

**Annual Corporate Governance Report 2018**

## Introduction

Good governance generates trust and engagement between a company and its stakeholders and contributes to the company's long term success. Accountability, integrity, transparency, fairness, equity, sustainability and ethics are all fundamental values of good governance. 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 apply 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 2018. The Company applies the provisions of the Code throughout the Group. As at the date of this Report, all significant subsidiary companies maintain an Audit Committee and a Risk Committee.

The Directors further consider that the Company has also complied with the provisions of the UK Code.

Details of how the Company has applied the provisions of the CSE Code throughout 2018 are set out in this Corporate Governance Report and in the Remuneration Policy Report which comes next. 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 believes that its governance framework is robust 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 (the 'CBC').

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 Nominations and Corporate Governance Committee (the 'NCGC'), the Human Resources and Remuneration Committee (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 Board derives its authority to act from the Articles of Association of the Company and the prevailing companies, stock exchange and banking laws, the directives of the CBC, as well as the CSE and UK Codes. The role of the Board and its committees is well described and analysed in the Board Manual that is annually fully revised and incorporates all responsibilities that emanate from the regulatory framework.

### 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.

The Board is responsible for ensuring that 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.

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. A formal schedule of matters reserved for approval by the Board ensures that control of these key decisions is maintained by the Board. The schedule is reviewed and updated regularly. Matters requiring Board approval include amongst others:

- The Group's long-term objectives and strategy;
- The overall risk policy and risk management procedures;
- The Group's Risk Appetite Statement;
- The 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;
- The establishment and oversight of policies for selecting, developing and replacing senior management and heads of internal control functions;
- The Remuneration Policy; and
- The declaration of a Recovery Emergency Situation.

Moreover the Board is responsible for:

- Overseeing the corporate governance and succession planning framework; and
- Setting the right tone and promoting the appropriate culture, values and ethics of the Group;

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.

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

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

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 46 to 49 of the Consolidated Financial Statements and the Additional Risk and Capital Management Disclosures section of the 2018 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 (the '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.

## 1. Board of Directors (continued)

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

#### 1.1.1 Information and Support (continued)

The key areas of focus in 2018 for the Board, inter alia, were:

Business environment	<ul style="list-style-type: none"> <li>• Cyprus economic development;</li> <li>• Quarterly economic reports;</li> <li>• Investors and stakeholder perspectives;</li> <li>• Market updates and share trading activity.</li> </ul>
Group Strategy and risk appetite	<ul style="list-style-type: none"> <li>• Approval of the Group's Risk Appetite Statement;</li> <li>• Three-year business and capital plan;</li> <li>• Acquisitions and divestments;</li> <li>• Resolution Plan &amp; Minimum Requirement for own funds and Eligible Liabilities (MREL);</li> <li>• Progress of the Bank's Digital Transformation Program;</li> <li>• Review of divisional and business unit strategies;</li> <li>• Succession Planning;</li> <li>• Review of strategic and operational plan to address NPEs.</li> </ul>
Business performance	<ul style="list-style-type: none"> <li>• Review of the performance of Corporate Finance projects;</li> <li>• Progress of REMU;</li> <li>• Progress of shipping business;</li> <li>• Progress of Overseas Loan Book;</li> <li>• Review and approval of Group financial performance updates, forecasts, budgets, capital position;</li> <li>• Potential AT1 issuance.</li> </ul>
Risk management	<ul style="list-style-type: none"> <li>• Approval of Internal Capital Adequacy Assessment Process ('ICAAP') Report;</li> <li>• Approval of Internal Liquidity Adequacy Assessment Process ('ILAAP') Report;</li> <li>• Review of monthly risk reports;</li> <li>• Approval of Annual Risk Report;</li> <li>• Action Plan to implement Supervisory Review and Evaluation Process (SREP) recommendations;</li> <li>• Approval of the Group Recovery Plan;</li> <li>• Review of business and capital plan;</li> <li>• Directors &amp; Officers (D &amp; O) liability insurance.</li> </ul>
Governance and regulatory compliance	<ul style="list-style-type: none"> <li>• Approval of appointments to the Board and major subsidiary boards;</li> <li>• Review of corporate governance matters;</li> <li>• Approval of Corporate Governance Policy;</li> <li>• Action Plan to implement the revised 2018 UK Corporate Governance Code;</li> <li>• Approval of Group Regulatory &amp; Ethics Compliance Department (RECD) Annual Report;</li> <li>• Approval of Group Financial Crime Compliance Department (FCCD) Annual Report;</li> <li>• Board performance evaluation.</li> </ul>

### 1.2 Composition of the Board of Directors

As at 31 December 2018, the Board comprised of twelve Directors: the Group Chairman who was independent on appointment, two Executive Directors and nine Non-executive Directors. The Board has determined eight of the Non-executive Directors to be independent Non-executive Directors in accordance with the provisions of the UK Code and the CSE Code.

The names and brief biographical details including each Director's background, experience and independent status are set out in section 4 of this report.

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

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

The NCGC annually reviews the structure, size, 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. Further, should the overall size of the Board be altered by any appointment or resignation, a review is undertaken to ensure that the composition remains appropriate. The Board regards 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 (the 'CBC Fitness & Probity Directive'). All changes in circumstances disclosed were assessed and their materiality determined. Following the review of 2018, no material 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.

#### **Executive Directors**

The Group CEO and the Group Deputy CEO & Chief Operating Officer (the 'DCEO & COO') are employees of BOC PCL. The Group CEO's termination of employment is subject to six months' notice to that effect to be given to the Executive Director, without cause but at the sole discretion of BOC PCL. 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 and to monitor the reporting of the performance. Non-executive Directors must also 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 2018 the Board held 13 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 2018 the Board held an offsite two day meeting specifically focused on strategy.

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

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

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

**Board of Directors 1/1/2018-31/12/2018**

Name	Board of Directors	AC	HRRC	NCGC	RC	AC & RC Joint
Josef Ackermann (Chairman)	13/13			10/10		
Maksim Goldman (Vice Chairman)	13/13			10/10	16/16	6/6
Anat Bar-Gera	13/13		10/10			
Arne Berggren	13/13	13/13			16/16	6/6
Lyn Grobler	13/13			10/10		
Paula Hadjisotiriou <sup>1</sup>	7/7	5/5			7/7	2/2
Michael Heger	13/13	13/13	10/10			6/6
John P. Hourican	13/13					
Christodoulos Patsalides	13/13					
Maria Philippou <sup>2</sup>	8/8		5/5			
Michael Spanos	12/13		9/10			
Ioannis Zographakis	13/13	13/13			15/16	6/6
<b>Total meetings<sup>3</sup></b>	<b>13</b>	<b>13</b>	<b>10</b>	<b>10</b>	<b>16</b>	<b>6</b>

1 Appointed on 13 August 2018

2 Appointed on 23 July 2018

3 The number of Board meetings at BOC PCL level was 20 during the year 2018. The attendance of these meetings can be found on page 303.

