Annual Corporate Governance Report 2015

Introduction

The Board of Directors of the Bank of Cyprus Public Company Ltd ('the Bank' or 'the Company') adopted fully the Code of Corporate Governance (the 'Code'), which was published by the Cyprus Stock Exchange ('CSE') (4th Edition (Revised) April 2014). Listed companies have an obligation to include in their Annual Report a Report by the Board of Directors on Corporate Governance.

Part A

The Company is committed to good corporate governance which is vital to creating trust and engagement between the Company and its stakeholders and contributes towards its long-term success. This creates the framework within which the Executives can lead the company and deliver the agreed strategies.

The Company has adopted the Code and the Group's Policy on Corporate Governance and fully implements its principles. The Policy together with the Board Manual, the Terms of Reference and the practices followed by the Board and its Committees, constitute important foundations for maximising shareholder value.

The Board of Directors continually aims to ensure that the Bank is a modern, transparent and competitive organisation that applies best practices of corporate governance and corporate administration. By adopting these best practices, the Company achieves a dynamic and effective communication between the Board, management and shareholders, leading to a successful implementation of its strategy.

Part B

The Company complies with the provisions of the CSE Code. Throughout this Corporate Governance section a narrative statement is provided on how the principles of the Code have been applied.

Following the 4th revised edition of the Code, the Company revised its Group Board Manual and the Terms of Reference of the Board Committees and issued a Group Policy on Corporate Governance which applies to all Divisions and managers of the Bank as well as to the Members of the Board and those of subsidiary companies (where applicable).

1. Board of Directors

The authorities of the Members of the Board of Directors are specified by the Articles of Association of the Company, by the Code, the relevant Companies, Stock Exchange and Banking Laws and the Directives of the Central Bank of Cyprus ('CBC').

1.1 The Role of the Board of Directors

The Board of Directors ('Board') is accountable for ensuring that as a collective body, it has the appropriate skills, knowledge, diversity and experience to perform its role effectively. It sets the Group's strategic objectives, ensures that the necessary financial and human resources are in place for the Group to meet its objectives and reviews management performance.

The primary role of the Board is to provide strategic leadership of the Bank of Cyprus Group ('the Group') through oversight and review within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board also sets the Group's values and standards and ensures that its obligations towards its shareholders and other stakeholders are understood and met.

Specific decisions and matters are reserved for approval by the Board. These include decisions on the strategic policy of the Group, approval of risk appetite, major acquisitions, mergers or disposals, the Group's annual budget and three-year financial plan, significant capital expenditure, directors' conflicts of interest, Board membership and other governance and regulatory issues.

1. Board of Directors (continued)

1.2 Composition of the Board of Directors

In 2015 the Board approved the Group Board Diversity Policy which sets out to achieve gender diversity by 2020 with appointments based on meritocracy. Currently the Board has a diverse mix of nationalities and experience.

The Board comprises of individuals who have diverse skills, knowledge and experience that combine to provide different perspectives and effective board dynamics. As at 31 December 2015, the Board of Directors comprised nine Members, specifically the non-Executive Chairman, two non-Executive Vice-Chairmen, another 4 non-Executive Directors and two Executive Directors.

Board of Directors as at 1 January 2015

Josef Ackermann (Chairman)
Wilbur L. Ross (Vice-Chairman)
Vladimir Strzhalkovskiy (Vice-Chairman)
Arne Berggren
Maksim Goldman
John P. Hourican (Executive)
Marios Kalochoritis
Christodoulos Patsalides (Executive)
Michael Spanos
Ioannis Zographakis

On 29 May 2015 Mr. Vladimir Strzhalkovskiy resigned from the Board. In accordance with the Company's Articles of Association, at the Annual General Meeting of shareholders on 24 November 2015, Mr. Ioannis Zographakis, Mr. Marios Kalochoritis and Dr. Christodoulos Patsalides resigned and, being eligible, offered themselves for re-election.

Following the resignation of Mr. Strzhalkovskiy, Mr. Maksim Goldman was appointed as Vice-Chairman and member of the Nominations and Corporate Governance Committee.

Board of Directors as at the date of this Report
Josef Ackermann (Chairman)
Wilbur L. Ross (Vice-Chairman)
Maksim Goldman (Vice-Chairman)
Arne Berggren
John P. Hourican (Executive)
Marios Kalochoritis
Christodoulos Patsalides (Executive)
Michael Spanos
Ioannis Zographakis

The Board has nominated on the 18 December 2015 Mr. Michael Heger as new Member of the Board but until the end of the year this nomination was pending for approval at the ECB ('European Central Bank').

There is a clear and distinct segregation of duties between the Chairman of the Board and the Group Chief Executive Officer and the Terms of Reference of these two roles form part of the Group Board Manual.

All the Members of the Board were provided on appointment with an information pack which included among others, the Board Manual, key legislation, directives and regulations and the Company's Articles of Association.

1. Board of Directors (continued)

1.2 Composition of the Board of Directors (continued)

1.2.1 Independence

Provision A.2.3 of the Code requires that at least 50% of the Board of Directors, excluding the Chairman, should be independent non-Executive Directors.
The composition of the Board with six independent non-executive directors out of the nine-member Board well exceeds the requirements of the Code.
The Board of Directors considers the following Directors to be independent as at the date of this Report, thereby satisfying provision A.2.3 of the Code.
Josef Ackermann (Chairman)
Wilbur L. Ross (Vice-Chairman)
Arne Berggren
Marios Kalochoritis
Michael Spanos
Ioannis Zographakis

A relevant 'Confirmation of Independence' based on the independence criteria of provision A.2.3 of the Code has been signed by each of the above mentioned Directors and will be submitted to the Cyprus Stock Exchange together with the present Corporate Governance Report.

1.3 Senior Independent Director

Mr. Michael Spanos was appointed Senior Independent Director of the Board of Directors on 26 November 2014. The Senior Independent Director is available to shareholders if they have concerns that are not resolved through normal communication channels. He provides support to the Chairman of the Board in delivering his objectives and 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 Directive on Governance and Management Arrangements in ACIs 2014 (the 'CBC Governance Directive').

Mr. Spanos chaired an executive session of the non-Executive Directors on 22 October 2015 to assess the performance of the Chairman of the Board as per the provisions of the CBC Governance Directive.

