National Bank of Greece as Deputy Chief Executive Officer & Chief Financial Officer. Currently Mrs Hadjisotiriou serves as an advisor to the Latsis Group of Companies in the UK. Mrs Hadjisotiriou is a Chartered Accountant and a member of the Institute of Chartered Accountants of England and Wales (ICAEW).

Mrs Hadjisotiriou has significant experience in financial institutions and benefits from oversight experience in a number of external directorships.

#### 4. Members of the Board of Directors (continued)

##### 4.1 Non-Executive Directors (continued)

##### Paula Hadjisotiriou (subject to ECB approval) (continued)

**Term of Office:**

Appointed to the Board of BOC PCL and the Board in January 2018 (subject to ECB approval)

**External Appointment:**

None

**Independent:**

Yes

**Committee Membership:**

Member of the Audit Committee (subject to ECB approval)  
Member of the Risk Committee (subject to ECB approval)

##### Michael Heger

Born in 1955. Dr Heger currently serves 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. Previously, during 2009-2012 he served as general manager and chief executive officer of Metal Trade Overseas AG in Zug, Switzerland. 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. In 2001-2002, he served as general manager and head of structured trade finance at Bank Austria AG. From 2002-2003, 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 from 2004-2009. Dr Heger 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.

Dr Heger has extensive banking experience having spent more than 20 years in various senior positions in UniCredit Bank Austria Group and has considerable strategic knowledge of industrial and commercial companies, financial institutions and property developments.

**Term of Office:**

Appointed to the Board of BOC PCL in June 2016 and the Board in October 2016

**External Appointment:**

None

**Independent:**

Yes

**Committee Membership:**

Member of the Audit Committee  
Member of the Human Resources and Remuneration Committee  
Member of the Technology Committee

##### Maria Philippou (subject to ECB approval)

Born in 1975. Mrs Philippou started her career as an HR Consultant with KPMG Greece, before moving to the Lambrakis Press Group as HR Generalist. Having spent three years with Eurobank Ergasias S.A as Compensation & Benefits Manager, in 2006 she moved to the Coca Cola Company Group, progressing through various roles such as Rewards Manager and HR Business & Strategic Partner to her current position as Global Talent & Development Director. Mrs Philippou holds a degree in Business Administration from Nottingham Trent University and a Master of Science in Human Resources Management from Brunel University.

Mrs Philippou is an experienced executive in human resources and brings valuable skills to the Board in people management.

#### 4. Members of the Board of Directors (continued)

##### 4.1 Non-Executive Directors (continued)

###### **Maria Philippou (subject to ECB approval) (continued)**

**Term of Office:**

Appointed to the Board of BOC PCL and the Board in January 2018 (subject to ECB approval)

**External Appointment:**

None

**Independent:**

Yes

**Committee Membership:**

Member of the Human Resources and Remuneration Committee (subject to ECB approval)

###### **Michael Spanos (Senior Independent Director)**

Born in 1953. Mr. Spanos is Managing Director of M.S. Business Power Ltd, which provides consultancy services on strategic and business development (since 2008). Mr. Spanos worked at Lanitis Bros Ltd from 1981 to 2008 as Marketing Manager, General Manager and Managing Director. Between 2005 and 2009, Mr. Spanos served as Vice-Chairman of the Board of Directors of the Cyprus International Institute (Republic of Cyprus and Harvard School of Public Health). Mr. Spanos has also served on other boards, such as Coca-Cola İçecek (2012-2016), Heineken-Lanitis Cyprus Ltd (2005 to 2007), Lumiere TV Public Ltd (2000 to 2012), A. Petsas & Sons Public Ltd (2000 to 2007) and CypriaLife Insurance Ltd (1995 to 2000). Mr. Spanos is a former member of the Central Bank of Cyprus Board of Directors. Mr. Spanos holds a Master's degree in economics from North Carolina State University.

Mr. Spanos as an experienced Managing Director and member of a number of Boards, has in-depth knowledge of international business, management, finance and strategic development.

**Term of Office:**

Appointed the Board of BOC PCL in November 2014 and the Board in October 2016

**External Appointment:**

M.S. Business Power Ltd  
Green Dot (Cyprus) Ltd  
Lanitis Bros Ltd

**Independent:**

Yes

**Committee Membership:**

Chairman of the Human Resources and Remuneration Committee

###### **Ioannis Zographakis**

Born in 1963. Mr. Zographakis is a senior Executive with a broad and diverse international experience in the banking industry. He has worked with Citibank for over 20 years, in the USA, UK and Greece. His line/business positions and divisional/corporate responsibilities, have provided him with an extensive background in corporate governance, business restructuring, re-engineering, crisis management, separation of businesses, business strategy, profit & loss management, finance, product and segment management, operations & technology management, and dealing with various regulatory bodies and industry related organisations. He started his career in 1990 with Citibank in Greece as a Management Associate for Europe, Middle-East & Africa (EMEA). He then worked as the Deputy Treasurer and Treasurer for the Consumer Bank in Greece, before moving to the USA in 1996 as the Director of Finance for CitiMortgage. In 1997 he became the Financial Controller for Citigroup's Consumer Finance business in the US and then he served as 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 UK Retail Bank Head.

#### 4. Members of the Board of Directors (continued)

##### 4.1 Non-Executive Directors (continued)

###### Ioannis Zographakis (continued)

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 Student Loan Corporation in the US, a Director for Tiresias (Greek Credit Bureau) and the Secretary of the Audit Committee, a Director and member of the Audit Committee for Diners Club Greece, the Vice-Chairman of the Citi Insurance Brokerage Board in Greece and the Chairman of the Investments and Insurance Supervisory Committee in Citibank Greece. He holds an MBA from Carnegie Mellon University in the USA and a Bachelor's degree in civil engineering from Imperial College in London.

Mr. Zographakis has extensive experience in the banking industry, having spent more than 20 years in various senior operational and financial roles in Citibank and on the Board of a number of financial entities.

###### Term of Office:

Appointed  
to the Board of BOC PCL in September 2013  
and the Board in October 2016

###### External Appointment:

None

###### Independent:

Yes

###### Committee Membership:

Chairman of the Audit Committee  
Member of the Risk Committee  
Member of the Technology Committee

##### 4.2 Executive Directors

###### John Patrick Hourican (Group CEO)

Born in 1970. Mr. Hourican served as Chief Executive of The Royal Bank of Scotland ('RBS') Group's 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 the bank'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.

Mr. Hourican is an experienced Chief Executive Officer, Finance Director and Chief Operating Officer having served in various senior roles for over fifteen years with the RBS.

###### Term of Office:

Appointed  
to the Board of BOC PCL in December 2013  
and the Board in July 2016

###### External Appointment:

Atradius N.V.

###### Independent:

No

###### Committee Membership:

None

**4. Members of the Board of Directors** (continued)

**Christodoulos Patsalides (DCEO & COO)**

Born in 1962. From 1989 to 1996, Dr. Patsalides worked for the Central Bank of Cyprus in the management of Government External Debt and Foreign Exchange Reserves Department. In 1996, Dr Patsalides joined the Group 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, economic research and procurement. In his current capacity as the DCEO & COO, he is responsible for human resources, corporate affairs, central operations, legal services, organisation and methods, information technology, business transformation and administrative operations. Dr Patsalides holds a PhD and an MSc in economics from the London School of Economics and a BSc in economics from Queen Mary College in London.