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 and 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.

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 assuming a satisfactory performance and subject to the needs of the business, shareholder re-election and continuing fitness and probity. A Non-executive's term of office will not extend beyond 12 years in total and any re-appointment beyond 6 cumulative years is subject to rigorous review and takes into account the need for progressive refreshing of the Board.

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. Board of Directors** (continued)

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

#### **1.2.2 Term of Appointment, Retirement and Re-election of Directors** (continued)

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. A rigorous review of their skills, experience, independence and knowledge was carried out in March 2018 and the Board concluded that they continue to be effective and make a valuable contribution to the deliberations of the Board. The following Directors, being eligible, offered themselves for re-election and were re-elected at the Annual General Meeting (the 'AGM') on 28 August 2018: Josef Ackerman, Maksim Goldman, Anat Bar-Gera, Arne Berggren, Lyn Grobler, Michael Heger, John Patrick Hourican, Christodoulos Patsalides, Michael Spanos and Ioannis Zographakis. Maria Philippou, appointed on 23 July 2018 and Paula Hadjisotiriou, appointed on 13 August 2018 were also elected to the Board. The names of Directors submitted for election or re-election are accompanied by sufficient biographical and other relevant information in the AGM documentation to enable shareholders to take an informed decision.

#### **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 2018. All Directors and PDMRs have been informed of 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 51 of the Consolidated Financial Statements of Bank of Cyprus Holdings).

#### **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, inter alia, 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.

BOC PCL has been classified as a 'significant institution' under the European Union (Capital Requirements) Regulation 2014. The CBC Fitness and Probity Directive which incorporates the provisions of Article 91 of the European Capital Requirements Directive ('CRD IV') on management bodies of credit institutions, determines that a Director cannot hold more than one of the following combinations:

- One executive directorship with two non-executive directorships; or
- 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.

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 four 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 2018, all Directors were within the directorship limits set out for 'significant institutions'.



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

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

#### **1.2.4 Time commitment** (continued)

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 2018, each Non-executive Director spent at least 40 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 clear and distinct. The two roles are segregated 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; and
- Promoting high standards of corporate governance.

The Chairman commits a substantial amount of time to the Group. There were no material changes to the other significant commitments of the Chairman during the year ended 31 December 2018. 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; and
- 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 August 2018 and his contract was then extended from December 2018 until December 2020. On 3 March 2019, the Group CEO made known his decision to leave the Group in September 2019.

#### **1.2.6 Senior Independent Director**

The Senior Independent Director (the '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, as well as 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. Board of Directors** (continued)

### **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 determine the independence status of each Director on appointment. In addition, a review of the independence status of each Director takes place annually to ensure that the determination regarding independence remains appropriate.

In 2018 the Board considered the principles relating to independence contained in the CSE Code, the UK Code and 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.

Up until 4 June 2018, Mr. Maksim Goldman, was 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 or 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 is responsible for the appointment of Directors and recognises the need to identify the best qualified and available people to serve on the Board. In accordance with the Board Nominations Policy and the Board Diversity 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.

The NCGC, prior to assessing candidates, identifies the skills and experience required for the role, assesses the time commitment involved and with due 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 carry out comprehensive due diligence. In accordance with the Board Nominations Policy, the assessment and due diligence process is extensive and includes self-certification confirmations of probity and financial soundness as well as 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 as well as 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 Paula Hadjisotiriou and Mrs Maria Philippou in January 2018. Egon Zehnder, an external search consultancy firm with no other connection to the Company, was engaged in respect of these Non-executive Director appointments.

The same firm was also engaged to identify the right candidate for the Board following the announcement of the Chairman's decision to retire from the Board at the upcoming AGM. On 26 February 2019 Mr. Arapoglou was appointed to the Board subject to ECB consent. The Board intends to consider Mr. Arapoglou as a candidate to succeed Dr Ackermann to the Chair, following the AGM of 14 May 2019.

In the meantime, Mr. Spanos resigned from the Board on 21 January 2019, and Mr. Zographakis was appointed as Senior Independent Director on 26 February 2019. On 3 March 2019, the Group CEO made known his decision to leave the Group in September 2019. The NCGC is currently re-assessing the composition of the Board.

## 1. Board of Directors (continued)

### 1.3 Board Balance and Independence (continued)

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

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, corporate governance 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 Directors' 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 Business units and briefings with senior management. Dedicated training sessions also take place on particular issues (refer to table below for 2018 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.

#### Training sessions for the Board members during 2018

Name	ILAAP	*	**	Without Question	GDPR	***	General Banking	AML	ICAAP
J. Ackermann	√	√	√	√	√	√	√	√	√
M. Goldman	√	√	√	√	√	√	√	√	√
A. Bar-Gera	√	√	√	√	√	√	√	√	√
A. Berggren	√	√	√	√	√	√	√	√	√
L. Grobler	√	√	√	√	√	√	√	√	√
P. Hadjisotiriou	N/A	N/A	√	√	√	√	√	√	√
M. Heger	√	√	√	√	√	√	√	√	√
J. Hourican	√	√	√	√	√	√	√	√	√
C. Patsalides	√	√	√	√	√	√	√	√	√
M. Philippou	N/A	N/A	√	√	√	√	√	√	√
M. Spanos	√	√	√	√	√	√	√	√	√
Y. Zographakis	√	√	√	√	√	√	√	√	√

\* Assessment of Suitability of members of the management body

\*\* Information Security Awareness Programme

\*\*\* Update on Competition Law

The training material is distributed to all Directors regardless of attendance. In 2018, most of the training was in the form of e-learning sessions with an assessment quiz at the end.

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.

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

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

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

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 objective of these evaluations is to review past performance with the aim of identifying any opportunities for improvement, determining whether the Board or committee as a whole is effective in discharging its responsibilities and, in the case of individual Directors, to determine whether each Director continues to contribute effectively and to demonstrate commitment to the role. The internal evaluation of the performance of the Board, its committees and individual members conducted in March 2018 by the CGCO, indicated a strong and diverse composition of experiences that could however, be further enhanced by appointing more members with HR background, while at the same time striving for gender diversity. The external Board performance evaluation report in early 2018 by SpencerStuart, made several recommendations and along with the recommendations of the internal evaluation, an action plan for the implementation of these recommendations was set up. The assessments carried out through on-line questionnaires and interviews 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. Several 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. 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 chairperson of each principal Board committee led the self-assessment process in respect of committee performance. The process was supported by the completion of questionnaires tailored to each specific committee. The results of this process were considered by each individual committee with conclusions and any relevant recommendations reported to the Board. The effectiveness of each of the four principal committees was assessed as adequate.

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 51 of the Consolidated Financial Statements for the year ended 31 December 2018.

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:

## 1. Board of Directors (continued)

### 1.3 Board Balance and Independence (continued)

#### 1.3.4 Loans to Directors and Other Transactions (continued)

- Approval 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 2018.