1.4 Meetings of the Board of Directors

The Board of Directors meets on a regular basis and has a formal schedule of matters for consideration. During 2015, 12 Board meetings were held. The main areas of focus for the Board were the Group's strategy, the disposal of non-core assets, liquidity and arrears management, and the overall improvement of operational efficiency.
Invariably it is ensured that all Members of the Board are correctly informed in writing of forthcoming Board meetings and all necessary documentation relating to the meeting is provided in a timely manner to allow them adequate time to review.
The attendance of the Members of the Board of Directors for 2015 is presented in the following table:

1. Board of Directors (continued)

1.4 Meetings of the Board of Directors (continued)

Board of Directors 1/1/2015-31/12/2015

Name	Board of Directors	Audit Committee	Remuneration Committee & Human Resources	Nomination & Corporate Governance Committee	Risk Committee
Josef Ackermann (Chairman)	12/12			8/8	
Maksim Goldman*	11/12	13/13	6/6	5/5	
Wilbur L. Ross (Vice-Chairman)	9/12			8/8	14/17
Vladimir Strzhalkovskiy (Vice-Chairman)**	5/5			3/3	4/4
Arne Berggren	12/12	13/13			17/17
John P. Hourican	12/12				
Marios Kalochoritis	12/12		8/8		15/17
Christodoulos Patsalides	11/12				
Michael Spanos	12/12		8/8		
Ioannis Zographakis	11/12	13/13			15/17
Total meetings	***12***	***13***	***8***	***8***	***17***

* Appointed Vice-Chairman 29/5/2015
** Resigned 29/5/2015

The Members hold positions on the Board of Directors of other companies as noted in their curricula vitae included in the Corporate Governance Report of the year they offer themselves for re-election. Their participation in other Boards does not prevent them from devoting the necessary time and attention to their duties as Members of the Board of Directors of the Bank and is within the limits set by the CBC Directive on the Assessment of the Fitness & Probity of Members of the Management Body and Managers of ACIs 2014.
During 2015 it is estimated that each non-Executive Director spent at least 30 days on board-related duties.

The key areas of focus in 2015 for the Board were:

- Group strategy and long term objectives in light of the regulatory and economic environment
  - Approved the three-year financial plan.
  - Disposal of non-core assets.
  - Overseas listing project.
  - Costs and efficiency optimisation project.
  - Reviewed business line individual strategy.
  - Mergers and acquisitions.

- Risk and governance
  - Approval of the Group's Risk Appetite.
  - Approval of ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process).
  - Received assurances during the year that that the Group continues to operate within its approved risk appetite.
  - Received an update on the Group's approach to IT.

- Legal issues/actions against the Bank
- Examination and approval of Group Financial results (monthly, quarterly and annual)

- International operations
  - Update and conclusion of Russian and Ukrainian transactions.
  - Progress of Romanian Loan Book.
  - Other matters of overseas subsidiaries and operations.

1. Board of Directors (continued)

1.4 Meetings of the Board of Directors (continued)

Board of Directors 1/1/2015-31/12/2015 (continued)

- Budget and performance oversight
  - Approved the 2015 budget and capital plan.
  - Assessed the Group's capital and liquidity position and approved its wholesale funding strategy.
  - Periodically reviewed the Company's share price performance.

- External environment
  - Reviewed the banking industry's outlook.
  - Cyprus economic developments and implications of a possible solution.
  - Bank's plans in a possible Grexit scenario.

- Monitored the key regulatory issues of the Group: SREP ('Supervisory Review and Evaluation Process'), on-site inspections and approved relevant responses to the SSM ('Single Supervisory Mechanism')
- Progress of Restructuring & Recoveries Division
- Reviewed the progress of Non-Performing Loans' management
- Nominations, appointments and Corporate Governance issues
- New regulatory developments and requirements
- Corporate Affairs
- Updates from Board Committees

During 2015 the following New Policies were approved by the Board of Directors:
- Group Corporate Governance Policy
- Group Policy on Fitness and Probity of Directors, Managers and Key Function Holders
- A number of Finance and Risk Policies
- Procurement Policy
- Outsourcing Policy
- Asset Acquisition & Disposal Policy
- Group Information Security Policy
- Group Whistleblowing Policy

Directors' induction and ongoing development

Training of the Board is provided through a number of ways such as during the meetings where further information is given to ensure that Directors receive adequate insight into a particular area and through dedicated training sessions on particular issues (see table below) usually identified by the Directors and the Company Secretary. A training schedule is prepared at the beginning of each year and Directors are expected to attend accordingly.

Name	Induction training	Accounting Treatment under IFRS 5, 9, 10, 11, 12, NPL's etc	Competition law	Prevention of ML & TF	Insolvency Framework	RWAs	CG responsibilities of BoD members
J. Ackermann	N/A	√		√	√		√
M. Goldman	N/A				√		√
W. L. Ross	N/A						
V. Strzhalkovskiy	N/A				√		
A Berggren	N/A			√	√		√
J. Hourican	N/A		√		√		
M. Kalochoritis	N/A	√			√		√
C. Patsalides	N/A	√	√		√		√
M. Spanos	N/A	√	√	√	√	√	√
Y. Zographakis	N/A		√	√	√	√	√

Training material is distributed to all Directors regardless of attendance or not. Following appointment, each Director receives a relevant package and undergoes an induction programme. Furthermore, Executive Directors develop and refresh their skills and knowledge through regular interactions, meetings and briefings with Senior Management.

1. Board of Directors (continued)

1.5 Company Secretary

Ms Katia Santis was appointed Company Secretary on 26 November 2014.

The duties and responsibilities of the Company Secretary are the following:

- To ensure the Board and its Committees are constituted and function in compliance with internal rules, the Articles of Association of the Bank, the Board Manual, CBC Directives and other applicable legal and supervisory requirements.
- To facilitate 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.
- To provide access to independent professional advice at the expense of the Bank as required.
- To be involved in preparing the schedule of all Board and Committee meetings.
- To ensure that relevant information is dispatched timely to all members of the Board to enable them to prepare adequately for these meetings.

The Company Secretary ensures minutes are kept in accordance with legal and regulatory requirements; the Company Secretary must:

- express explicitly, in a separate paragraph, her assessment as to whether the meeting had been held in compliance with internal rules and regulations of the management body, the provisions of the CBC Directive and other applicable legal and supervisory requirements.
- ensure minutes are circulated, finalised and approved in a timely manner by all Members present at the meeting.
- ensure finalised minutes are distributed in a timely manner to all recipients.
- ensure decisions taken are properly communicated, pursue follow up actions and report on matters arising.

All Directors have access to the advice and services of the Company Secretary and the Corporate Governance Compliance Officer who can provide relevant information related to Board procedures and the Code. Independent professional advice is also available to the Directors in accordance with the internal policy that was formulated and approved by the Board of Directors.

1.6 Board Renewal

The rules regarding the composition of the Board and the appointment and rotation of its Members are defined in the Articles of Association of the Bank as follows:

- The number of Directors shall neither be less than seven nor more than thirteen.
- At the Annual General Meeting of the Company, one-third of the Directors, or if their number is not three or a multiple of three, then the nearest number to one third, shall retire from office.
- The Directors to retire in every year shall be those who have been longest in office since their last election, but as between persons who became Directors on the same day those to retire shall, unless they otherwise agree among themselves, be determined by lot ('Rotation Decision').
- A retiring Director shall be eligible for re-election.
- No person other than a Director retiring at the Meeting shall unless recommended by the Directors be eligible for election to the office of Director at any General Meeting unless not less than six or more than twenty-one days before the date appointed for the Meeting there shall be left at the registered office of the Company notice in writing, signed by a member duly qualified to attend and vote at the Meeting for which such notice is given, of his intention to propose such person for election, and also notice in writing signed by that person of his willingness to be elected.
- The Directors shall have power at any time, and from time to time, to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors, but so that the total number of Directors shall not at any time exceed the number fixed in accordance with the Articles of Association. Any Director so appointed shall hold office only until the next Annual General Meeting, and shall then be eligible for re-election, but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting.