Dr Patsalides is an experienced financial services professional having served in a number of senior roles in the Group including as Finance Director.

**Term of Office:**

Appointed  
to the Board of BOC PCL in November 2014  
and the Board in July 2016

**External Appointment:**

Cyprus Anti-Cancer Society

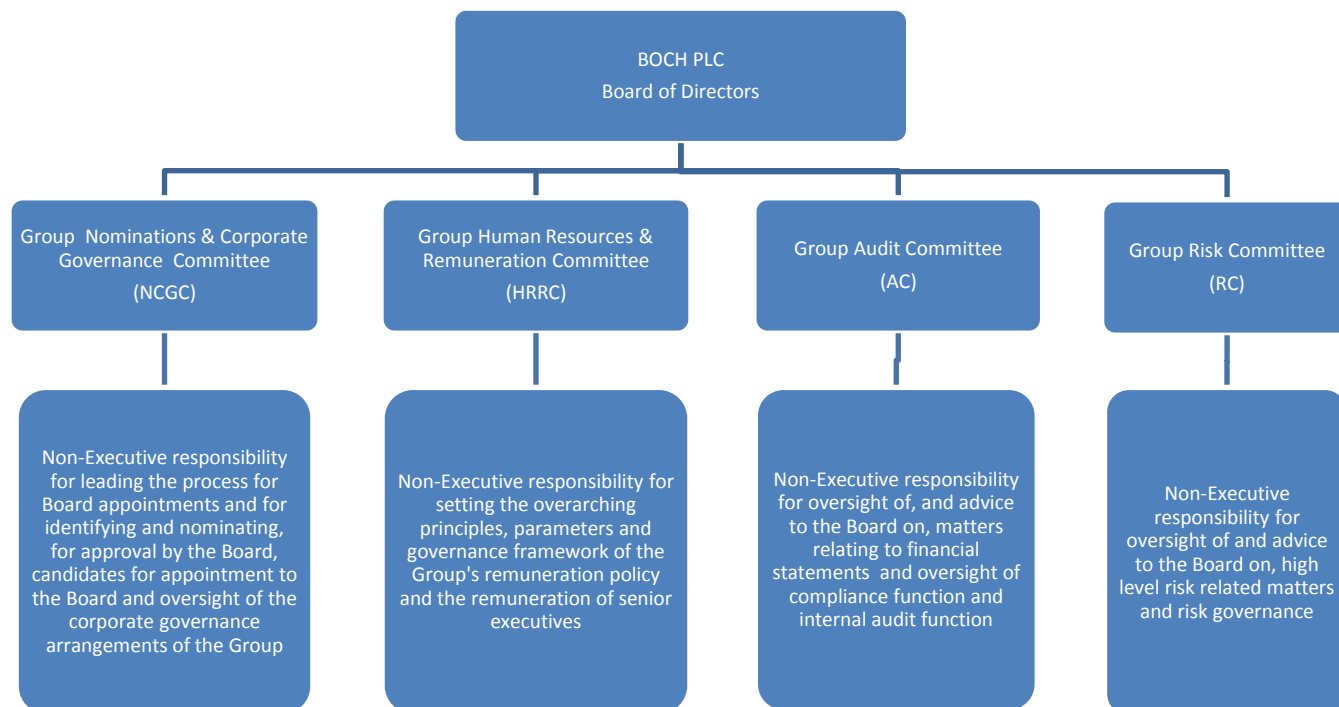
**Independent:**

No

**Committee Membership:**

None

## 5. Board Committees



In order to exercise proper oversight of risk and control, the Board has delegated certain responsibilities to committees of the Board. The principal committees are the AC, the RC, the NCGC and the HRRC. The key roles of the Board committees are described above. Further information of the work of these committees follows in the section below. The terms of reference of the committees are based on the relevant provisions of the CSE and UK Codes and the CBC Governance Directive (where applicable) and are available on the Group's website ([www.bankofcyprus.com](http://www.bankofcyprus.com)) or by request to the Company Secretary. Each committee reviews its terms of reference annually.

The overall responsibility for approving and monitoring the Group's strategy, risk appetite and policies for managing risks lies with the Board, which exercises this responsibility through two of its main committees, namely the RC and the AC.

The chairperson of each committee reports on matters discussed during committee meetings to the subsequent scheduled meetings of the Board and minutes of these meetings are tabled at the Board as soon as possible for noting and/or discussion, as necessary. This linkage is important between the committees given that it is impractical for independent non-executive Directors to be members of all the committees.

The Board in 2017 set up a Technology Committee to drive the digital transformation of BOC PCL. The Committee is comprised of four non-executive members and is chaired by Mrs Lyn Grobler whose extensive knowledge and experience in IT will be instrumental to the digital transformation of BOC PCL.

### 5.1 Nominations and Corporate Governance Committee

The NCGC comprised three non-executive Directors at 31 December 2017, two of whom were independent. It is chaired by the Chairman of the Board, except when the NCGC is dealing with the appointment of a successor to the role of chairperson, and its composition is fully compliant with the CSE Code, the UK Code and the CBC Governance Directive.

## 5. Board Committees (continued)

### 5.1 Nominations and Corporate Governance Committee (continued)

Biographical details, including each member's background, experience and independence status are set out in section 4 of this report.

The Committee held 7 meetings in 2017. The Chairman and members of the Committee together with their attendance at meetings are shown below. The NCGC meets annually with no management present.

#### Member attendance in 2017:

##### NCGC meetings\* in 2017:

Josef Ackermann (Chairman)	7/7
Wilbur L. Ross (resigned 1 March 2017)	0/0
Maksim Goldman	7/7
Lyn Grobler (appointed 20 November 2017)	1/1

\* The number of committee meetings at BOC PCL level were 10 during 2017. The attendance of these meetings can be found on page 240.

The key responsibilities of the NCGC are set out in its terms of reference, which are available on the Group's website ([www.bankofcyprus.com](http://www.bankofcyprus.com)) and are reviewed annually and approved by the Board.

The role of the Committee is to ensure that the Board is comprised of members who are best able to discharge the duties and responsibilities of Directors and to support and advise the Board in relation to:

- Board recruitment (including regularly reviewing, reporting on and taking into account, when making further appointments, the composition and effectiveness of the Board),
- Vice-Chairperson, Director and CEO development (under the overall responsibility and supervision of the Chairperson of the Board),
- Chairperson development (under the overall responsibility and supervision of the SID),
- The ongoing evaluation of the structure, size, composition and performance of the Board, its committees and individual Directors, and
- Succession planning for Directors and senior management.

The Committee also:

- Oversees the adoption of appropriate internal policies on the assessment of the fitness & probity of members of the Group ExCo, other Senior Managers and Heads of the Internal Control Functions, and
- Keeps the Board's governance arrangements under review and makes appropriate recommendations to the Board to ensure that such arrangements are consistent with best corporate governance standards and practices in place.