## 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; and
- 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.

The overall system of internal controls of the Group includes:

- 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 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, it has conducted reviews for the year ended 31 December 2018, 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 (the 'GCRO'), internal and external audit reports, as well as regulatory reports.

## 2. Internal Controls (continued)

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. At the same time, all members of the senior management team of the Bank provide written representations to the Group CEO on a quarterly basis as to the effectiveness of the system of internal controls. Similar representations are given on an annual basis by the Director Group Compliance and the GCRO.

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 Company's framework of internal controls.

Based on the internal audit work carried out in 2018, reasonable assurance, with emphasis on specific matters, is provided that the system of internal controls within the Group is adequately designed and operates effectively to address significant risks according to the risk appetite set by the Board of Directors. Emphasis is provided on specific areas and namely on non-performing exposures (NPEs) and arrears management process, as well as specific areas within the Information Systems and Information Security environment. More specifically, despite the fact that steps have been taken by management for de-risking the balance sheet, as well as for addressing high risk technology and security related weaknesses, further actions are still required.

Overall, the Board of Directors through its committees has reviewed the effectiveness of the system of internal controls of the Group for the year ended 31 December 2018 and confirms its effectiveness. The Board also 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 prior to 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.

### 2.1 Going concern

The Directors have made an assessment of the Group's ability to continue as a going concern for a period of 12 months from the date of approval of these financial statements. The Directors believe that the Group is taking all necessary measures to maintain its viability and the development of its business in the current economic environment.

In making this assessment, the Directors considered the significant transactions during 2018 which have had a positive impact on the capital position of the Group, including the disposal of BOC UK, the agreement for the sale of non-performing loans and the issuance of €220 million Additional Tier 1 Capital Securities. The Directors have also considered the legislative amendments on the Income Tax Law Amendment 28 (I) of 2019, enacted on 1 March 2019, which allow for the conversion of specific deferred tax assets into deferred tax credits, the Group's Financial and Capital Plan and the developments in the operating environment in Cyprus (Note 4 of the Consolidated Financial Statements)

The Group has developed a Financial and Capital Plan (the 'Plan'), which has been approved by the Board in February 2019. One of the most important objectives of the Plan was to ensure that the Group has sufficient resources and capital in order to continue the balance sheet de-risking and further deal with the residual NPEs. The IFRS9 impact on a fully phased-in basis has been considered within the Group's capital plan.

## 2. Internal Controls (continued)

### 2.1 Going concern (continued)

Despite the implementation risk associated with the outcome of future events outlined in the Plan at the reporting date, the Directors believe that there is sufficient capital throughout the period of assessment to meet regulatory capital requirements. The Group will continue its de-risking strategy and remains focused to implement the actions contemplated in the Plan.

The Directors, in making their assessment, have given particular attention to the regulatory requirements relating to capital and liquidity as follows:

#### *Non-Performing Exposures*

- The continued organic reduction (now achieved for fifteen consecutive quarters) of the Group's NPEs which have decreased from €8,804 million in December 2017 to €7,518 million at 31 December 2018 and are further reduced to €4,768 million pro forma for Project Helix (Note 4.2.2 of the Consolidated Financial Statements); and
- The reduction of NPEs has been a regulatory focus for a number of years and will continue to be so. The Group is currently preparing an updated NPE strategy plan for the years 2019-2021 which will be submitted to the ECB by end of June 2019. The Directors believe that the reduction of NPEs is a significant factor with regard to the future viability of the Group as a pillar bank in Cyprus.

#### *Capital*

The Common Equity Tier 1 (CET1) ratio and the total capital ratio on a transitional basis stood at 12.1% and 14.9% respectively at 31 December 2018, higher than the minimum required ratios (Note 4.2.1 of the Consolidated Financial Statements).

Following the Annual Supervisory Review and Evaluation Process (SREP) performed by the ECB in 2018 and based on the final 2018 SREP decision received on 27 March 2019, the Group's minimum phased in CET1 ratio and Total Capital ratio remain unchanged, when ignoring the phasing-in of the Capital Conservations Buffer and the Other Systemically Important Institution Buffer. The final 2018 SREP decision will apply from 1 April 2019.

The projected capital ratios of the Group indicate that there will be sufficient capital throughout the period of assessment when considered in conjunction with the following items:

- The phase-in of IFRS9. The Group has elected to apply the EU transitional arrangements for regulatory capital purposes (EU Regulation 2017/2395) where the total impact on adoption of IFRS 9 of €308,511 thousand, on 1 January 2018 and any subsequent increase allowed by the regulation for phasing in (i.e. increase in Stage 1 and Stage 2 allowance), will impact the capital ratios over a period of 5 years. The impact on the regulatory capital is being phased-in based on a weighting factor until it is fully absorbed at the end of the five years. The initial impact of IFRS 9 was phased-in by 5% on 1 January 2018 regulatory capital and increases to 15% (cumulative) on 1 January 2019;
- The enactment of the Income Tax Amendment Law 28 (I) of 2019 by the Cypriot parliament in March 2019, allowing for the conversion of the Group's deferred tax assets into deferred tax credits. This results in a more capital efficient tax asset. The law will result in improved regulatory capital treatment under CRR and will increase CET1 by c. 170 bps (unaudited) on a transitional basis as at 31 December 2018. This improvement includes the impact from a reversal of impairment of the related deferred tax asset of approximately €108 million recognised during 2017 and 2018, which will be reversed in 2019 Income Statement of the Group; and
- The regulatory capital position of the Group will strengthen further, upon completion of the sale of loans and advances to customers (the 'Helix Portfolio' or the 'Transaction'), largely NPEs, classified as held for sale (Note 30 of the Consolidated Financial Statements). A significant step towards completion of the Transaction was the ECB approval of the Significant Risk Transfer (the 'SRT') for regulatory capital purposes. BOC PCL has received the SRT approval on 18 March 2019. The completion of the Transaction remains subject to various other conditions precedent. On completion, the de-recognition of the Helix Portfolio will have a positive impact on the Group's CET1 ratio, of 160 basis points, resulting from the release of risk weighted assets. Completion is currently expected to occur in the early second quarter of 2019.

## **2. Internal Controls** (continued)

### **2.1 Going concern** (continued)

#### *Funding and liquidity*

- The Group has made a significant improvement in its liquidity position and ratios; and
- The Group is in compliance with the Liquidity Coverage Ratio (LCR) and is significantly above the minimum requirements (Notes 4.2.3 and 48 of the Consolidated Financial Statements).

Based on the projections of management of the Group, it is expected that the Group will maintain compliance with these liquidity requirements for the period of the going concern assessment.

### **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; and
- The appointment of the Chairman of the AC, an independent Non-executive Director as a Whistleblowing Champion with specific responsibilities.

