

Annual Corporate Governance Report 2016

Introduction

The Board of Directors (the 'Board') of the Bank of Cyprus Public Company Limited (the 'Company') is committed to good governance which is vital to creating trust and engagement between the Company and its stakeholders and contributes towards its long-term success. The Board aims to ensure on an ongoing basis that the Company 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 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 ('CSE Code') as well as the Directive on Governance and Management Arrangements of the Central Bank of Cyprus ('CBC Directive on Governance').

The Company has also elected to comply with the UK Corporate Governance Code 2014 published by the Financial Reporting Council in the UK (the 'UK Code') as of 4 October 2016.

Part A

The Company has adopted the CSE Code as well as the UK Code, has incorporated their provisions in the Group's Policy on Corporate Governance and fully implements their 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.

Part B

The Company confirms that it has complied with the provisions of the CSE Code. Details of how the Company applied the main and supporting principles of the CSE Code throughout 2016 are set out in this Corporate Governance Report and in the Remuneration Policy Report. The narrative that follows also covers the disclosure requirements set out in the UK Code.

The Directors further consider that the Company has also complied with the provisions of the UK Code as of 4 October 2016, other than as set out herein:

- Provision C.3.1 of the UK Code recommends that the audit committee should comprise of three independent non-executive members. During 2016 the Audit Committee was comprised of 2 independent non-executive Directors and one non-independent non-executive Director. As of 1 January 2017 the Audit Committee is comprised of three independent non-executive Directors.
- Provision B.7.1 recommends the annual election of the Directors by shareholders. The Articles of Association of the Company provide for one third of the Directors to retire and offer themselves for re-election. The Articles of Association of the Company will be amended prior to the next Annual General Meeting ('AGM') so that henceforth all Directors will retire every year and offer themselves for re-election if they wish.

The Company continually monitors and reviews its governance framework and that of its subsidiary companies (where applicable) through effective oversight. The Directors are aware that in case they have material concerns about the overall governance of the Group, these should be reported without delay to the Board and, if their concerns are not satisfactorily addressed, the Directors should report these concerns to the Central Bank of Cyprus ('CBC').

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 Group Nominations and Corporate Governance Committee ('the NCGC'), the Group Human Resources and Remuneration Committee ('the HRRC') and the recently constituted Technology Committee ('the TC'). Details of these committees are set out in section 3 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 or by request to the Company Secretary.

1. Board of Directors

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

The Board is responsible for ensuring that the management maintains an appropriate system of internal controls which provides 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.

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

1.1 Composition of the Board of Directors

As at 31 December 2016 the Board was comprised of ten Directors: the Group Chairman who was independent on appointment, two executive Directors and seven non-executive Directors, six of whom were considered to be independent non-executive Directors in accordance with the provisions of the UK Code and the CSE Code. On 7 February 2017, Mrs Lyn Grobler was appointed as independent non-executive Director, bringing the total number of Directors to eleven. On 1 March 2017, Mr. Wilbur Ross resigned from the Board following his appointment as U.S. Secretary of Commerce. The Board has appointed Mr. James B. Lockhart III on the same date, pending the approval of the European Central Bank ('ECB'). Mr. Lockhart will replace Mr. Ross on both the NCGC and the RC. The names and brief biographical details of the Directors are included in section 2 of this report.

The NCGC reviews annually the structure, size, tenure and composition of the Board (including skills, knowledge, experience, independence and diversity) to ensure that there is an appropriate mixture of skills, experience as well as gender. The Committee also ensures plans are in place for the selection, appointment and orderly succession of executive Directors and senior managers. In addition, where any appointment or resignation will alter the overall size of the Board, a review is undertaken to ensure that the composition remains appropriate and the Board and its committees comprise of Directors with an all-embracing perception of the Group's activities and the risks associated with them. The Board considers its current size and composition appropriate 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 Directors and Executive Committee (ExCo) members on an annual basis, whereby they are asked to confirm any changes in their circumstances in respect of their compliance with the CBC Directive on the Assessment of the Fitness & Probity of the members of the management body and managers of authorised credit institutions ('CBC Fitness & Probity Directive'). Following the review of 2016, no changes were reported. In January 2017 the Attorney General of Cyprus instituted criminal proceedings against a number of individuals relating to events occurring before the financial crisis of 2013 and the bailing-in of the Company. The individuals charged include three persons currently employed by the Company namely a current executive member of the Board, the Finance Director and the Group Treasurer who at the time were all officers of the Company. The Board has indicated that it fully supports the three executives and confirms their fitness and probity.

1.1.1 Executive Directors

The Group Chief Executive Officer ('CEO') and the Group Deputy CEO & Chief Operating Officer ('DCEO & COO') are employees of the Company. The CEO's termination of employment is subject to four months' notice to be given by either party. The DCEO & COO's employment is mainly based on the provisions of the collective agreement between the Company and the labour union.

1. Board of Directors (continued)

1.1 Composition of the Board of Directors (continued)

1.1.2 Non-Executive Directors

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

1.2 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 also ensures that its obligations towards its shareholders and other stakeholders are understood and met.

The Board is accountable for ensuring that, as a collective body, it has the appropriate skills, knowledge, diversity and experience to perform its role effectively. 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.

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.