The Committee considered the following key matters in 2017:

- Governance Arrangements
  - The Annual Corporate Governance Report.
  - Corporate Governance quarterly reports.
  - Potential conflicts of interest with Directors' other appointments.
  - The Group Board Nominations Policy.
  - The Group Corporate Governance Policy.
  - The Group Policy on Fitness & Probity of Directors, Managers and Identified Staff.
  - The Group Board Diversity Policy.
  - The Board Manual and terms of reference of the main committees.
  - Compliance with the CSE Code.
  - Compliance with the UK Code.
  - Approval of the Directors' annual training agenda.
  - Performance appraisal of the Group CEO and the DCEO & COO.
  - Appointment of SpencerStuart to carry out the Board performance evaluation for 2017.



## 5. Board Committees (continued)

### 5.1 Nominations and Corporate Governance Committee (continued)

- Appointments and Renewals
  - Nominations, appointments to the Board and major subsidiary boards.
  - Structure, size, and composition (skills, knowledge and expertise) of the Board and Board committees.
  - The independence of the non-executive members.
  - Board and individual member performance evaluation.
  - Effectiveness of performance of each committee.
- Subsidiary Governance
  - Update of the Corporate Governance Guidelines for Group subsidiaries to align practice across the Group.
  - Review of the oversight report of Bank Of Cyprus UK Ltd ('BOC UK').
  - Review of the oversight reports of major subsidiaries and representative offices.
  - Approval of the Framework Agreement with BOC UK which sets out the terms and understanding between the Group and BOC UK and the responsibilities of each party.

The Chairman of the Committee reported to the Board after each meeting to ensure all Directors were fully informed of the Committee's activities.

#### 5.1.1 Diversity

The non-executive Directors have diverse skills, knowledge and extensive executive and/or non-executive experience that combine to provide independent perspective and effective board dynamics. The effectiveness of the Board depends on ensuring the right balance of Directors with banking or financial services experience and broader commercial experience.

Following review in 2017, the NCGC determined that the skills profile of the Board, either academically or through professional experience was appropriate and relevant to the business of the Group including inter alia, banking, financial services, manufacturing, audit and accounting, strategy development, insurance, risk management, business experience, dealing with competent authorities, economics, legal and consultancy services, IT, cybersecurity and others.

Directors bring their individual knowledge, skills and experience to bear in discussions on the major challenges facing the Group. The Group recognises the benefits of having a diverse Board and is committed to this respect. In reviewing Board composition and identifying suitable candidates, the NCGC considers the benefits of all aspects of diversity including the skills identified as relevant to the business of the Group, industry experience, nationality, gender, age and other relevant qualities in order to maintain an appropriate range and balance of skills, experience and background on the Board.

The participation of Executives on the Board enhances the banking expertise of the Board and ensures that the Board is provided with direct, precise and up-to-date information about significant issues concerning the Group.

During 2017, the NCGC reviewed the Board Diversity Policy (the latest version of which is available on the Group's website ([www.bankofcyprus.com](http://www.bankofcyprus.com))) which aims to achieve gender diversity by 2020 with appointments based on meritocracy. The Group having recognised the benefits of a diverse Board has set a target to achieve and maintain 40% female representation by the end of 2020 and a plan prepared by the Company Secretary has been approved by the NCGC describing all key intervening milestones leading to the accomplishment of this target. Following Mrs Grobler's appointment to the Board on 7 February 2017, the Board proceeded with the appointment of Mrs Anat Bar-Gera on 27 October 2017. On January 23 2018, the Board appointed two new directors, Mrs Paula Hadjisotiriou and Mrs Maria Philippou to the Board, (both subject to ECB approval) thereby achieving diversity of 33.3%.

The Code of Conduct similarly ensures equal opportunities to all members of staff and treats diversity with fairness and respect aiming to provide fair treatment for everyone at work.

## 5. Board Committees (continued)

### 5.2 Human Resources and Remuneration Committee

The Committee on 31 December 2017 comprised of 3 independent non-executive members from diverse backgrounds to provide a balanced and independent view on remuneration matters. The HRRC is chaired by the SID and its composition complies with the requirements of the CSE Code, the UK Code and the CBC Directive on Governance and Management Arrangements of Credit Institutions ('CBC Governance Directive'). The Board considers that the Chairman of the Committee possesses appropriate knowledge and expertise on HR and remuneration issues.

Marios Kalochoritis resigned from the Committee and the Board on 27 June 2017 and was replaced by Mrs Anat Bar-Gera on 27 October 2017.

Biographical details, including each member's background, experience and independence status are set out in section 4 of this report.

The Committee held 6 meetings in 2017. The Chairman and members of the Committee together with their attendance at meetings are shown below. The Director of Human Resources is invited to attend meetings as appropriate.

#### Member attendance in 2017:

##### HRRC meetings\* in 2017:

Michael Spanos (Chairman)	6/6
Marios Kalochoritis (resigned 27 June 2017)	1/2
Michael Heger	6/6
Anat Bar-Gera (appointed 27 October 2017)	2/2

\* The number of committee meetings at BOC PCL level were 10 during 2017. The attendance of these meetings can be found on page 240.

The key responsibilities of the HRRC are set out in its terms of reference, which are available on the Group's website ([www.bankofcyprus.com](http://www.bankofcyprus.com)) and are reviewed annually and approved by the Board.

The role of the Committee is:

- To ensure that the Group is equipped with the human capital necessary for the achievement of its strategic goals, whose reward will be based on personal performance and Group results.
- To ensure that the Group is equipped with the organisational capital to be able to effect continuous improvement.
- To ensure that the Group is equipped with the information capital and the technology necessary to facilitate process improvements that will create a comparative advantage in the market.
- To propose adequate remuneration considered necessary to attract and retain high value-adding professionals. Therefore, remuneration has to be satisfactory vis-a-vis peer companies.
- To set the overarching principles and parameters of compensation and benefits policies across the Group and exercise oversight for such issues.
- To consider the remuneration arrangements of the executive Directors of the Group, other identified staff and the employee Remuneration Policy bearing in mind the European Banking Authority ('EBA') Guidelines on remuneration policies and practices, the CBC Governance Directive and the CSE Code.

The Committee is responsible for the development and periodic review of the Group Remuneration Policy which is proposed to the Board for ratification. In addition, the Board, through the Committee, is ultimately responsible for monitoring the implementation of the Group Remuneration Policy.

The Group's aim is to align its Remuneration Policy and human resources practices, with its long term objectives, its risk tolerance, capital and liquidity availability, the interests of its shareholders and ensure that they are consistent with and promote sound and effective management of risk and do not encourage excessive risk-taking.

## **5. Board Committees** (continued)

### **5.2 Human Resources and Remuneration Committee** (continued)

In developing its Remuneration Policy, the Group takes into account the provisions that are included in the CSE Code, the CBC Directive on Governance and Management Arrangements of Credit Institutions (the 'CBC Governance Directive') which came into effect in August 2014 and incorporated the requirements for Remuneration Policies included in the European Capital Requirements Directive ('CRD IV') and the EBA Guidelines on sound remuneration policies issued in December 2015, as well as regulatory restrictions pertinent to the banking sector currently.

The remuneration of non-executive Directors is determined and approved by the Board. Neither the Chairman nor any Director participates in decisions relating to their own personal remuneration.

The Committee reviews and approves the content of any resolutions submitted for approval at the general meeting of the shareholders, which are prepared by the Company Secretary in cooperation with the Group's legal advisers in accordance with Annex 3 of the CSE Code and concern possible plans for the compensation of members of the Board in the form of shares, share warrants or share options.