Following the Group wide training on whistleblowing through a mandatory e-learning module in 2017, the focus in 2018 was in raising awareness of the whistleblowing procedure through a formal call to action to all employees on their obligations to speak up.

The Board and Group CEO are committed to this policy, which encourages staff to raise concerns and the Group will continue with a number of initiatives to further increase awareness in 2019.

## **3. Other matters**

On 18 January 2017, the Company became the sole shareholder of BOC PCL. 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.



### 3. Other matters (continued)

The table below show attendance of the Directors on the meetings of BOC PCL throughout 2018.

#### Board of Directors of BOC PCL 1/1/2018-31/12/2018

Name	Board of Directors	AC	HRRC	NCGC	RC	AC & RC Joint	TC
Josef Ackermann (Chairman)	20/20			10/10			
Maksim Goldman (Vice Chairman)	20/20			10/10	16/17	7/7	
Anat Bar-Gera	20/20		10/10				9/9
Arne Berggren	20/20	13/13			17/17	7/7	
Lyn Grobler	20/20			10/10			9/9
Paula Hadjisotiriou <sup>1</sup>	8/8	5/5			7/7	2/2	
Michael Heger	20/20	13/13	10/10			7/7	9/9
John P. Hourican	20/20						
Christodoulos Patsalides	20/20						
Maria Philippou <sup>2</sup>	9/9		5/5				
Michael Spanos	17/20		9/10				
Ioannis Zographakis	20/20	13/13			17/17	7/7	9/9
<b>Total meetings</b>	<b>20</b>	<b>13</b>	<b>10</b>	<b>10</b>	<b>17</b>	<b>7</b>	<b>9</b>

1 Appointed on 13 August 2018

2 Appointed on 23 July 2018

#### 3.1 Company Secretary

The Board appointed Mrs Katia Santis as the Company Secretary.

#### 3.2 Group Internal Auditor

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

#### 3.3 Corporate Governance Compliance Officer

The Board appointed Mr. Marios Skandalis as Corporate Governance Compliance Officer (CGCO).

### 4. Members of the Board of Directors

#### 4.1 Non-Executive Directors

##### Josef Ackermann (Chairman)

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. He 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.

He 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.

#### 4. Members of the Board of Directors

##### 4.1 Non-Executive Directors

###### Josef Ackermann (Chairman) (continued)

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 Scheizerische 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  
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 an on-going basis

###### Committee Membership:

Chairman of the Nominations and Corporate  
Governance Committee

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

Mr. Goldman served as Director of Strategic Projects at Renova Group until 4 June 2018 where he was responsible for coordinating the business development of various significant assets under management of the Group. Previously, Mr. Goldman had 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.

###### Term of Office:

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

###### External Appointment:

Stentex s.a.r.L

###### Independent:

No

###### Committee Membership:

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

###### Efstratios-Georgios (Takis) Arapoglou

Mr. Arapoglou is an expert financial consultant. He has served as Chairman and CEO of the National Bank of Greece Group, Chairman of the Hellenic Banks Association, Member of the Board of Eurobank and has held senior management positions with Citibank and Chase Manhattan in the UK and with American Express in Greece. Currently, Mr. Arapoglou is Chairman of the Board of Titan Cement, an international cement company listed on the Athens Stock Exchange and of Tsakos Energy Navigation, a shipping company listed on the New York Stock Exchange.

Mr. Arapoglou holds an MSc in Finance and Management from the University of Brunel, London, a BSc in Naval Architecture and Ocean Engineering from the University of Glasgow and a BA in Mathematics and Physics from the University of Athens.

#### 4. Members of the Board of Directors

##### 4.1 Non-Executive Directors

###### **Efstratios-Georgios (Takis) Arapoglou** (continued)

He has extensive experience in international capital markets and in corporate, commercial and investment banking in South East Europe, the UK, the Middle East and Africa.

###### **Term of Office:**

Appointed to the Board of BOC PCL and the Board in February 2019 (subject to ECB consent)

###### **External Appointment:**

Chairman of the Board of Tsakos Energy Navigation  
Chairman of the Board of Titan Cement SA  
EFG Hermes Holding SAE  
Credit Libanais SAL  
Bank Alfalah Ltd

###### **Independent:**

Yes

###### **Committee Membership:**

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

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**

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 (Chairperson of Technology Committee)**

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:**

Technology Advisory Board at Board Intelligence Ltd  
Hyperion Services Ltd  
Howden Broking Group  
Hyperion & Partners Ltd

**Independent:**

Yes

**Committee Membership:**

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

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

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

###### **Paula Hadjisotiriou**

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.

She 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.

###### **Term of Office:**

Appointed to the Board of BOC PCL and the Board in August 2018

###### **External Appointment:**

None

###### **Independent:**

Yes

###### **Committee Membership:**

Member of the Audit Committee  
Member of the Risk Committee

###### **Michael Heger (Chairman of the Human Resources and Remuneration Committee)**

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.

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

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

##### Michael Heger (Chairman of the Human Resources and Remuneration Committee) (continued)

**Term of Office:**

Appointed to  
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 Human Resources and Remuneration  
Committee (Chairman since 21 January 2019)  
Member of the Audit Committee  
Member of the Technology Committee

##### Maria Philippou

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.

**Term of Office:**

Appointed to the Board of BOC PCL  
and the Board in July 2018

**External Appointment:**

None

**Independent:**

Yes

**Committee Membership:**

Member of the Human Resources and Remuneration  
Committee

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

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). He 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.

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

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

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

**Term of Office:**

Appointed  
the Board of BOC PCL in November 2014  
and the Board in October 2016  
(resigned on 21 January 2019)

**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 (up to 21 January 2019)

###### Ioannis Zographakis (Chairman of the Audit Committee)

Mr. Zographakis is a senior Executive with a broad and diverse international experience in the banking industry. 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. 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:**

National Bank of Greece  
A. Eternity Capital Management Ltd

**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)

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 in Ireland.

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.

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

##### 4.2 Executive Directors (continued)

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

##### Christodoulos Patsalides (DCEO & COO)

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:**

Chairman of the Association of Cyprus Banks  
European Banking Federation  
Cyprus Anti-Cancer Society