1. Board of Directors (continued)

1.6 Board Renewal (continued)

The retiring Directors who are eligible and will offer themselves for re-election at the next Annual General Meeting are the following (brief curriculum vitae included in section 2 below): Mr. A. Berggren, Mr. M. Goldman and Mr. M. Spanos.

1.7 Board Performance Evaluation

The Board is committed to regular evaluation of its effectiveness and that of its Committees. In November 2015, external advisors executed an evaluation of the performance of the Board, its Committees and individual Members. The overall assessment of the Board, its Committees and Members was very positive.

As part of the Board's annual effectiveness review feedback, the Board was unanimous in pointing out that the Chairman encourages open dialogue enabling everyone to contribute to the debate and manages potential conflicts effectively.

All of the Members of the Board have the appropriate qualifications and broad relevant experience. Both the recent internal as well as external evaluation of performance of the Board, its Committees and individual Members indicated a strong and diverse composition of experiences that could be further enhanced by appointing members with IT background while at the same time striving for gender diversity.

The annual effectiveness review report made several recommendations and an action plan for the implementation of these recommendations has been set up. A summary of the recommendations made following the Board Effectiveness Review is set out below:

- Concentrate on strategy and the direction in which the Group is moving
- Institute a management succession planning strategy for implementation
- Design key performance indicators of the Group to better monitor management performance and value creation for stakeholders
- Revisit Board composition to cover gaps of gender diversity and IT experience

1.8 Other Key Milestones in 2015

In May 2015 the Group website was enriched with information and disclosures relevant to its corporate governance framework in line with best international practices of transparency and governance and in compliance with the provisions of the CBC Governance Directive. This information can be found on:
http://www.bankofcyprus.com/en-GB/Start/Corporate-Governance/Corporate-Governance/

In October 2015, the Corporate Affairs Division issued the first Social Corporate Responsibility Report of the Group, signalling a new era in terms of Corporate Social Responsibility and how this is fulfilled by the organisation. The report lays the emphasis on the environmental and social aspects that are of great importance for the Group's stakeholders. It aims to chart the Group's strategy and annual activities on matters of Corporate Social Responsibility. This first report is based on the guidelines of the new G4 version of the Global Reporting Initiative (GRI). The report can be found on:
http://www.bankofcyprus.com.cy/Documents/Cyprus/CSR/CSR%20Report%202014%20ENG%20website.pdf

2. Members of the Board of Directors

The curricula vitae of all the Members of the Board of Directors as at the date of this Report are provided below.

2.1 Non-Executive Directors

Josef Ackermann (Chairman)
Born in 1948. Dr. Ackermann is the former Chairman of the Management Board and the Group Executive Committee at Deutsche Bank. Dr. Ackermann joined Deutsche Bank's Board of Managing Directors in 1996, where he was responsible for the investment banking division. Under his leadership, this business unit developed into one of Deutsche Bank's principal revenue sources and entered the top group of global investment banks. Prior to Deutsche Bank, Dr. Ackermann was President of Schweizerische Kreditanstalt (SKA), today's Credit Suisse. Dr. Ackermann has held numerous board positions including sitting on the Board of Directors at Zurich Insurance Group, Royal Dutch Shell plc, Siemens AG and EQT Holdings AB among others. Today, he still holds numerous mandates, amongst them as a Member of the Board of Directors at Investor AB, and Renova Management AG. Dr. Ackerman also serves as Honorary Chairman of the St. Gallen Foundation for International Studies, Honorary Senate Member of the Foundation Lindau Nobel Prizewinners Meetings at Lake Constance, Vice Chair and a Member of the Board of Trustees of The Conference Board, among other posts. Dr. Ackerman also served as Vice-Chairman of the Foundation Board of the World Economic Forum. Dr. Ackermann studied economics and social sciences at the University of St. Gallen, where he earned his doctorate, and holds an honorary doctorate from the Democritus University of Thrace in Greece. Dr. Ackermann is also an Honorary Fellow of the London Business School, was visiting professor in finance at the London School of Economics, and was appointed honorary professor at the Johann Wolfgang Goethe University in Frankfurt.

Wilbur L. Ross (Vice-Chairman)
Born in 1937. Mr. Ross is the Founder, Chairman and Chief Strategy Officer of WL Ross & Co. LLC, a private equity firm. Mr. Ross was also formerly the Chief Executive Officer of WL Ross prior to April 30, 2014 when he became its Chairman and Chief Strategy Officer. In March 2014 Mr. Ross became the Chairman and Chief Executive Officer of WL Ross Holding Corp, a special purpose acquisition company. Mr. Ross is currently a Member of the Board of Directors of Arcelor Mittal, the world’s largest steel and mining company; EXCO Resources, Inc., a natural gas and oil exploration company; DSS Holdings LP, a shipping transportation company and Sun Bancorp, a bank holding company. Mr. Ross formerly served as a Member of the Board of Directors of many banks, financial and other companies, including but not limited to The Governor and Company of the Bank of Ireland, a commercial bank in Ireland until June 2014, BankUnited, Inc., until March 2014; Talmer Bancorp., Assured Guaranty, an insurance company; International Textile Group; NBNK Investments PLC; PB Materials Holdings, Inc.; Ohizumi Manufacturing; Ocwen Financial Corp.; Navigator Holdings, a maritime transport company until November 2014; Plascar Participacoes SA, a manufacturer of automotive interiors, until 2014 and Air Lease Corporation, an aircraft leasing company from 2010 to December 2013; International Coal Group from April 2005 to June 2011, Montpelier Re Holdings Ltd., a reinsurance company, from 2006 to March 2010; The Greenbrier Companies, a supplier of transportation equipment and services to the railroad industry from June 2009 until January 2013. Mr. Ross was Executive Managing Director of Rothschild Inc. for 24 years before acquiring that firm's private equity partnerships in 2000. Mr. Ross is a graduate of Yale University and of Harvard Business School. Through the course of Mr. Ross' career, he has assisted in restructuring more than $400 billion of corporate liabilities. Mr. Ross is well qualified to serve as a director due to his over 35 years of experience in private equity, numerous public and private company directorship roles, and globally-recognised financial expertise having been elected to both the Private Equity Hall of Fame and the Turnaround Management Association Hall of Fame. Mr. Ross has been appointed by President Clinton to the Board of Directors of the U.S-Russia Investment Fund and has served as Privatization Advisor to New York City Mayor Guiliani. He was awarded a medal by President Kim Dae Jung for assisting Korea during its financial crisis and in 2014 was awarded the Order of the Rising Sun with Gold and Silver Stars by the Japanese Government.

2. Members of the Board of Directors (continued)

2.1 Non-Executive Directors (continued)

Arne Berggren
Born in 1958. Mr. Berggren has been involved in corporate and bank restructurings, working for both the private sector as well as for international organizations 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 Ldt. He is a graduate of the University of Uppsala, Sweden.