The Committee considered the following key matters in 2017:

- Annual Remuneration Policy Review
  - Annual review and approval of the Remuneration Policy.
  - The performance and remuneration of Senior Management.
  - The remuneration of heads of control functions.
- Disclosures and Governance
  - Review of the Remuneration Policy Report in the Annual Report.
  - Review of the Terms of reference of the Committee.
- Human Resource Review
  - Review of the training plan of staff for the year.
  - Close monitor of the progress of the negotiations with the trade union with regards to the renewal of the 2017 Collective Agreement and recommendation to the Board on the approval of the renewal of 2017 Collective Agreement.
  - Review of the 2016 Group Staff Opinions Survey results and action plans.
  - Review of a proposal for a Short Term Incentive Plan ('STIP').
  - Review of the Performance Appraisal statistics.
  - Monitor of the BOC PCL's head count and payroll cost evolution.

The Chairman of the Committee reported to the Board after each meeting to ensure all Directors were fully informed of the Committee's activities.

Further information on the role of the Committee is presented in the Remuneration Policy Report, on page 261 of this report.

### **5.3 Audit Committee**

As at 31 December 2017, the AC comprised three independent non-executive Directors. The Board considers that the AC as a whole has a relevant mix of skills and financial/banking experience. The Board further believes that Ioannis Zographakis can be regarded as having recent and relevant financial experience for the purposes of the UK Code and can be regarded as an Audit Committee financial expert.

Biographical details, including each member's background, experience and independence status are set out in section 4 of this report.

## 5. Board Committees (continued)

### 5.3 Audit Committee (continued)

The Committee held 8 meetings during 2017. The Chairman and members of the Committee together with their attendance at meetings are shown below. Arne Berggren is the Chairman of the RC and Ioannis Zographakis is also a member of the RC. Michael Heger is also a member of the HRRC. Such common membership facilitates effective governance across all finance and risk issues. Agendas can be aligned and overlap of responsibilities can be avoided.

#### Member attendance in 2017:

##### AC meetings\* in 2017

Ioannis Zographakis (Chairman)	8/8
Arne Berggren	7/8
Michael Heger	8/8

\* The number of committee meetings at BOC PCL level were 11 during 2017. The attendance of these meetings can be found on page 240.

The key responsibilities of the AC are set out in its terms of reference, which are available on the Group's website ([www.bankofcyprus.com](http://www.bankofcyprus.com)) and are reviewed annually and approved by the Board.

The role of the Committee, inter alia, is:

- To oversee the system of internal controls including reviewing its effectiveness;
- To monitor the integrity of the Group's financial statements and related announcements;
- To monitor the effectiveness of the internal audit function;
- To advise the Board on appointment of the external auditors and be responsible for oversight and remuneration of the external auditor;
- To review the Group's and Company's financial and accounting policies and practices;
- To monitor the effectiveness of the Group's whistle-blowing procedures;
- To monitor the effectiveness of the anti-money laundering function of the Company and all other aspects of regulatory/ethics compliance;

and to make recommendations to the Board on such matters.

The role of the Committee is fundamental to ensuring the financial integrity and accuracy of the Company's financial reporting. Good, open relationships between the Committee, the Finance Director, the Group Internal Audit Director and the Director of Group Compliance as well as the external auditors, are essential to adding value to the organisation. This is achieved by holding management to account for the implementation of all audit recommendations (internal and external) and inviting appropriate divisional directors to meetings to explain how they are delivering the agreed actions for which they are responsible. In addition to providing assurance within the governance and accountability structures of the Group, it is essential that the Committee contributes, delivers results and adds value to the Group.

The AC considered the following key significant accounting and other related issues in its review of the financial statements for the year ended 31 December 2017. In addressing these issues, the AC considered the appropriateness of management's judgements and estimates and where appropriate, discussed those judgements and estimates with the external auditors:

- Internal Controls and Risk Management
  - Annual review of the effectiveness of the Group's internal controls.
  - Review of monthly audit reports and internal control issues.
  - Review of the Annual Audit Report of the Group Internal Audit Division and major audit findings.
  - Review and approval of the Group Financial Crime Compliance Department ('FCCD') Annual Report, the Group FCCD Risk Management Report, the Regulatory & Ethics Compliance Department ('RECD') Annual Report.
  - Review of the monthly reports of the FCCD and the RECD.
  - Review of quarterly reports of Cybercrime and Security Incident Response Plan.
  - Review of the Triennial Assessment of the Group's internal control framework.

## 5. Board Committees (continued)

### 5.3 Audit Committee (continued)

- External Reporting
  - Year end and interim reporting.
  - Review and approval of the quarterly financial results.
  - Review of the provisions for impairment of loans and advances.
  - Review of the Group's existing accounting policies.
  - Approval of new and significant changes in existing policies.
  - Approval of IFRS9 accounting policies.
  - Regular update on progress and implementation of IFRS 9 accounting matters.
- Internal Auditors
  - Review of the Group Internal Audit Strategic Plan.
  - Approval of the revised Group Internal Audit charter.
  - Review of the independence of the Group Internal Audit Division and the Group Internal Audit Director.
  - Review of Group Internal Audit Succession Planning.
  - Update on the Quality Assurance and Improvement Program of the Group Internal Audit Division.
  - Appraisal of the Group Internal Audit Director.
- Compliance function
  - Review and approval of the FCCD Audit Plan, the FCCD Action Plan, the RECD Action Plan.
  - Review and approval of the Anti-Money Laundering (AML) risk appetite statement, AML Policy, Customer Acceptance Policy and Sanctions Policy.
  - Consideration of major compliance issues and reports submitted to it by the Group Compliance Division.
  - Review and approval of the various regulatory & ethics compliance policies.
  - Updated on important forthcoming regulatory developments.
  - Appraisal of the Director of Group Compliance.
- External Auditors
  - Discussion of the results of the audit of the financial statements with the external auditors.
  - Discussion of the IFRS provisioning parameters.
  - Consideration of key accounting judgements and estimates.
  - Appointment of the external auditors.
  - Approval for the rotation of the statutory auditors.
  - Assessment of the independence of external auditors.
  - Approval of audit, tax compliance and other assurance fees for the year.
  - Approval of permissible non-audit services assigned to the auditors.
- Governance
  - Review of revised terms of reference of the AC.
  - Review of group subsidiaries' audit reports.
  - Approval of the Annual Corporate Governance Report.
  - Review of quarterly Customer Complaints Management Report.

The Committee has:

- Endorsed the going concern assessment for the purposes of the basis of preparation of the financial statements.
- Reviewed and monitored the appropriateness and completeness of the published financial statements and related announcements to shareholders of the Company and any formal announcements relating to the Group's financial performance, including significant financial reporting judgements and estimates made by the Group.
- Advised the Company's Board that the Group Annual Financial Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.
- Considered for disclosure all material relevant issues that have concerned management and the Group statutory auditors during the year.