**Independent:**

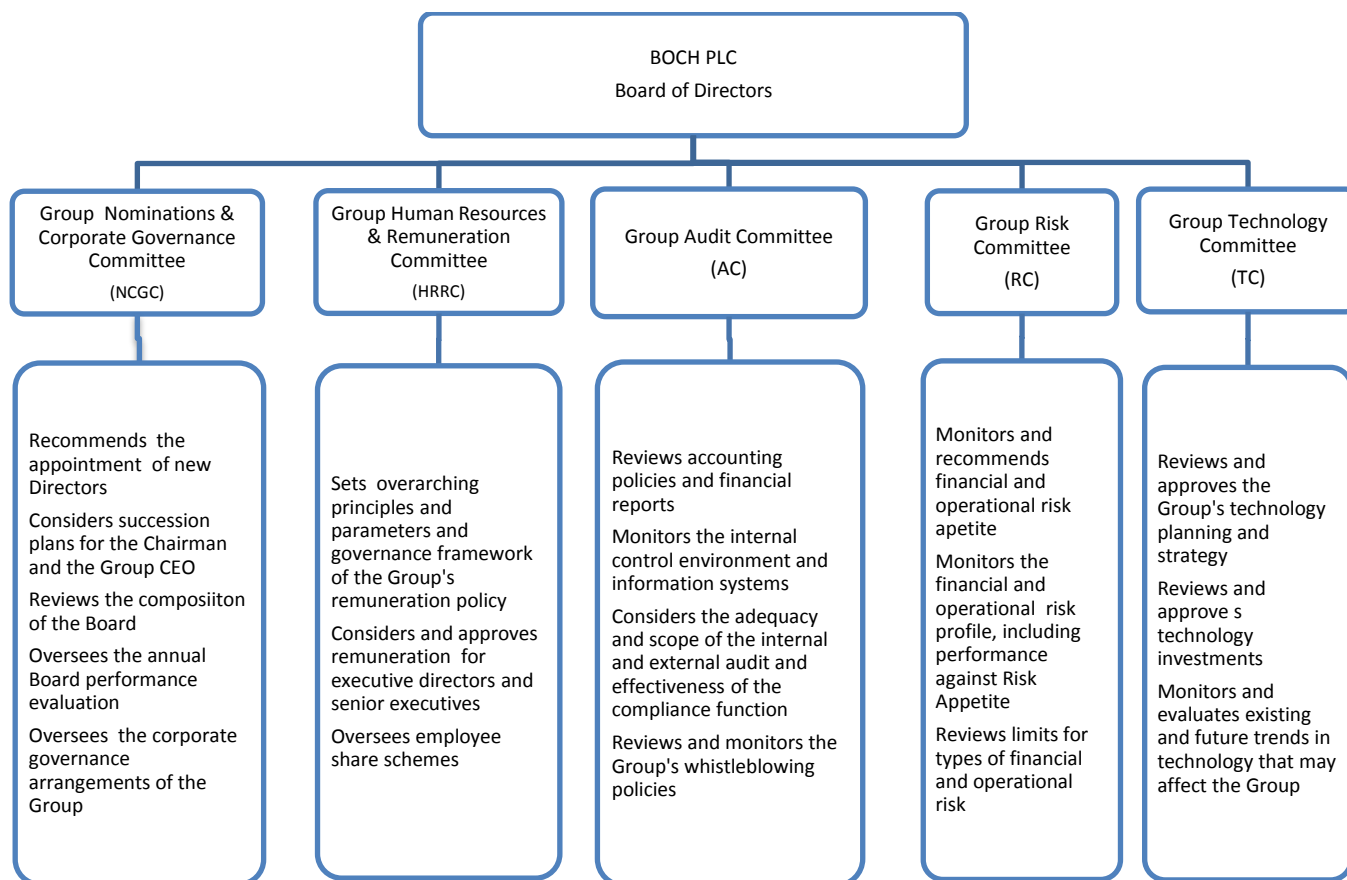
No

**Committee Membership:**

None



## 5. Board Committees



In order to exercise proper oversight of risk and control and pursuant to authority granted under the Articles of Association, 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.

In addition to the principal 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. Board Committees

### 5.1 Nominations and Corporate Governance Committee

As at 31 December 2018 the NCGC comprised three Non-executive Directors, two of whom independent. Its composition is fully compliant with the CSE Code, the UK Code and the CBC Governance Directive. The Chairman of the Board chairs the Committee, except when the NCGC is dealing with the appointment of a successor to the role of Chairperson.

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

The Committee met 10 times in 2018. The Chairman and members of the Committee together with their attendance at meetings are shown below. The Group CEO is invited to attend meetings. The NCGC meets annually with no management present.

#### Member attendance in 2018:

#### NCGC meetings\* in 2018

Josef Ackermann (Chairman)	10/10
Maksim Goldman	10/10
Lyn Grobler	10/10

\* The number of committee meetings at BOC PCL level were 10 during 2018. The attendance of these meetings can be found on page 303.

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;
- 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;
- Considers and authorises a situation in which a Director has, or could have, a direct or indirect interest that conflicts, or possibly may conflict with the interests of the Group, and decides on remedial action to eliminate such conflict or seeks to terminate the situation giving rise to it; and
- Oversees the corporate governance arrangements of material subsidiaries and reviews the evaluation of board performance of the subsidiary boards.

The matters considered and the actions taken by the NCGC during the year are set out in the following table.

## 5. Board Committees (continued)

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

#### Matters considered and action taken by the NCGC in 2018

Board and Committee size and composition	<ul style="list-style-type: none"> <li>• Review of: <ul style="list-style-type: none"> <li>○ Board and Board Committee structure, size and composition;</li> <li>○ Skills, knowledge and expertise;</li> <li>○ Independence of Non-executive members;</li> <li>○ Succession plans taking into account the skills profile and the action plan to achieve the diversity target set for 2020; and</li> <li>○ The annual Board Performance evaluation including its committees and individual Directors.</li> </ul> </li> <li>• Approval of follow-up actions from the externally conducted review by SpencerStuart.</li> <li>• Assessment of the fitness &amp; probity and recommendation for appointment of nominated directors.</li> </ul>
Corporate Governance	<ul style="list-style-type: none"> <li>• Review and approval of revisions to: <ul style="list-style-type: none"> <li>○ The Board Manual and its Appendices;</li> <li>○ Three corporate governance policies: <ul style="list-style-type: none"> <li>▪ The Group Fitness &amp; Probity of Directors, Managers and Key Function Holders;</li> <li>▪ The Group Nominations Policy; and</li> <li>▪ The Group Diversity Policy.</li> </ul> </li> <li>○ The 2018 Action Plan for corporate governance compliance.</li> </ul> </li> <li>• Review and recommendation for approval to the Board the Group Corporate Governance Policy;</li> <li>• Review of the Annual Corporate Governance Report;</li> <li>• Review of the quarterly Corporate Governance reports;</li> <li>• Approval of the action plan to implement the revised UK Code;</li> <li>• Approval of the report on compliance with the CSE Code and the UK Code;</li> <li>• Review of potential conflicts of interest with Directors' other appointments.</li> </ul>
Executive performance review	<ul style="list-style-type: none"> <li>• Carry out the performance appraisal of the Executive Directors.</li> </ul>
Subsidiary corporate governance	<ul style="list-style-type: none"> <li>• Review of board composition and succession planning for BOC UK Board;</li> <li>• Review and approval of the revision of the Corporate Governance Guidelines for Group Subsidiaries;</li> <li>• Approval of the revised Framework Agreement with BOC UK and the action plan to implement it;</li> <li>• Consideration of the 2018 Priorities of the Prudential Regulation Authority (PRA) of the UK.</li> </ul>

Discussions were held on the matter of succession planning. Job specifications were prepared to be available for the external consultants who would assist in the search for potential candidates for the positions of CEO and Chairperson. Interviews were carried out once a shortlist was prepared.