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

Marios Kalochoritis
Marios Kalochoritis was born in 1973. He is a Financial Executive with experience in investment banking, hedge fund management, private equity, wealth management and as a Chief Financial Officer. Geographically he has covered North and South America, Western and Eastern Europe and the Middle East. He is experienced in start-ups and turnout situations. He is the founder and Managing Partner of Loggerhead Partners, a Consulting and Advisory firm, based out of Dubai. Previously he spent five and a half years in Cyprus where, as the Managing Director, he had set up and ran the operations and risk management of a global macro hedge fund. Prior to that he was Senior Vice President for Credit Suisse Bank in Zurich and he was heading business development for Central and Eastern Europe and Turkey. Between 2003 and 2006 he was the Chief Financial Officer for Amana Group in Dubai, a major regional construction group. He had moved to Dubai following a couple of years in New York where he was the co-founder of a boutique investment bank. He started his career at Enron in Houston where as a financial analyst and later an associate in the finance department, he analysed and made investments in oil & gas, energy and other infrastructure opportunities around the world. He also interned with J.P. Morgan Bank in New York and McKinsey & Co in Athens. He holds an MBA from Harvard Business School and a BSc in Finance from Louisiana State University.

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

2. Members of the Board of Directors (continued)

2.1 Non-Executive Directors (continued)

Ioannis Zographakis
Born in 1963. Mr. Zographakis is a senior Executive with a broad and diverse international experience in the banking industry. He has worked with Citibank for over 20 years, in the USA, UK and Greece. His line/business positions and divisional/corporate responsibilities, have provided him with an extensive background in corporate governance, business restructuring, re-engineering, crisis management, separation of businesses, business strategy, profit & loss management, finance, product and segment management, operations & technology management, and dealing with various regulatory bodies and industry related organisations. He started his career in 1990 with Citibank in Greece as a Management Associate for Europe, Middle-East & Africa (EMEA). He then worked as the Deputy Treasurer and Treasurer for the Consumer Bank in Greece, before moving to the USA in 1996 as the Director of Finance for CitiMortgage. In 1997 he became the Financial Controller for Citigroup's Consumer Finance business in the US and then he was the Chief Financial Officer for the Consumer Assets Division. From 1998 until 2004 he worked in the Student Loan Corporation (SLC), a Citigroup subsidiary and a New York Stock Exchange traded company. He started as the Chief Financial Officer, became the Chief Operations Officer and in 2001 he was named the Chief Executive Officer. In 2005 he moved back to Europe as Citibank's Consumer Lending Head for EMEA and UK Retail Bank Head. Deciding to move closer to home in 2006, he took the position as Citibank's Retail Bank Head in Greece where he stayed until 2011, before moving back to Cyprus consulting on financial services when requested. He has been a Director for the 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 a Bachelor's degree in Civil Engineering from Imperial College in London and an MBA from Carnegie Mellon University in the USA.

2.2 Executive Directors

John Patrick Hourican (Chief Executive Officer)
He was born in 1970. Mr. Hourican served as Chief Executive of The Royal Bank of Scotland Group's ("RBS") Investment Bank (Markets & International Banking) from October 2008 until February 2013. Between 2007 and 2008, he served on behalf of a consortium of banks (RBS, Fortis and Santander) as Chief Financial Officer of ABN AMRO Group and as a Member of its Managing Board. He joined RBS in 1997 as a Leveraged Finance banker. He held a variety of senior positions within RBS's wholesale banking division, notably on the division's Board as Finance Director and Chief Operating Officer. He also ran the bank's Leveraged Finance business in Europe and Asia. Mr. Hourican started his career at Price Waterhouse and he is a Fellow of the Institute of Chartered Accountants in Ireland. He is a graduate of the National University of Ireland and Dublin City University.

Christodoulos Patsalides (Finance Director)
Born in 1962. Dr. Patsalides currently serves as Finance Director of the Bank. From 1989 to 1996, Dr. Patsalides previously worked for the CBC in the Management of Government External Debt and Foreign Exchange Reserves department. In 1996, Dr. Patsalides joined the Bank where he has held a number of positions in corporate banking, treasury and private banking, among others. In Dr. Patsalides' current capacity as Finance Director, he is responsible for Finance, Treasury, Investor Relations, Economics Research and Procurement. He has recently been appointed to the Board of Directors of the Cyprus anti-Cancer Society (a charity organisation). Dr. Patsalides holds a PhD in Economics from the London School of Economics.

3. Board Committees

The Board of Directors set up four Board Committees in accordance with the relevant requirements of the Code and the relevant provisions of the CBC Governance Directive. Information about each of these Committees is provided in sections 3.1 to 3.4 below.

The Board has made a conscious decision to delegate a broader range of issues to the Board Committees. This linkage is important between the Committees and the Board given that it is impractical for all independent non-Executive Directors to be members of all the Committees.

In addition to a number of cross-committee memberships, the Board receives the minutes of each of the Committee's meetings. In addition to the minutes, the Committee chairs provide regular updates to the Board throughout the year.

3. Board Committees (continued)

As described above, specific responsibilities have been delegated to Committees of the Board of Directors. The Terms of Reference of the Committees are based on the relevant provisions of the CSE Code and the CBC Governance Directive (where applicable).

3.1 Audit Committee

The role of the Committee, inter alia, is:

- To oversee the system of internal controls including reviewing its effectiveness.
- To monitor the integrity of the Group's financial statements and related announcements.
- To monitor the effectiveness of the internal audit function.
- To advise the Board on appointment of the external auditors and be responsible for oversight and remuneration of the external auditor.
- To review the 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 compliance.

and make recommendations to the Board on such matters.

The role of the Audit Committee is fundamental to ensuring the financial integrity and accuracy of the Bank's financial reporting. Good, open relationships between the Committee, the Finance Director, the Group Chief Risk Officer, the Group Internal Audit Director and the Group Compliance Director 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 their 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.

Financial Reporting

The Committee has:

- Endorsed the going concern assessment and the statement of compliance with the CSE Corporate Governance Code for inclusion in the financial statements.
- Reviewed and monitored the appropriateness and completeness of the published financial statements and related announcements to shareholders of the Company and any formal announcements relating to the Group's financial performance, including significant financial reporting judgments and estimates made by the Group.
- Discussed key areas of judgments and estimates in the Group's financial results with the external auditors, Ernst & Young Cyprus Ltd; Particular areas for discussion included their findings/observations as part of their audit review of the Group's financial statements, including inter alia, loan provisioning and impairment policies, going concern issues and the recoverability of deferred tax assets.
- Advised the Group Board that the Group Annual Financial Report and accounts, taken as a whole, is fair, balanced and understandable.
- Considered for disclosure all material relevant issues that have concerned management and the Group statutory auditors during the year.
- Reviewed accounting policies and practices, including approval of the critical accounting policies.
- Considered management's recommendations in respect of provisions for impairments of loans and advances and any other impairment losses and charges as reported in the Group's financial statements.