## 5. Board Committees (continued)

### 5.3 Audit Committee (continued)

- Reviewed accounting policies and practices, including approval of the critical accounting policies.
- Considered management's recommendations in respect of provisions for impairment of loans and advances and any other impairment losses and charges as reported in the Group's financial statements.
- Discussed key areas of judgements and estimates in the Group's financial results with the external auditors, Ernst & Young Chartered Accountants ('EY'); particular areas for discussion included their findings/observations as part of their audit/review of the Group's financial statements, including inter alia, loan provisioning and impairment policies, going concern issues and the recoverability of deferred tax asset.
- **Loan impairment**  
The AC considered loan impairment allowances and charges, discussing with management the basis of calculation and the reasons for significant changes. Judgements and estimates discussed included impairment of loans and advances; interest income recognition, and the disclosures relating to provisions and contingent liabilities for litigation and regulatory claims.
- **Deferred Tax assets**  
The Committee discussed the extent of deferred tax assets to be recognised and in particular management's projections for future taxable profits against which those losses may be utilised in the future. Judgement 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.
- **Going concern**  
Further the AC considered management's assessment of the appropriateness of preparing the financial statements of the Group on a going concern basis. The considerations assessed by the AC are set out in Note 3 of the Consolidated Financial Statements.

The Committee has the responsibility for examining any significant transactions in any form, carried out by the Company and/or its subsidiary companies, where any member of the Board, CEO, senior executive officer, Secretary, auditor or large shareholder has, directly or indirectly, any significant interest. It ensures that these transactions are carried out within the framework of the Company's normal commercial practices (at arm's length).

The Committee received regular reports from the Group Finance Director, the Group Internal Audit Director and the Director of Group Compliance.

The Committee reviewed the adequacy of resources, qualifications and experience of staff in the Finance Division. Reports were submitted to the Committee on internal control matters. The Group Finance Director, the Group Internal Audit Director, the Director of Group Compliance, external auditors and other senior executives attended the Committee's meetings. The Committee has regular discussions with the external auditors, the Group Internal Audit Director and the Director of Group Compliance and discusses issues without the presence of the management.

#### *Other responsibilities*

The AC and the RC liaise closely and in joint committee meetings review the appropriateness of and completeness of the system of internal controls. The AC is primarily responsible to review the manner and framework in which management ensures and monitors the adequacy of the nature, extent and effectiveness of internal controls system, including accounting control systems, thereby maintaining an effective system of internal controls. During 2017 the joint committee had an oversight role on IFRS 9 implementation and reviewed the results, key assumptions and methodologies and provided approvals where deemed necessary.

## **5. Board Committees** (continued)

### **5.3 Audit Committee** (continued)

The Board has delegated authority to the NCGC to draw up the Annual Corporate Governance Report, but the AC retains its duty to review and approve the Annual Corporate Governance Report.

In addition AC has responsibility for:

- Assisting the Board in meeting its obligations under relevant stock exchange listing rules and other applicable laws and regulations.
- Monitoring and reviewing the effectiveness of the Group's internal audit function and its operations.

The Chairman of the Committee reported to the Board after each meeting to ensure all Directors were fully informed of the Committee's activities.

#### **5.3.1 Internal Audit independence**

The Group Internal Audit and Group Compliance Divisions report directly to the Board through the AC. They are organisationally independent of units with executive functions and are not subordinated to any other unit of the Company, except the Director of Group Compliance who has a dotted reporting line to the DCEO & COO, for administration matters.

The Committee's activities included the consideration of reports submitted by the Group Internal Audit and Group Compliance Divisions. The Committee has satisfied itself that the Group Internal Audit Division was effective and adequately resourced through regular meetings held with and reports provided by the Group Internal Audit Director on internal audit issues, including the effectiveness and adequacy of resources. The Committee received reports over the course of 2017 on the activities of the internal audit function and reviewed its planned activities for the following year.

Management's responses to Group Internal Audit's findings and recommendations were reviewed and monitored. The monthly reports issued by the Group Internal Audit Director and Director of Group Compliance enable the Committee to focus discussion on specific areas of concern and root causes and to track remediation progress over time.

The Committee proposes to the Board the appointment, replacement, transfer or removal of the Group Internal Audit Director and the Director of Group Compliance. It submits a report to the Board on: a) the adequacy of the audits carried out, the conclusions and the proposals of the Group Internal Audit, and b) subjects that are related to the independence and smooth execution of audit work carried out by Group Internal Audit.

The independence of the two functions as well as the independence of the Group Internal Audit Director were reviewed by the AC.

#### **5.3.2 Arrangements relating to the external auditors**

The objectivity and independence of the external auditors is safeguarded and effectiveness of the external audit process assessed through monitoring of their relationship with the Group by the AC, including the monitoring of the balance between audit and permissible non-audit services. The external auditors provided written confirmation of their objectivity and independence to the Group. In addition, the external auditors do not provide internal audit services to the Group. The AC reviews annually a detailed analysis of the audit and non-audit fees relating to work done by the external auditors, to confirm their independence and refers this analysis to the Board. Additionally the Committee implemented the Policy on the provision of permissible non-audit services by the Group statutory auditors in line with the EU Directive and related regulation. The policy provides that the auditors can be engaged to provide permissible non-audit services only if the engagement has been pre-approved by the AC.

## 5. Board Committees (continued)

### 5.3 Audit Committee (continued)

#### 5.3.2 Arrangements relating to the external auditor (continued)

The European Directive which updated the EU regulatory framework on statutory audits was enacted into national law in May 2017 in Cyprus and in June 2016 in Ireland. The new legislation covers mandatory audit firm rotation, additional restrictions on the provision of non-audit services, further requirements on audit committee oversight of the performance of the audit and new requirements regarding auditor reporting. The AC had oversight of the tender procedure of the Group for the provision of statutory audits as per the agreed roadmap and recommended to the Board for appointment the audit firm of PricewaterhouseCoopers ('PwC') for accounting periods commencing 1 January 2019.

### 5.4 Risk Committee

The RC is responsible for advising the Board on high-level risk related matters and risk governance and for non-executive oversight of risk management and internal controls (other than financial reporting).

The RC on 31 December 2017 comprised three non-executive Directors most of whom independent. The Board considers that the RC as a whole possesses adequate knowledge, skills and expertise to fully understand and monitor the risk strategy and the risk appetite of the Group.

Biographical details, including each member's background, experience and independence status, are set out in section 4 of this report.

The Committee held 9 meetings during 2017. The Chairman and members of the Committee together with their attendance at meetings are shown below.

#### Member attendance in 2017:

#### RC meetings\* in 2017

Arne Berggren (Chairman)	9/9
Maksim Goldman	8/9
Marios Kalochoritis (resigned 27 June 2017)	2/3
Wilbur L Ross (resigned 1 March 2017)	0/0
Ioannis Zographakis	9/9

\* The number of committee meetings at BOC PCL level were 19 during 2017. The attendance of these meetings can be found on page 240.

To ensure coordination with the work of the AC, the Chairman of the RC, Mr. Arne Berggren, is a member of the AC and the Chairman of the AC, Mr. Ioannis Zographakis is a member of the RC. Maksim Goldman is also a member of the NCGC. Such common membership facilitates effective governance across all finance and risk issues. Agendas can be aligned and overlap of responsibilities can be avoided.