The Committee also resolved to set up an action plan that would lead to compliance with the revised UK Code.

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 Group recognises the importance of ensuring that there is diversity on the 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.

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

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

#### **5.1.1 Diversity** (continued)

The Group's approach to Board diversity is set out in full in the Board Diversity Policy which can be found online at <https://www.bankofcyprus.com/en-GB/who-we-are/corporate-governance/>. The Policy recognises that a truly diverse Board will include and make good use of the differences in skills, experience, background, race, gender and other distinctions brought by each Director, with such differences being considered in determining the optimum composition of the Board.

Non-executive members of the Board possess a wide range of skills, knowledge and extensive experience acquired from executive and/or non-executive appointments as directors of other companies 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 2018, 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, insurance, manufacturing, audit and accounting, economics, risk management, dealing with competent authorities, strategy and business models, legal and consultancy services, Information Technology and cyber-security and human resource management.

Directors bring their individual knowledge, skills and experience to bear in discussions on the major challenges facing the Group. 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 2018, the NCGC reviewed the Board Diversity Policy which aims to achieve gender diversity by 2020 with appointments based on merits in the context of the skills and experience required. The Group having recognised the benefits of a diverse Board is aiming to achieve and maintain 40% female representation by the end of 2020 and is implementing an action plan approved by the NCGC describing all key intervening milestones leading to the accomplishment of this target. On July 23 2018, the Board appointed Mrs Maria Philippou to the Board and on 13 August 2018 appointed Mrs Paula Hadjisotiriou 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.

### **5.2 Human Resources and Remuneration Committee**

On 31 December 2018, the Committee comprised of 4 independent Non-executive members. During 2018 the HRRC was chaired by the SID and its composition complied with the requirements of the CSE Code, the UK Code and the CBC Governance Directive. The Board considers that at least one member of the Committee possesses appropriate knowledge and expertise on Human Resources ('HR') and remuneration issues. The diverse backgrounds of the members of the Committee provide a balanced and independent view on remuneration matters.

Maria Philippou was appointed to the Board and the Committee on the 23 July 2018. The Chairman of the Committee resigned on 21 January 2019 and was replaced by Dr Michael Heger who has been a member of the Committee since his appointment to the Board in 9 June 2016.

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

The Committee held 10 meetings in 2018. The Chairman and members of the Committee together with their attendance at meetings are shown below. The Group CEO and the Director of Human Resources are invited to attend meetings as appropriate.

## 5. Board Committees (continued)

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

#### Member attendance in 2018:

#### HRRC meetings\* in 2018:

Michael Spanos (Chairman)	9/10
Michael Heger	10/10
Anat Bar-Gera	10/10
Maria Philippou (appointed 23 July 2018)	5/5

\* The number of committee meetings at BOC PCL level were 10 during 2018. The attendance of these meetings can be found on page 303.

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 at the right size and with the right skill mix necessary for the achievement of its strategic goals. It is imperative for the Group to employ the appropriate forward-looking, commercially minded, human resources that would promote digital transformation and continuous innovation;
- To ensure that the Group is equipped with the organisational capital to be able to effect continuous improvement and elicit the right behaviour which would lead to the desired outcome;
- 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 senior managers 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 HRRC oversees the HR initiatives that foster employee engagement such as the application of a holistic internal communication programme, the implementation of an employee wellbeing /care programme and the application of fair and transparent recognition initiatives across the Group.

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.

In developing its Remuneration Policy, the Group takes into account the provisions that are included in the CSE Code, 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 European Banking Authority ('EBA') Guidelines on sound remuneration policies issued in December 2015, as well as regulatory restrictions currently pertinent to the banking sector and the Group in particular.

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.

## 5. Board Committees (continued)

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

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.

#### Matters considered and action taken by the HRRC in 2018

Annual Remuneration Review	<ul style="list-style-type: none"> <li>• Annual review and approval of the Remuneration Policy;</li> <li>• The performance appraisals and remuneration of Senior Management.</li> </ul>
Disclosure and governance	<ul style="list-style-type: none"> <li>• Review of the Remuneration Policy Report in the Annual Report;</li> <li>• Review of the Terms of Reference of the Committee;</li> <li>• Committee self-assessment;</li> <li>• Review of the External Recruitment Policy;</li> <li>• Review of the Remuneration package of the CEO;</li> <li>• Update on the Exit Policy;</li> <li>• Review of the Internal Transfer Policy;</li> <li>• Update on Disciplinary process, Exits and Care Leave and Financial Aid.</li> </ul>
Human resources review	<ul style="list-style-type: none"> <li>• Review of the training plan of staff for the year;</li> <li>• Close monitoring of the progress of the negotiations with the labour union and the mediation process with the Ministry of Labour with regards to the renewal of the 2018 Collective Agreement and recommendation to the Board on the approval of the renewal of 2018 Collective Agreement;</li> <li>• Review of the 2018 Group Staff Opinions Survey results and action plans;</li> <li>• Update on mini survey results on modernisation agenda;</li> <li>• Review of the 2017 Management Practices Survey;</li> <li>• Review of the Performance Appraisal statistics;</li> <li>• Monitor of the BOC PCL's head count and payroll cost evolution;</li> <li>• Review of Internal Communication Reports and Annual Communication Plan;</li> <li>• Update on the Staff Acknowledgement Scheme 2018;</li> <li>• Update on the results of the extreme Business Continuity Plan (BCP);</li> <li>• Update on the work of the Change Working Group.</li> </ul>

Priorities for the HRRC in 2018 were the action plan of the HR to promote Employee engagement and encourage two-way open communication. Finally the Committee was kept informed and updated on the discussions for the renewal of the Collective Agreement and other matters with the labour union.

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 325 of this report.

### 5.3 Audit Committee

As at 31 December 2018, the AC comprised four independent Non-executive Directors. The Board considers that the AC's members as a whole have experience of the banking and financial services sector. The Board further believes that Ioannis Zographakis and Paula Hadjisotiriou 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.

The Committee held 13 meetings during 2018. 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 and Paula Hadjisotiriou are members of the RC. Michael Heger is 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.

**5. Board Committees** (continued)

**5.3 Audit Committee** (continued)

**Member attendance in 2018:**

**AC meetings\* in 2018**

Ioannis Zographakis (Chairman)	13/13
Arne Berggren	13/13
Michael Heger	13/13
Paula Hadjisotiriou (since 13 August 2018)	5/5

\* The number of committee meetings at BOC PCL level were 13 during 2018. The attendance of these meetings can be found on page 303.