The Committee has the responsibility for examining any significant transactions in any form, carried out by the Bank and/or its subsidiary companies, where any Member of the Board, Chief Executive Officer, 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 Bank's normal commercial practices (at arm's length).

3. Board Committees (continued)

3.1 Audit Committee (continued)

Internal Controls over Financial Reporting
The Committee received regular reports from the Group Finance Director, the Group Chief Financial Officer, the Group Internal Audit Director and the Director of Group Compliance.

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

Control Environment
The Committee's activities included the consideration of reports submitted by the Group Internal Audit and Group Compliance Divisions. The Committee 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. KPMG Limited was engaged to undertake the triennial review of the effectiveness of the system of internal controls of the Group both on a consolidated and an individual basis. The Committee received reports over the course of 2015 on the activities of the internal audit function and reviewed its planned activities for the following year.

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

Areas of focus during 2015 have been the successful completion of the demanding 2014-2015 Anti-Money Laundering Remediation Programme, the completion of the overall compliance framework of the Company comprising of 19 Group Compliance Policies, the FATCA and CRS implementation, procurement processes, data quality and provisioning policies, Appeals Committee reports, Internal Audit methodology and ratings and the ECB SREP review.

The Committee reviewed and approved the Annual Action Plans of the Group Internal Audit and Group Compliance Divisions and the monitoring of subsequent actions.

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

The Audit Committee held 13 meetings during 2015.

3.1.1 Committee Activities in 2015

The members of the Audit Committee during 2015 were as follows:

Ioannis Zographakis (Chairman)
Arne Berggren
Maksim Goldman

The key areas of focus for the Committee in 2015 were:
- Discussion of the results of the audit of the 2014 Financial Statements with the external auditors
- Discussion of the Provisions methodology
- Consideration of key accounting judgements and estimates
- Review of monthly audit reports, compliance reports and internal control issues
- Appointment of the External Auditors
- Appointment of the Group Internal Audit Director
- Review of the annual report of the Group Internal Audit Division and major audit findings

3. Board Committees (continued)

3.1 Audit Committee (continued)

3.1.1 Committee Activities in 2015 (continued)

- Review and approval of the Audit Plan, the Anti-Money Laundering ('AML') Compliance Department Action Plan, the Regulatory & Ethics Compliance Department Action Plan for 2015
- Consideration of major compliance issues and reports submitted to it by the Compliance Function
- Review and approval of the AML Compliance Department annual report, the AML Risk Management Report, the Regulatory & Ethics Compliance Department annual report
- Review of the monthly reports of the AML Compliance Department and the Regulatory & Ethics Compliance Department
- Review of CBC's Audit main findings
- Review of the 2014 Annual Corporate Governance Report
- Review and approval of the AML risk appetite statement, AML Policy, Customer Acceptance Policy and Sanctions Policy
- Review and approval of the various AML Compliance and Regulatory & Ethics Compliance policies
- Review of the independence of the Group Internal Audit Division and the Group Internal Audit Director
- Approval of the Group Internal Audit three year Action Plan
- Approval for the restructuring and new organisational structure of Group Internal Audit
- Approval for recruiting specialised staff from outside the Bank to be utilised in the Group Internal Audit operations
- Review and approval of the Group Internal Audit charter
- Approval of the scope of the triennial internal control assessment
- Review and approval of the Quarterly Financial Results
- Approval of the provisions for impairment of loans and advances
- Approval of audit, tax compliance and non-audit fees for year 2015
- Review of the External Audit Plan for 2015
- Approval of revised Terms of Reference of the Audit Committee
- Review of the Internal Audit Activity Report
- Review of the Appeals Committee Quarterly Reports
- Review of the Operational Risk Quarterly Reports
- Review of the Complaints Management Quarterly Reports
- Updated on the progress of the ECB's onsite Review
- Updated on important forthcoming regulatory developments

3.1.2 Internal and External Audit Independence

The Group Internal Audit and Group Compliance Divisions report directly to the Board of Directors through the Audit Committee. They are organisationally independent of units with executive functions and are not subordinated to any other unit of the Bank, except the Director of Group Compliance who has a second reporting line to the Group CEO.

The Committee proposes to the Board the appointment or replacement 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 Audit Committee in the 1st Quarter of 2015.

The objectivity and independence of the external auditors is safeguarded through monitoring of their relationship with the Group by the Audit Committee, including the monitoring of the balance between audit and auxiliary non-audit services. The external auditors provided written confirmation of their objectivity and independence to the Group. In addition, the external auditors do not provide internal audit services to the Group. The Audit Committee reviews annually detailed analysis of the audit and non-audit fees relating to work done by the external auditors. The Committee reviews this to confirm the independence of the external auditors and refers this analysis to the Board of Directors.

3. Board Committees (continued)

3.2 Nominations and Corporate Governance Committee

The role of the Committee is to support and advise the Board in relation to Board Members' development and succession planning and to ensure that it is comprised of members who are best able to discharge the duties and responsibilities of Directors.

The Committee focuses primarily on the composition, appointment, succession and effectiveness of the Board, but also oversees the adoption of appropriate internal policies on the assessment of the fitness and probity of members of the Group Executive Committee, other Senior Managers and Heads of Internal Control functions.

The Committee keeps the Board's governance arrangement under review and makes appropriate recommendations to the Board to ensure that the Group's arrangements are consistent with best practice corporate governance standards. It assesses the structure, size, composition and performance of the Board of Directors on an annual basis and submits any recommendations to the Board.

The members of the Committee as at the date of this Report are:

Josef Ackermann (Chairman)
Maksim Goldman (from 29/5/2015)
Wilbur L. Ross
Vladimir Strzhalkovskiy (up to 29/5/2015)

During 2015, the Committee held 8 meetings. The Committee assessed the structure, size, diversity and composition of the Board, the independence of its members as well as their skills, knowledge and expertise and reported accordingly to the Board of Directors in March 2015. The Committee also recommended changes in the composition of subsidiary Boards and Board Committees. The Committee submitted the Annual Corporate Governance Report for 2014 to the Board of Directors for approval.

The Committee approved the revision to the Group Board of Directors Manual. A progress report on the gap analysis action plan for full adoption of the CBC Governance Directive was reviewed during May and the Group Board of Directors Diversity Policy and Group Nominations Policy were approved, together with a Code of Conduct of BoD Observers. Furthermore the Committee approved the questionnaires that were prepared for the Evaluation of Board, Committees and members performance as per the CBC Governance Directive.

It reviewed the composition of the Boards of BOC Oncology Centre, the Kermia Group and Cyprus Leasing (Romania) IFN SA and recommended to the Board the appointment of Directors to these subsidiaries.

It reviewed the fees and expenses of the members of the Bank of Cyprus UK Ltd Board as well as the remuneration of the Chairman of the Board.

The Committee reviewed and approved the terms of the Request for Proposals for the Purchase of Services for the Evaluation of the Board.

The Group CEO had given notice of his resignation and the Committee begun a search for a suitable replacement. However the search ended when the CEO agreed to remain and a new contract was approved and signed for a further two years.