The main purpose of the Committee is to review, on behalf of the Board, the aggregate risk profile of the Group, including performance against risk appetite for all risk types and to ensure that both the risk profile and risk appetite remain appropriate. Specifically it:

- Advises the Board on risk appetite and alignment with strategy.
- Monitors the effectiveness of the Group's risk management and internal control systems except from financial reporting and compliance internal control systems.
- Monitors the Group's risk appetite and risk profile against key performance/risk indicators as set out in the Group's Risk Appetite Statement.
- Identifies the potential impact of key issues and themes that may impact the risk profile of the Group.
- Ensures that the Group's overall risk profile and risk appetite remain appropriate given the external environment, any key issues and themes impacting the Group and the internal control environment.



## 5. Board Committees (continued)

### 5.4 Risk Committee (continued)

- Seeks to identify and assess future potential risks which, by virtue of their uncertainty, of low probability and unfamiliarity may not have been factored adequately into review by other Board Committees.
- Advises the Board on alignment of remuneration with risk appetite (through advice to the Group HRRC).
- Advises the Board on risks associated with proposed strategic acquisitions and disposals.

The Group, like all other financial institutions, is exposed to risks, the most significant of which are credit risk, liquidity and funding risk, market risk, operational risk and property price risk. The Group monitors and manages these risks through various control mechanisms and reviews the mitigating actions proposed by management.

To ensure consistency of scope and approach by subsidiary company committees, the RC has established core terms of reference to guide subsidiary companies when adopting terms of reference for the non-executive risk committees. The Committee's endorsement is required for any proposed material changes to subsidiary company risk committee terms of reference and for appointments to such committees.

Detailed information relating to Group Risk Management is set out in Notes 44 to 47 of the Consolidated Financial Statements and the Additional Risk and Capital Management Disclosures section of the 2017 Annual Financial Report.

Key areas of focus for the Committee during the year were to set strategies and ensure compliance with reference to non-performing exposures management, review risk policies where necessary to comply with the changing regulatory environment and better support business needs and review the enhancements of the provisioning methodology.

The Committee identified the current and potential impact of key issues and themes that have an actual or potential impact on the Group's risk profile and performed deep dive discussions in order to better understand and provide guidance to the management. Deep-dive discussions for 2017 covered such matters as the recoveries portfolio, major corporate of Recoveries and Restructuring Division (RRD) small and medium enterprises of RRD, fraud risk management, and an analysis of the IFRS9 expected credit loss scenario impact.

The Group IFRS 9 implementation has been largely completed by 1 January 2018. The IFRS 9 project had a formalised governance process whereby the GCRO was the project owner. The main divisions involved in the project at the highest level were the Risk, Finance, IT and Operations. A Steering Committee was set up to monitor the project, chaired by the Group CEO and comprising of members of the Executive Management team, the CRO, the DCEO & COO, the Finance Director and other representatives from Risk and Finance, while the Group Internal Audit Director participated as an observer. The Steering Committee was monitoring the progress of the project and was reviewing the results, key assumptions policies and methodologies and reported to the Board Risk and Audit Committees, which had an oversight role and provided approvals.

The RC undertook the following key activities in 2017:

- Review of risk appetite. The Committee reviewed the alignment of risk appetite and Group strategy. Regular reviews were undertaken of the Group's risk profile against the key performance indicators set out in the Risk Appetite Statement which considered the need for any adjustment to the risk appetite.
- Review of the top and emerging risks.
- Oversight of executive risk management. Regular reports were received from the GCRO including a risk map which provides analysis of risk profiles for categories of risk identified in the Group Risk Appetite Statement.
- Review of Strategy Risk Assessment.
- Approval/recommendation for approval of a large number of restructurings and contractual or non-contractual write-offs.

## 5. Board Committees (continued)

### 5.4 Risk Committee (continued)

- Framework for the implementation of ECB's Guidance on Leveraged Transactions.
- Approval/recommendation for approval of special restructuring products and solutions.
- Approval and recommendation to the Board for approval of the 2017 Group Recovery Plan.
- Update on Group Regulatory/Supervisory Activity.
- Approval of risk-related limits.
- Review of the IFRS 9 Progress Report.
- Review of the Reputational Risk Report.
- Update on the Assets-Liabilities Committee meetings minutes.
- Review of the operational risk. The Committee received regular reports on the Group's operational risk management framework.
- Review of risk management policies.
- Review of several regulatory issues such as ECB's guidance on NPL Exit Criteria and leveraged transactions.
- Review of regulatory communication.
- Review of the terms of reference and Committee's effectiveness. The Committee undertook a review of its terms of reference and of its own effectiveness.
- Review of risk management and internal controls. The Committee recommended to the Board the annual reports of Risk Management, Information Security, ICAAP and ILAAP.

The Chairman of the Committee reported to the Board after each meeting to ensure all Directors were fully informed of the Committee's activities.

## 6. Remuneration Policy Report

The Remuneration Policy Report was prepared by the Board following a proposal by the HRRC in accordance with Annex 1 of the CSE Code and the UK Code. It is presented in the 2017 Annual Financial Report of the Group, after the Corporate Governance Report. The Remuneration Policy Report is presented to the AGM of shareholders for approval. Information on the remuneration of the members of the Board for the year 2017 is disclosed in Note 49 of the Consolidated Financial Statements of the Group, as well as in the Remuneration Policy Report.

## 7. Shareholder Relations

Mrs Annita Pavlou, Manager Investor Relations Department, has been appointed by the Board as Investor Relations Officer, responsible for the communication between shareholders and the Group since 30 August 2016. Information concerning the Group is provided to shareholders, prospective investors, brokers and analysts in a prompt and unbiased manner free of charge.

The Group uses its website ([www.bankofcyprus.com](http://www.bankofcyprus.com)) to provide shareholders and potential investors with recent and relevant financial information, including the annual, the mid-year financial report and quarterly results, announcements and presentations.

The Investor Relations section of the Group's website is updated with all announcements published on the LSE and CSE as these are made. It also contains contact details for the Investor Relations Department.

Directors receive an investor relations update from management at all scheduled Board meetings. This update typically includes market updates, share price and valuation analysis, updates on analysts' reports and share register analysis.

One of the responsibilities of the Chairman of the Board is to ensure that the views, issues and concerns of shareholders are effectively communicated to the Board and to ensure that Directors develop an understanding of the views of major investors. The SID, Mr. Michael Spanos, is available to shareholders if they have concerns that are not resolved through the normal communication channels.

All shareholders of the Company are treated on an equal basis. There are no shareholders with special control rights. Shareholders are promptly and accurately informed of any material changes regarding the Group, including its financial condition, financial results, ownership and governance.

## 7. Shareholder Relations (continued)

Under the Irish Companies Act 2014, one or more members holding at least 3% of the issued share capital of the Company, representing at least 3% of the total voting rights of all the members who have a right to vote at the meeting to which the request for inclusion of the item relates, has the right to: (a) put an item on the agenda of the AGM provided that the item has been accompanied by stated grounds justifying its inclusion or a draft resolution to be adopted; and (b) to table a draft resolution for an item on the agenda of a general meeting. Such a request must have been received by the Company at least 42 days prior to the relevant meeting.

Any change or addition to the Articles of Association of the Company is only valid if approved by special resolution at a meeting of the shareholders.