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 review and monitor the effectiveness of the Group's system of internal controls;
  - To assess the integrity of the Group's financial statements and related announcements;
  - To advise the Board on appointment of the external auditors and be responsible for oversight and remuneration of the external auditor, including monitoring their independence and objectivity;
  - 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;
  - To assist the Board in meeting its obligations under relevant stock exchange listing rules and other applicable laws and regulations;
  - To monitor and review the effectiveness of the Group's internal audit function and its operations;
- 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 2018. 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	<ul style="list-style-type: none"> <li>• Annual review of the effectiveness of the Group's internal controls;</li> <li>• Review of the Group Financial Crime Compliance Department ('FCCD') Annual Report, the Group FCCD Risk Management Report, the Regulatory &amp; Ethics Compliance Department ('RECD') Annual Report;</li> <li>• Review of the quarterly reports of the FCCD and RECD;</li> <li>• Quarterly updating on outstanding operational risk findings monitoring Dashboard;</li> <li>• Review of the General Data Protection Regulation ('GDPR') status reports;</li> <li>• Review of the Annual Information Security Assessment Report.</li> </ul>
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**5. Board Committees** (continued)

**5.3 Audit Committee** (continued)

External Reporting	<ul style="list-style-type: none"> <li>• Review and recommendation for approval of the annual and interim reporting;</li> <li>• Review and approval of the quarterly financial results;</li> <li>• Review and approval of the Group's existing accounting policies;</li> <li>• Approval of new and significant changes in existing policies;</li> <li>• Endorsement of the Going concern assessment for the purposes of the basis of preparation of the financial statements.</li> </ul>
Internal Auditors	<ul style="list-style-type: none"> <li>• Review of the Group Internal Audit's ('GIA') Triennial Audit Plan;</li> <li>• Approval of the revised GIA policies and procedures/charter;</li> <li>• Review of the independence of the GIA Division and the GIA Director;</li> <li>• Update on the Quality Assurance;</li> <li>• Appraisal of the GIA Director;</li> <li>• Review of the self-assessment of GIA conformance with IIA standards and the Code of Ethics;</li> <li>• Review of the Audit Opinion in GIA Report;</li> <li>• Approval of the GIA budget;</li> <li>• Review of the GIA quarterly activity reports;</li> <li>• Update on complaints received through the whistleblowing line.</li> </ul>
External Auditors	<ul style="list-style-type: none"> <li>• Discussion of the results of the audit of the financial statements;</li> <li>• Assessment of the independence of the external auditors;</li> <li>• Update on the internal and external mechanisms to support the assessment of the independence of the external auditors;</li> <li>• Approval of audit, tax compliance and other assurance fees for the year;</li> <li>• Approval of permissible non-audit services assigned to the auditors;</li> <li>• Update on the 2018 External Audit Plan.</li> </ul>
Governance	<ul style="list-style-type: none"> <li>• Review of the revised Terms of Reference of the AC;</li> <li>• Approval of the Annual Corporate Governance Report;</li> <li>• Approval of the Directors' Compliance Statement;</li> <li>• Self-Assessment of the AC.</li> </ul>
Compliance	<ul style="list-style-type: none"> <li>• Review and approval of the FCCD Action Plan, the RECD Action Plan;</li> <li>• Review and approval of the Anti-Money Laundering ('AML') risk appetite statement, AML Policy, Customer Acceptance Policy and Sanctions Policy;</li> <li>• Consideration of major compliance issues and reports submitted to it by the Group Compliance Division;</li> <li>• Review and approval of the various regulatory &amp; ethics compliance policies;</li> <li>• Update on important forthcoming regulatory developments;</li> <li>• Appraisal of the Director Group Compliance;</li> <li>• Review of the Data Privacy compliance function and the overall function of the Data Protection Officer (DPO).</li> </ul>

In assisting the Board to monitor the integrity of the financial statements, the AC has reviewed the Annual Report 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.

The Committee advised the 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. The Committee 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)

The AC considered among others, the following significant issues in its review of the financial statements for the year ended 31 December 2018. In addressing these issues, the Committee discussed key areas of management's judgements and estimates 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, the recoverability of deferred tax asset and litigation and claims. The AC also 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.

- **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 also set out in Note 3 of the Consolidated Financial Statements.
- **Litigation and claims**  
The AC considered the results / findings of the work carried out by external consultants on complaints and legal cases to assess the adequacy of the Bank's capital held against legal risk.

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 as well as the Group Chief Risk Officer.

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 regularly 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.

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.

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

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

The Chairman of the Committee continues to hold the role of Whistleblower's Champion and continues to have specific responsibility for the integrity, independence and effectiveness of the Group's policies and procedures on whistleblowing, including the procedures for protecting employees who raise concerns from detrimental treatment. He has also been named as the designated Board member responsible for the implementation of the AML Law and relevant Directives.

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

The Committee's performance during 2018 was assessed as part of an internal committee effectiveness review. The conclusion drawn was that the Committee is regarded as operating effectively and the Board takes assurance from the quality of the Committee's work.

#### **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 2018 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 and mitigating actions taken 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 AC is responsible for overseeing all matters relating to the relationship between the Group and its statutory auditors, including the external audit plan, terms of engagement, audit and non-audit fee arrangements, interim findings and audit finding reports. The AC also meets semi-annually with the auditors without management present.

The Group is committed to ensuring the independence and objectivity of the external auditors and on an annual basis the AC formally reviews the effectiveness, independence and performance of the external auditors. This process is supported by tailored questionnaires completed by the AC members and relevant senior management personnel. The responses received are collated and presented to the AC for discussion.

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. As an additional check on independence the AC has developed and implemented a Group Policy on the Provision of Non-Audit Services by the Group's statutory auditors in line with the EU Directive and related regulation.

## 5. Board Committees (continued)

### 5.3 Audit Committee (continued)

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

The Group policy ensures, among other things, that auditor objectivity and independence are not compromised. Under this policy, a key procedural control requires that any engagement of the external auditors for services must be approved in advance by the AC. The AC monitors compliance with the Group Policy and receives reports on the performance of such services.

The external auditors provide 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.

Information on fees paid in respect of audit and non-audit services, along with details of non-audit services provided during the year are set out in Note 16 of the Consolidated Financial Statements.

The European Directive which was enacted into national law in May 2017 in Cyprus and in June 2016 in Ireland on statutory audits 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. Following a transparent and competitive tender process, including presentations from all candidate firms and discussions with management, the AC recommended to the Board the appointment of the audit firm of PricewaterhouseCoopers ('PwC') for accounting periods commencing 1 January 2019 and the AC also examined the process followed to ascertain the independence of the new statutory auditors.

### 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 2018 comprised four 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 16 meetings during 2018. The Chairman and members of the Committee together with their attendance at meetings are shown below.

#### Member attendance in 2018:

#### RC meetings\* in 2018

Arne Berggren (Chairman)	16/16
Maksim Goldman	16/16
Ioannis Zographakis	15/16
Paula Hadjisotiriou (since 13 August 2018)	7/7

\* The number of committee meetings at BOC PCL level were 17 during 2018. The attendance of these meetings can be found on page 303.