The Committee had earlier reviewed and approved a new contract for the former Director of Restructuring and Recoveries Division who remained as a Consultant for a period of three months.

Following the resignation of the Vice Chairman of the Board Mr. Strzhalkovskiy, the Committee recommended for the Board's approval the appointment of a new Vice-Chairman and a new member of the Nominations and Corporate Governance Committee. It also recommended the appointment of a new Chairman of the Risk Committee. Additionally the Directors' rotation was discussed and a recommendation was made to the Board. At the same time the Committee began a search for the nomination of a new member of the Board of Directors.

3. Board Committees (continued)

3.2 Nominations and Corporate Governance Committee (continued)

The Committee also approved:

- The Corporate Governance Guidelines for Group Subsidiaries to align practice across the Group.
- The revision of the Group Corporate Governance Policy.
- The Group Policy on Fitness & Probity.
- The Terms of Reference of the Human Resources and Remuneration Committee.

The report of the external advisors engaged to carry out the evaluation of Board, Committees and members performance was ratified and so was the internal evaluation report.

Finally the Committee agreed to the participation of the Group CEO on an external Board.

3.3 Risk Committee

The Group Risk Committee is responsible for advising the Group 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 main purpose of the Committee is to review, on behalf of the Group 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 Group Board on Risk Appetite and alignment with strategy.
- Monitors the effectiveness of the Group's risk management and internal controls 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 Group Board on alignment of remuneration with Risk Appetite (through advice to the Group Human Resources and Remuneration Committee).
- Advises the Group 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 and operational 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 Group Risk Committee has established core terms of reference to guide subsidiary companies when adopting terms of reference for the non-executive risk committees. The Committee's endorsement is required for any proposed material changes to subsidiary company risk committee Terms of Reference and for appointments to such committees.

Detailed information relating to Group Risk Management is set out in Notes 44 to 47 of the Consolidated Financial Statements and the Additional Risk Disclosures section of the 2015 Annual Financial Report.

The members of the Risk Committee as at the date of this Report are:

Arne Berggren (Chairman from 29 May 2015)
Wilbur L. Ross
Marios Kalochoritis
Yiannis Zographakis
Vladimir Strzhalkovskiy (Chairman) (up to 29 May 2015)

3. Board Committees (continued)

3.3 Risk Committee (continued)

During 2015, the Risk Committee held 17 meetings. Key areas of focus for the Committee during the year were to set strategies and ensure compliance with reference to NPL management, review risk policies where necessary to comply with the changing regulatory environment and better support business needs and review the enhancements of the provisioning methodology. Furthermore, the Committee made recommendations for the enhancement of the reporting framework to the Committee in order to facilitate its oversight role over risk management.

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. Such deep dive discussions were on asset quality, RWA, credit documentation, Retail and SME delinquent portfolio. Deep dives have also been scheduled for 2016 to cover cybercrime and IT and operational risks, liquidity and funding risk, departments of RRD and the capital optimisation programme.

The Risk Committee undertook the following key activities in 2015:

- *Oversight of executive risk management*. Regular reports were received from the Group Chief Risk Officer including a risk map which provides analysis of risk profiles for categories of risk identified in the Group Risk Appetite Statement.
- *Review of risk management and internal controls*. The Committee recommended to the BoD the reports of Annual Risk Management, Annual Information Security, ICAAP and ILAAP. The Committee was also receiving regular update of the ECB's onsite reviews and was monitoring actions stemming from their findings.
- *Review of risk appetite*. The Committee reviewed the alignment of risk appetite and Group strategy. Regular reviews were undertaken of the Group's risk profile against the key performance indicators set out in the Risk Appetite Statement which considered the need for any adjustment to the risk appetite. The Risk Appetite Statement for 2015 was recommended to the Group Board for approval. Reports and presentations were received from the Group Chief Risk Officer, including on the results of the Bank's stress testing and scenario analysis programme.
- Important/material Reputational/Information Security and Operational Risk incidents were elevated to the Committee through the monthly Risk Report and other quarterly reporting from Operational Risk and Information Security.
- *Review of the top and emerging risks*. The Committee received reports on possible risks emerging from the possible exit of Greece from the Eurozone, loans denominated in CHF following the revaluation of the Swiss Franc, loans secured by capital securities, new regulatory developments on Arrears Management, Transfer and Mortgage of Immovable Property Law and the Insolvency Law.
- *Review of the acquisitions and disposals*. The Committee received reports on risk issues relating to proposed strategic acquisitions and the risk management of disposals and advised the Group Board accordingly.
- *Review of the operational risk*. The Committee received regular reports on the Group's operational risk management framework.
- *Review of risk management policies*. Approved a number of Risk Management related policies such as Group Information Security Policy, Asset Acquisition and Disposal Policy, Provisioning Policy, Restructuring Policy Framework, Lending Policy, Country Risk Policy, Business Continuity Management Policy and Fraud Management Policy.
- *Review of the Terms of Reference and Committee's effectiveness*. The Committee undertook a review of its Terms of Reference and of its own effectiveness.
- Approval/recommendation for approval of a large number of restructurings and contractual or non-contractual write-offs.
- Approved/recommend for approval special restructuring products and solutions.
- Updated on Group Regulatory/Supervisory Activity.
- Review of the Appeals Committee Reports.
- Approval of risk related limits.
- Updated on the Assets-Liabilities Committee (ALCO) meetings minutes.
- Prepared the 2016 Committee's calendar aiming to fully cover corporate governance and regulatory requirements and Committee's Terms of Reference. The calendar aims to focus on specific high risks ensuring that they are discussed by the Committee in an orderly manner gaining deeper understanding and providing solid feedback to executive management.

3.4 Remuneration and Human Resources Committee

Information on the composition and the role of the Committee as well as issues reviewed during 2015 can be found in the Remuneration Policy Report, on page 350 of this report

4. Loans to Directors and Other Transactions

Details of loans to Directors and other transactions with the Group are set out in Note 49 of the Consolidated Financial Statements for year 2015.

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

- Be approved by a resolution of the Board carried by a majority of two-thirds of the members that participated in the relevant Board meeting and the member concerned should neither be present during the discussion nor vote on the resolution,
- The exposure granted should be on the same commercial terms as would apply to customers for similar exposures in the ordinary course of banking practice,
- The total value of exposures in respect of all members of the management body should not exceed at any time 10% of the Bank'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 Bank'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 management body that does not comply to 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 of Directors complied with the relevant provisions of the CSE Code as at 31 December 2015.

5. Accountability and Audit

5.1 Going Concern

The Company's management, taking into consideration the factors noted in Note 4.1 of the Consolidated Financial Statements, is satisfied that the Group has the resources to continue in business for the foreseeable future and therefore, the going concern principle is appropriate.

5.2 System of Internal Controls

The Board of Directors 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 address any deficiencies.
- The appropriate compliance framework is in place.
- The integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with legal and supervisory requirements and relevant standards, is adequate.
- The appropriate Information Security framework for the protection of confidential information is in place.

Policies and procedures have 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 Group's key policies and procedures pertain to the Group's capital adequacy assessment process, compliance policies and obligations and the internal control system.