Major shareholders do not have different voting rights from those of other shareholders. As at 31 December 2017 the following were the major shareholders in Bank of Cyprus Holdings Public Limited Company:

• Lamesa Investments Limited	9.27%
• European Bank for Reconstruction and Development	5.02%
• Cyprus Popular Bank Public Co Ltd	4.81%
• TD Asset Management	4.34%
• Senvest Management LLC	3.67%
• Osome Investments Ltd	3.32%
• Eaton Vance	3.07%

In accordance with the Company's Constitution, at the Company's annual general meeting in 2017:

- The Directors were authorised to allot shares up to an aggregate of 147,245,978 ordinary shares of €0.10 each and a further 147,245,978 ordinary shares of €0.10 each in the case of a Rights Issue (as defined in the notice for that general meeting). The Directors were authorised to issue and allot those shares as if the pre-emption provisions set out in section 1022 of the Companies Act 2014 are dis-applied in respect of:
  - (i) in the case of a Rights Issue, the aggregate number of ordinary shares of €0.10 each authorised to be issued pursuant to such Rights Issue (as defined in the notice for that general meeting); and (ii) 22,309,997 ordinary shares of €0.10 otherwise than (i); and
  - a further 22,309,997 ordinary shares of €0.10 each for specified transactions.
- the Directors were also authorised to issue, allot, grant options over or otherwise dispose of Additional Tier 1 ("**AT1 ECNs**") and ordinary shares pursuant to the conversion or exchange of AT1 ECNs provided that this be limited to the issue, allotment, grant of options over or other disposal of ordinary shares of an aggregate nominal amount €6,662,999 and of AT1 ECNs convertible or exchangeable into ordinary shares up to such maximum aggregate nominal amount, and the pre-emption provisions set out in section 1022 of the Companies Act 2014 in respect of this authority were dis-applied.
- The Directors were also authorised to make purchases of up to 10% of the Company's shares. Such purchases may be made only at price levels which the Directors considered to be in the best interests of the shareholders generally, after taking into account the Company's overall financial position. In addition, the minimum price which may be paid for such shares shall not be less than the nominal value of the shares and the maximum price will be the higher of 105% of the average market price of such shares and the amount stipulated by Article 5(1) of the EU Market Abuse (Buyback and Stabilisation) Regulation.

The authority conferred in each of the above resolutions expires on the earlier of close of business on the date of the AGM of the Company to be held in 2018 or on 30 September 2018.

The AGM was held on 29 August 2017 at the Company's headquarters. The Chairman of the Board (who is also the Chairman of the NCGC) and the Chairmen of the AC, the RC and the HRRC were present to hear the views of the shareholders and answer questions. As is the practice, all Directors of the Board at the time of the AGM attended the AGM. At the 2017 AGM, separate resolutions were proposed on each substantially separate issue and voting was conducted by poll. The results of every AGM of the Company including details of votes cast for and against on each resolution are posted on the Group's website [www.bankofcyprus.com](http://www.bankofcyprus.com) and released to the London and Cyprus Stock Exchanges.

The AGM of the Company in 2018 is scheduled to be held on 28 August 2018.

## Remuneration Policy Report for the year 2017

### 1. Introduction

In accordance with the provisions of the CSE Code published by the CSE (4<sup>th</sup> Edition (Revised) April 2014) and in particular Annex 1 of the CSE Code, the HRRC prepares the Annual Board of Directors' Remuneration Policy Report which is ratified by the Board and submitted to the shareholders' AGM. The Board of Directors Remuneration Policy Report for the year 2017 was ratified by the Board on 26 March 2018.

The Bank of Cyprus Group's objective to attract, develop, motivate and retain high value professionals is considered fundamental in achieving the goals and objectives of the Group and ensuring that the right people are in the right roles whilst managing the Group's remuneration strategy and policies in a manner aligned with the Group's shareholders.

### 2. Human Resources and Remuneration Committee

The Committee's primary role is to ensure that staff members contribute to sustainable growth by staying ahead of challenges and opportunities.

The Group aims to review its remuneration policies and practices on an ongoing basis and amend them where necessary, with the aim of ensuring that they are consistent with and promote sound and effective risk management.

Every year, the Committee proposes to the Board the Annual Remuneration Policy Report as part of the Annual Report of the Group, which is submitted to the shareholders' AGM for approval. The Committee also reviews the related party transactions note (Note 49) of the Consolidated Financial Statements of the Group and the Remuneration Policy Report itself.

#### 2.1 Terms of Reference of the Human Resources and Remuneration Committee

The role of the Committee is:

- To ensure that the Group is equipped with the human capital necessary for the achievement of its strategic goals, whose reward will be based on personal performance and Group results.
- To ensure that the Group is equipped with the organisational capital to be able to effect continuous improvement.
- To ensure that the Group is equipped with the information capital and the technology necessary to facilitate process improvements that will create a comparative advantage in the market.
- To propose adequate remuneration considered necessary to attract and retain high value-adding professionals. Therefore, remuneration has to be satisfactory vis-a-vis peer companies.
- To set the overarching principles and parameters of compensation & benefits policies across the Group and exercise oversight for such issues.
- To consider the remuneration arrangements of the executive Directors of the Group, other identified staff and the employee compensation policy bearing in mind the EBA Guidelines on remuneration policies and practices, the CBC Governance Directive and the CSE Code.

The Committee reviews the implementation and effectiveness of the Remuneration Policy and ensures this is in compliance with the Remuneration Framework of the CBC Governance Directive.

The Committee exercises oversight of negotiations with the labour union in Cyprus and provides guidance and support to management. It advises the Board on the approval of the collective agreements and reviews the framework of industrial relations and collective agreements to ensure they are relevant to best practices and conducive to good performance.

## **Remuneration Policy Report for the year 2017** (continued)

### **2. Human Resources and Remuneration Committee** (continued)

#### **2.1 Terms of Reference of the Human Resources and Remuneration Committee** (continued)

It ensures that internal control functions are involved in the design, review and implementation of the Remuneration Policy and that staff members who are involved in the design, review and implementation of the Remuneration Policy and practices have relevant expertise and are capable of forming independent judgement on the suitability of the Remuneration Policy and practices, including their suitability for risk management.

The Committee reviews any voluntary retirement/separation schemes for material subsidiaries in cooperation with the Group Human Resources Division ('HRD') and succession planning for all divisions and subsidiaries for Senior Management throughout the Group.

The Committee monitors compliance with the Code of Conduct and reviews disciplinary controls and measures of the Group as presented by HRD on an annual basis. It also reviews the annual training plan as presented by HRD and approved by the Group CEO and ensures that it creates and/or develops the right competencies and behaviours that are necessary for meeting the Group's strategic priorities.

The Committee reviews and approves the content of any resolutions submitted for approval at the AGM of the shareholders, which are prepared by the Company Secretary in cooperation with the Group's legal advisers in accordance with Annex 3 of the Code and concern possible plans for the compensation of members of the Board in the form of shares, share warrants or share options.

#### *Senior Management and other Identified Staff*

The Committee reviews and approves remuneration packages of Group divisional directors, senior managers and subsidiaries' general managers, including salary, pension policy, option plans, and other types of compensation, recommended by the Group CEO or by the Chairmen of the Risk and Audit Committees (in the case of the heads of internal control functions) in consultation with the Group CEO and HRD.