To ensure coordination with the work of the AC, Mr. Zographakis is the Chairman of the AC while Mr. Berggren and Mrs Hadjisotiriou are members of the AC. Mr 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.

**5. Board Committees** (continued)

**5.4 Risk Committee** (continued)

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;
- 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); and
- 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 46 to 49 of the Consolidated Financial Statements and the Additional Risk and Capital Management Disclosures section of the 2018 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. The Committee also reviewed and challenged the approach and the assumptions of the ICAAP and ILAAP. A more granular approach to legal risk in terms of ICAAP was requested and reviewed.

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 concentrated on the transition from non-performing to performing status as well as Information Security Control maturity assessment. Further the Committee discussed and approved, or recommended for approval a large number of restructurings and contractual or non-contractual write-offs.

The RC discussed and approved the RC calendar for 2018 and undertook the following key activities:

Risk Strategy and Management	<ul style="list-style-type: none"> <li>• Recommendation of the Risk Appetite Statement and approved the Group Risk Framework and Policy;</li> <li>• Review of top and emerging risks;</li> <li>• Approval of risk-related limits;</li> <li>• Review of Alignment of Risk appetite and Group strategy;</li> <li>• Review of monthly reports from the GCRO including a risk map;</li> <li>• Review of Shipping Loans;</li> <li>• NPE strategy for the years 2018-2020;</li> <li>• Loan syndication strategy to facilitate diversification of risk.</li> </ul>
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## 5. Board Committees (continued)

### 5.4 Risk Committee (continued)

Operational Risk	<ul style="list-style-type: none"> <li>• Approval of the operational risk framework;</li> <li>• Review of IT risk and cybercrime and model risk;</li> <li>• Consideration of business continuity, information security, cybersecurity etc.</li> </ul>
Credit Risk	<ul style="list-style-type: none"> <li>• Review of the Group's asset quality while reviewing the assessment of impairment provisions;</li> <li>• Approval of the non-performing loans strategy and operating plan;</li> <li>• Recommendation for approval of the Group Credit Policy;</li> <li>• Review of the Group Country Risk Policy and limits;</li> <li>• Approval/recommendation of a large number of restructurings and contractual or non-contractual write-offs.</li> </ul>
Market / Liquidity Risk	<ul style="list-style-type: none"> <li>• Recommendation of the Group Market Risk Policy and review of controls on discretionary risk and stress testing;</li> <li>• Recommendation of the Group Funding and Liquidity Policy and management strategy including the Contingency Funding Plan and the Group Liquidity Stress Testing Position;</li> <li>• Approval of the Liquidity Adequacy Statement;</li> <li>• Monitor the activities and decisions of ALCO through a review of its minutes.</li> </ul>
Other Risk	<ul style="list-style-type: none"> <li>• Review of Reputational Risk;</li> <li>• Review of regulatory communication;</li> <li>• Review of other Risk related policies such as Concentration Risk Policy, Asset Acquisition and Disposal Policy;</li> <li>• Approval of the Capital Adequacy Statement;</li> <li>• Review and approval of the Recovery Plan.</li> </ul>
Governance	<ul style="list-style-type: none"> <li>• Review of the terms of reference of the RC.</li> <li>• Review of the effectiveness of the Committee.</li> <li>• Appraisal of the Group Chief Risk Officer and the Information Security Manager.</li> <li>• Review of the reports of material subsidiaries.</li> <li>• Update on Group Regulatory/Supervisory Activity.</li> </ul>

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 2018 Annual Financial Report of the Group, after the Corporate Governance Report. Information on the remuneration of the members of the Board for the year 2018 is disclosed in Note 51 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.

## 7. Shareholder Relations (continued)

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. Ioannis Zographakis, 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.

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 2018 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	4.01%
• Eaton Vance	3.82%
• Senvest Management LLC	3.67%
• Osome Investments Ltd	3.03%

The AGM was held on 28 August 2018 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 2018 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 2019 is scheduled to be held on 14 May 2019.

## Remuneration Policy Report for the year 2018

### 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 as part of the Annual Report of the Group. The Board of Directors Remuneration Policy Report for the year 2018 was ratified by the Board on 28 March 2019.

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 interests of 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. The Committee also reviews the related party transactions note (Note 51) 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 at the right size and with the right skill mix 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 and elicit the right behaviour which would lead to the desired outcome.
- 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 consider, agree and recommend to the Board 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, Senior Management and the Group Remuneration policy bearing in mind the EBA Guidelines on remuneration policies and practices, the CBC Governance Directive, the CSE Code and the UK 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.

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.

## **Remuneration Policy Report for the year 2018** (continued)

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

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

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*

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.

#### **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. The list was approved by the Board in December 2017 and was applicable for 2018.



## Remuneration Policy Report for the year 2018 (continued)

### 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 28 August 2018 approved the same levels of remuneration as those approved by the shareholders' AGM on 29 August 2017. They also approved 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 2020. On 3 March 2019, the Group CEO made known his decision to leave the Group in September 2019.

No amount of variable remuneration has been paid during 2018 and 2017. 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 six months' notice to that effect upon 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 2018.

## **Remuneration Policy Report for the year 2018** (continued)

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

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

##### **Retirement Benefit Schemes**

The Group CEO participates in a defined contribution plan largely on the same basis as other employees. The DCEO & COO participates in a defined contribution plan on the same basis as other employees.

The main characteristics of the retirement benefit schemes are presented in Note 15 of the Consolidated Financial Statements for the year ended 2018.

##### **Share Options**

No share options were granted to the Executive Directors during 2018.

##### **Other Benefits**

Other benefits provided to the Executive Directors include other benefits provided to staff, 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 51 of the Consolidated Financial Statements for the year ended 2018.

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 2018

	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	2,338,672	-	2,338,672	-	-	-	2,338,672	198,000
Christodoulos Patsalides	211,861	-	211,861	-	-	-	211,861	17,599
<b>Non-Executive Directors</b>								
Josef Ackermann	-	150,000	150,000	-	-	-	150,000	-
Maksim Goldman	-	120,000	120,000	-	-	-	120,000	-
Arne Berggren	-	115,000	115,000	-	-	-	115,000	-
Anat Bar-Gera		85,000	85,000				85,000	
Lyn Grobler		90,000	90,000				90,000	
Paula Hadjisotiriou		36,519	36,519				36,519	
Michael Heger		110,000	110,000	-	-	-	110,000	-
Maria Philippou	-	28,656	28,656	-	-	-	28,656	-
Michael Spanos	-	100,000	100,000	-	-	-	100,000	-
Ioannis Zographakis	-	135,000	135,000	-	-	-	135,000	-
	<b>2,550,533</b>	<b>970,175</b>	<b>3,520,708</b>	-	-	-	<b>3,520,708</b>	<b>215,599</b>

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

28 March 2019