5. Accountability and Audit (continued)

5.2 System of Internal Controls (continued)

The Board, through the Audit and Risk Committees, conducts reviews on a frequent basis, regarding the effectiveness of the Group's internal control 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 cover all systems of internal controls, including financial, operational and compliance controls, as well as risk management systems. In carrying out their reviews, the Audit and Risk Committees 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, internal and external audit reports, as well as regulatory reports. Additionally, the Board of Directors receives a confirmation on an annual basis by the Group CEO as to the effectiveness of compliance, risk management and information security system of internal controls.

The Board, through the Audit and Risk Committees, has received confirmation that Executive management has taken or is taking the necessary actions to remedy all weaknesses identified through the operation of our framework of internal controls.

Based on the internal audit work carried out in 2015, significant steps have been made which further strengthened the Group's System of Internal Controls. Areas where significant progress was made are the provisioning process and the arrears management process. There is still room for improvement in certain areas within the Information Systems and Information Security environment and the Talent Management and Succession Planning process.

The Board confirms that the Group has an effective internal control system.

The Board confirms that it is not aware of any violation of the Cyprus Securities and Stock Exchange Laws and Regulations, except those that are known by the relevant authorities (where applicable).

5.3 Group Internal Auditor

The Board of Directors appointed Mr. George Zornas as Group Internal Audit Director in June 2015 after the resignation of Mr. Constantinos Tsolakis in December 2014. From January 2015 to June 2015 Mr. Zornas was Acting Group Internal Audit Director.

5.4 Corporate Governance Compliance Officer

The Board of Directors appointed Mr. Marios Skandalis as Corporate Governance Compliance Officer.

6. Remuneration Policy Report

The Remuneration Policy Report was prepared by the Board of Directors following a proposal by the Human Resources and Remuneration Committee in accordance with Annex 1 of the Code. It is presented in the Annual Financial Report of the Group after the present Report on Corporate Governance. The Remuneration Policy Report is presented to the Annual General Meeting of shareholders for approval.

Information on the remuneration of the Members of the Board of Directors for the year 2015 is disclosed in Note 49 of the Consolidated Financial Statements of the Group, as well as in the Remuneration Policy Report.

7. Shareholder Relations

The Board has appointed Mr. Constantinos Pittalis as Investor Relations Officer, responsible for the communication between shareholders and the Group. Information concerning the Group is provided to shareholders, prospective investors, brokers and analysts in a prompt and unbiased manner free of charge.

The Senior Independent Director, Mr. Michael Spanos, is available to shareholders if they have concerns that are not resolved through the normal communication channels.

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

7. Shareholder Relations (continued)

The Board of Directors provides to holders of at least 5% of the Company's share capital the opportunity to request the inclusion of items on the agenda of General Meetings. The Board of Directors is available at the Annual General Meeting to answer shareholders' questions.

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

Remuneration Policy Report for the year 2015

1. Introduction

In accordance with the provisions of the Code of Corporate Governance (the "Code") published by the Cyprus Stock Exchange ('CSE') (4th Edition (Revised) April 2014) and in particular Annex 1 of the Code, the Human Resources and Remuneration Committee ('HRRC') prepares the Annual Board of Directors' Remuneration Report which is ratified by the Board of Directors and submitted to the shareholders' Annual General Meeting. The Board of Directors Remuneration Report for the year 2015 was ratified by the Board of Directors on 31 March 2016.

2. Human Resources and Remuneration Committee

The HRRC is responsible for the development and periodic review of the Group Remuneration Policy which is proposed to the Board of Directors for ratification. In addition, the Board of Directors, 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 ensuring 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 Code as well as the CBC Directive on Governance and Management Arrangements of Credit Institutions (the 'CBC Governance Directive') which came into effect in August 2014 and incorporated the requirements for Remuneration Policies included in the European Capital Requirements Directive ('CRD IV'), as well as regulatory restrictions pertinent to the banking sector currently.

It is acknowledged that the implementation of the relevant requirements by financial institutions and the policies and practices that are to be adopted will evolve over time, as further experience and knowledge is gained and with the development of best practice in this area. Within this context, 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 of Directors the Annual Remuneration Policy Report as part of the Annual Report of the Group, which is submitted to the shareholders' Annual General Meeting for approval. The Committee also reviews the related party transactions note (Note 49) of the Consolidated Financial Statements of the Group and the Remuneration Policy Report itself.

The members of the Committee as at the date of this Report are as follows:

Michael Spanos (Chairman)
Marios Kalochoritis
Maksim Goldman (up to 23/10/2015)

3. Governance of Group Remuneration Policy

3.1 Principles of the 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 the Directors needed to run the Company successfully, but companies should avoid paying more than is necessary for this purpose. Part of the remuneration of Executive Directors should be determined in such a way as to link rewards to corporate and individual performance.

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

3. Governance of Group Remuneration Policy (continued)

3.2 Terms of Reference of the Human Resources and Remuneration Committee

The Role of the Committee

The HRRC is responsible for the development and periodic review of the Group Remuneration Policy which is proposed to the Group Board of Directors for ratification.

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

The role of the Committee is:

- To ensure that the Group is equipped with the Human Capital necessary for the achievement of its strategic goals, whose reward will be based on personal performance and Group results.
- To ensure that the Group is equipped with the Organisational Capital to be able to effect continuous improvement.
- To ensure that the Group is equipped with the Information Capital and the technology necessary to facilitate process improvements that will create a comparative advantage in the market.
- To set the overarching principles and parameters of Compensation & Benefits policies across the Group and exercise oversight for such issues.
- To consider the remuneration arrangements of the non-Executive and the Executive Directors of the Group, other Identified Staff and the employee compensation policy bearing in mind the EBA Guidelines on remuneration policies and practices, the CBC Governance Directive and the CSE Code.

Appointment of the Committee

The Committee should have a minimum of 3 and a maximum of 5 members who are appointed by the Group Board on an annual basis. The Committee must consist entirely of non-Executive Directors of whom the majority must be independent Directors. The Chairman of the Committee is appointed by the Group Board. He/she must be an Independent Director and cannot chair any other Committee of the Group Board.

On 23 October 2015 Mr. Maksim Goldman resigned from the Committee to limit his participation to two Committees and therefore the Committee continued thereafter with only two Independent Non-Executive members.

Meetings of the Committee

The Committee holds regular meetings and, additionally, ad hoc meetings whenever called by the Chairman or any other two members of the Committee. The quorum for a meeting is 2 members or 50% rounded up whichever is the highest. The Committee keeps detailed minutes of its meetings.

The Committee has authority to obtain independent advice and information from external parties whenever this is considered necessary.

All independent non-Executive Directors have the right to attend any meetings of the HRRC, and the Committee may invite any person who may contribute to its conduct of business.

The Committee has a functional line of authority on the Director of Human Resources who is a regular attendee of all Committee meetings.

Duties and Responsibilities of the Human Resources and Remuneration Committee

The Committee's key objective is to ensure that the Remuneration Policy and Human Resource practices of the Group are aligned to the Group's long term strategic goals, its risk tolerance, capital and liquidity availability, the interests of its shareholders and do not encourage excessive risk taking.