The Committee also reviews the performance appraisals of Group divisional directors (except heads of internal control functions). Senior managers and subsidiaries' general managers' appraisals are performed by the Group CEO.

The Committee reviews and approves appointments, transfers and dismissals of Group divisional directors, senior managers and subsidiaries' general managers (except heads of internal control functions), recommended by the Group CEO, and ensures that all contractual obligations are adhered to.

The Chairman of the Committee is available to shareholders in the AGM to answer any questions regarding the Remuneration Policy of the Group.

### **3. Governance of Group Remuneration Policy**

#### **3.1 Principles of the CSE Code of Corporate Governance**

Companies should implement official and transparent procedures for developing policies concerning the remuneration of executive Directors and fixing the remuneration of each Board member separately.

The level of remuneration should be sufficient to attract and retain talent required for the efficient operation of the Company. Part of the remuneration of executive Directors should be determined in such a way as to link rewards to corporate and individual performance. Resolution, or any other authority allowing, variable pay should be linked to performance.

The Company's Corporate Governance Report includes a statement of the Remuneration Report and relevant criteria, as well as the total remuneration of the executive and non-executive members of the Board.

## **Remuneration Policy Report for the year 2017** (continued)

### **3. Governance of Group Remuneration Policy** (continued)

#### **3.2 EBA Guidelines**

The EBA Guidelines aim to ensure that an institution's remuneration policies and practices are consistent with and promote sound and effective risk management. The Group seeks to ensure it implements remuneration policies which are in compliance with regulatory guidelines, while at the same time operating under legal and regulatory constraints.

In accordance with EBA guidelines for identification of those employees whose professional activities are deemed to have a material impact on the Group's risk profile, the Group maintains a list of these employees known as Material Risk Takers.

### **4. Remuneration**

#### **4.1 Remuneration of non-Executive Directors**

The remuneration of non-executive Directors is not linked to the profitability of the Group. It is related to the responsibilities and time devoted for Board meetings and decision-making for the governance of the Group, and for their participation in the committees of the Board and any participation in the boards of Group subsidiary companies. The shareholders' AGM held on 29 August 2017 approved the same levels of remuneration as those approved by the shareholders' AGM on 25 October 2016 also approving remuneration for the members and Chairperson of the Technology Committee established in February 2017.

The Committee proposes fees payable to the Chairman and the Vice Chairman, while the Chairman makes recommendations for the remuneration of the non-executive Directors to the Board for approval by the AGM, considering the following factors:

- The time allocated and effort exerted by non-executive Directors to meetings and decision-making in the management of the Group.
- The undertaken level of risk.
- The increased compliance and reporting requirements.
- The requirement not to link remuneration of non-executive Directors to the profitability of the Group.
- The requirement that non-executive Directors do not participate in the pension schemes of the Group.
- The requirement not to include share options as remuneration of non-executive Directors.

Neither the Chairman nor any Director participates in decisions relating to their own personal remuneration.

The Chairman receives annual fees of €120,000, the Vice Chairman of €80,000, the SID of €70,000 and the members of €45,000. Additionally the Group reimburses all Directors for expenses incurred in the course of their duties.

The Chairmen of the Audit and Risk Committees receive annual fees of €45,000 each and members receive €25,000. The Chairmen of the HRRC, the Nominations and Corporate Governance Committee (NCGC) and the Technology Committee (TC) receive annual fees of €30,000 each. Each member of the HRRC and the TC receives €20,000 per annum, while each member of the NCGC receives €15,000 per annum.

#### **4.2 Remuneration and Other Benefits of Executive Directors**

##### *Executive Directors*

The Committee reviews and approves the remuneration packages vis-a-vis their performance. The Group CEO and the Group Deputy CEO & Chief Operating Officer ('DCEO & COO') are employees of BOC PCL.

#### **Contracts of Employment**

The employment contract of the Group CEO, Mr. John Patrick Hourican, has been extended up to 31 December 2018.

## **Remuneration Policy Report for the year 2017** (continued)

### **4. Remuneration** (continued)

#### **4.2 Remuneration and Other Benefits of Executive Directors** (continued)

No amount of variable remuneration has been paid during 2017 and 2016. In line with the 2016 and 2017 SREP decisions, the variable pay is capped at 10% of consolidated net revenues.

#### **Service Termination Agreements**

The service contract of the Group CEO includes a clause for termination, by service of four months' notice to that effect by the executive Director, without cause but at BOC PCL's sole discretion. In such a case, BOC PCL shall have the right to pay the Director, in lieu of notice for immediate termination.

The terms of employment of Dr Christodoulos Patsalides, DCEO & COO and executive member of the Board, are mainly based on the provisions of the collective agreement in place, which provides for notice or compensation by the BOC PCL based on years of service and for a four month prior written notice by the executive director in the event of a voluntary resignation.

#### **Bonus**

No bonus was recommended by the Company's Board for executive Directors for 2017.

#### **Retirement Benefit Schemes**

The Group CEO, Mr. John Patrick Hourican, and the DCEO & COO, Dr Christodoulos Patsalides, participate in a defined contribution plan on the same basis as other employees.

The main characteristics of the retirement benefit schemes are presented in Note 14 of the Consolidated Financial Statements for the year ended 2017.

#### **Share Options**

No share options were granted to the executive Directors during 2017.

#### **Other Benefits**

Other benefits provided to the executive Directors include medical fund contributions and life insurance. The Group CEO is provided with other benefits related to his relocation and residence in Cyprus. The relevant costs for the executive Directors are disclosed in Note 49 of the Consolidated Financial Statements for the year ended 2017.

The Group CEO, Mr Hourican, receives and retains fees relative to his appointment as a non-executive on the Board of Atradius N.V. of €50,000.

## 5. Information Regarding the Remuneration of Directors for Year 2017

	Remuneration for services* €	Remuneration for participation in the Board of Directors and its Committees €	Total remuneration for services €	Remuneration and benefits from other Group companies €	Remuneration in the form of profit and/or bonus distribution €	Assessment of the value of benefits that are considered to form remuneration €	Total remuneration and benefits €	Annual contribution to retirement benefits €
<b>Executive Directors</b>								
John P. Hourican	2,180,370	-	2,180,370	-	-	-	2,180,370	184,500
Christodoulos Patsalides	210,835	-	210,835	-	-	-	210,835	17,550
<b>Non-Executive Directors</b>								
Josef Ackermann	-	150,000	150,000	-	-	-	150,000	-
Maksim Goldman	-	120,000	120,000	-	-	-	120,000	-
Wilbur L. Ross	-	20,000	20,000	-	-	-	20,000	-
Arne Berggren	-	115,000	115,000	-	-	-	115,000	-
Anat Bar-Gera		15,245	15,245				15,245	
Lyn Grobler		72,158	72,158				72,158	
Michael Heger		110,000	110,000	-	-	-	110,000	-
Marios Kalochoritis	-	45,000	45,000	-	-	-	45,000	-
Michael Spanos	-	100,000	100,000	-	-	-	100,000	-
Ioannis Zographakis	-	135,000	135,000	-	-	-	135,000	-
	<b>2,391,205</b>	<b>882,403</b>	<b>3,273,608</b>	-	-	-	<b>3,273,608</b>	<b>202,050</b>

\* Includes employers' contributions excluding contributions to retirement benefits.

26 March 2018