The Committee reviews the operation and effectiveness of the Remuneration Policy and ensures this is in line with the Remuneration Framework as this is described in the CBC Governance Directive.

3. Governance of Group Remuneration Policy (continued)

3.2 Terms of Reference of the Human Resources and Remuneration Committee (continued)

Remuneration

Executive Directors (except Group CEO)
The Committee reviews the remuneration packages vis-a-vis their performance and makes appropriate recommendations to the Nominations and Corporate Governance Committee. It also performs the annual performance appraisals of the Executive Directors (except the Group CEO) against set targets.

Non-Executive Directors
The Committee defines the remuneration of the non-Executive Directors of the Group Board, and makes appropriate recommendations to the Board for approval by the Annual General Meeting, 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,
- Adequate remuneration considered necessary to attract and retain high value-adding professionals. Therefore, remuneration has to be satisfactory vis-a-vis peer companies,
- 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.

Senior Management and other Identified Staff
The Committee reviews and approves remuneration packages of Group Divisional Directors, Senior Managers and subsidiaries' General Managers, including salary, pension policy, option plans, and other types of compensation, recommended by the Group CEO or by the Chairmen of the Risk and Audit Committees (in the case of the Heads of Internal Control functions) in consultation with the Group CEO and Group HR Division. It also reviews the performance appraisals of Group Divisional Directors, Senior Managers and subsidiaries' General Managers 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.

Other Duties and Responsibilities

The Committee exercises oversight of negotiations with the Labour Union in Cyprus and provides guidance and support of the negotiating team. 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 judgment 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 and succession planning for all Divisions and subsidiaries for Identified Staff throughout the Group.

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

3. Governance of Group Remuneration Policy (continued)

3.2 Terms of Reference of the Human Resources and Remuneration Committee (continued)

Other Duties and Responsibilities

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 Code and concern possible plans for the compensation of Members of the Board in the form of shares, share warrants or share options.

Other Duties and Responsibilities (continued)

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

4. Committee's Activities in 2015

The HRRC acts within the framework of the relevant provisions of the Code and bearing in mind the relevant provisions of the CBC Governance Directive.

The Committee held eight meetings during 2015.

The HRRC, amongst other, undertook the following activities during 2015:

- Submitted a suggestion, which was approved by the Board, pertaining to Board and Committee member fees;
- Reviewed and approved the Group's Remuneration Policy;
- Was instrumental in effecting salary adjustments to Highly Valued Employees ('HVEs'), thus protecting the Group's best people against labour market threats and was informed of the pay review process that took place in July 2015;
- Reviewed and approved the remuneration packages of Identified Staff, as presented by the Group CEO, securing the Union's peaceful stance;
- Reviewed and approved the Long Term Incentive Plan ('LTIP'), as presented by the Group CEO;
- Gave direction for, and subsequently reviewed, the Training Plan for 2015, as presented by HRD and approved by the Group CEO and ensured that it creates/develops the right competencies and behaviours that are necessary for meeting the Bank's strategic priorities;
- Reviewed the annual performance appraisals and 360° appraisals of Identified Staff, coordinated by the Group CEO;
- Reviewed the Bank's annual performance appraisal results and main findings;
- Reviewed the Staff Engagement Survey 2015;
- Informed of the Organisation Effectiveness Study, the new Grading and Pay Structures performed by external advisors;
- Entered into an engagement process with the Labour Union;
- Agreed the new Collective Agreement with the Labour Union (effective from 1/6/2015);
- Prepared a Road Map towards the establishment of a contemporary Collective Agreement to be negotiated during the period from June 2015 to December 2016;
- Initiated discussion on the external advisors New Grading and Pay Structure and merit pay systems.

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 of Directors and any participation in the Boards of Group subsidiary companies. The Annual General Meeting held on 24 November 2015 approved new levels of remuneration for the Non-Executive members of the Board as proposed by the HRRC.

The Chairman of the Board receives annual fees of €120.000, each of the Vice Chairmen of €80.000, the Senior Independent Director of €70.000 and the Members of €45.000. Additionally the Group reimburses all Directors for expenses incurred in the course of their duties.

4. Committee's Activities in 2015 (continued)

4.1 Remuneration of non-Executive Directors (continued)

The Chairmen of the Audit and Risk Committees receive annual fees of €45.000 and each member €25.000. The Chairmen of Remuneration Committee and Nominations Committee receive annual fees of €30.000. Each member of the Remuneration Committee receives €20.000 per annum, while each member of the Nominations Committee receives €15.000 per annum.

4.2 Remuneration and Other Benefits of Executive Directors

Contracts of Employment

The employment contract of the Group CEO, Mr. John Patrick Hourican, has been renewed for a period of two years commencing on 1 February 2016.

Due to current regulatory restrictions, the Group at present does not grant variable remuneration or discretionary pension payments.

Service Termination Agreements

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

The terms of employment of Dr. Christodoulos Patsalides, Finance Director and Executive Member of the Board, are based on the provisions of the collective agreement in place, as with the rest of the employees, which provides for notice or compensation based on years of service.

Bonus

No bonus was recommended by the Bank's Board of Directors for Executive Directors for 2015.

Retirement Benefit Schemes

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

The main characteristics of the retirement benefit schemes are presented in Note 13 of the Consolidated Financial Statements for the year 2015.

Share Options

No share options were granted to Executive Directors during 2015.

Other Benefits

Other benefits provided to the Executive Directors include other benefits provided to staff, medical fund contributions and life insurance. The Chief Executive Officer is provided with other benefits related to his relocation and residence in Cyprus. The relevant costs for Executive management are disclosed in Note 49 of the consolidated financial statements for the year 2015.

4. Committee's Activities in 2015 (continued)

Information Regarding the Remuneration of Directors for Year 2015

	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
Executive Directors								
John P. Hourican	961.440	-	961.440	-	-	-	**961.440**	**110.451**
Christodoulos Patsalides	165.538	-	165.538	-	-	-	**165.538**	**18.052**
Non-Executive Directors								
Josef Ackermann	-	150.000	150.000	-	-	-	**150.000**	**-**
Maksim Goldman	-	115.834	115.834	-	-	-	**115.834**	**-**
Wilbur L. Ross	-	120.000	120.000	-	-	-	**120.000**	**-**
Vladimir Strzhalkovskiy	-	20.819	20.819	-	-	-	**20.819**	**-**
Arne Berggren	-	106.667	106.667	-	-	-	**106.667**	**-**
Marios Kalochoritis	-	90.000	90.000	3.500	-	-	**93.500**	**-**
Michael Spanos	-	100.000	100.000	-	-	-	**100.000**	**-**
Ioannis Zographakis	-	115.000	115.000	-	-	-	**115.000**	**-**
	1.126.978	**818.320**	**1.945.298**	**3.500**	**-**	**-**	**1.948.798**	**128.503**

*Includes employers' contributions excluding contribution to retirement benefits.

31 March 2016