The Board is the decision-making body for all matters of importance that are significant to the Group as a whole because of their strategic, financial or reputational implications or consequences. Specific decisions and matters are reserved for approval by the Board. These are:

- Objectives and strategy
- Overall risk policy and risk management procedures
- 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
- 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 succession planning
- The establishment and oversight of policies for selecting, developing and replacing senior management and heads of internal control functions
- The Remuneration Policy

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 on-going basis.

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

Detailed information relating to Group risk management is set out in Notes 43 to 46 of the Consolidated Financial Statements and the Additional Risk Disclosures section of the 2016 Annual Financial Report.

1. Board of Directors (continued)

1.2 The Role of the Board (continued)

1.2.1 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 CEO and other senior management on strategy and developments in the operations of the Group. Regular reports are also provided on the Group's risk appetite, top and emerging risks, risk management, credit exposures and the Group's loan portfolio, asset and liability management, liquidity, litigation, compliance and reputational issues.

The key areas of focus in 2016 for the Board were:

- Group strategy and long term objectives in light of the regulatory and economic environment:
 - Three-year financial plan
 - Voluntary exit plan for employees
 - Set up and operation of Real Estate Management Unit ('REMU')
 - Acquisitions and divestments
- Risk and governance:
 - Approval of the Group's Risk Appetite Statement
 - Approval of Internal Capital Adequacy Assessment Process ('ICAAP') Report
 - Approval of Internal Liquidity Adequacy Assessment Process ('ILAAP') Report
 - Discussion of International Financial Reporting Standards ('IFRS') provisioning parameters
 - Review of monthly risk reports
- Legal issues/actions against the Company
- Review and approval of Group financial results (monthly, quarterly and annual)
- Directors & Officers (D & O) liability insurance
- Deposit strategy and Emergency Liquidity Assistance ('ELA') repayment plan
- Budget and performance oversight:
 - Review the monthly management accounts
 - Approval of the annual budgets and capital plans
- External environment:
 - Review of the banking industry outlook
 - Cyprus economic developments
- Monitoring key regulatory issues affecting the Group:
 - Supervisory Review and Evaluation Process ('SREP')
 - On-site inspections and approval of relevant responses to the Single Supervisory Mechanism ('SSM')
 - Discussion of new regulatory developments and requirements
 - Key regulatory correspondence and related response
- Review the progress of managing non-performing exposures
- Approval of appointments to the Board and major subsidiary boards and review of corporate governance matters
- Approval of changes to management structure of the Group
- Discussion, approval and oversight of the listing on the London Stock Exchange (LSE)
- Establishing a Board Technology Committee.

In early 2016 the Board approved a framework of oversight of major subsidiaries which included close working relations between the Chairpersons of the relevant subsidiary board committees with the respective Group committees.

1.2.2 Meetings of the Board of Directors

During 2016 the Board held 17 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 2016 the Board held an offsite two day meeting specifically focused on strategy.

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

1. Board of Directors (continued)

1.2 The Role of the Board (continued)

1.2.2 Meetings of the Board of Directors (continued)

The attendance of the members of the Board for 2016 is presented in the following table:

Board of Directors 1/1/2016-31/12/2016

Name	Board of Directors	AC	HRRC	NCGC	RC	AC & RC Joint
Josef Ackermann (Chairman)	17/17			8/8		
Maksim Goldman (Vice Chairman)	16/17	11/12		8/8		6/7
Wilbur L. Ross (Vice-Chairman)	13/17			7/8	17/20	4/7
Arne Berggren	17/17	12/12			20/20	7/7
Michael Heger*	9/9		4/4		10/10	3/3
John P. Hourican	17/17					
Marios Kalochoritis	17/17		9/9		19/20	7/7
Christodoulos Patsalides	16/17					
Michael Spanos	16/17		9/9			
Ioannis Zographakis	17/17	12/12			20/20	7/7
Total meetings	17	12	9	8	20	7

* Appointed on 9 June 2016

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 who can provide relevant information related to Board procedures and the CSE and UK Codes. Independent professional advice is also available to the Directors in accordance with the internal policy that was formulated and approved by the Board. All Directors have the benefit of directors' and officers' liability insurance in respect of legal actions against them.

1.2.3 Conflicts of interest

The Board manual has documented procedures relating to directors' conflicts of interest, setting 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 clarifies the duty of all employees to avoid, disclose and manage conflicts of interests. 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 2016. All Directors and PDMRs have been informed in writing about their obligations under the Dealing Code.

None of the Directors had, during the year or at the end of the year, a material interest, directly or indirectly in any contract of significance with the Group.

1. Board of Directors (continued)

1.2 The Role of the Board (continued)

1.2.4 Time commitment

The Board has determined the time commitment expected of non-executive Directors to be 30-35 days per annum. Time devoted to the Company can be considerably more, particularly if serving on Board committees.

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

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

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

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

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

At the time of their appointment, the CBC was the relevant competent authority to grant permission to five of the Directors to hold one additional non-executive directorship to the above. At present only Mr. Maksim Goldman holds an additional directorship (five non-executive directorships). Mr. Wilbur Ross who resigned on 1 March 2017 also held five non-executive directorships.

The Directors hold positions on the board of directors of other companies as noted in their biographical details included in section 2 of this report. 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 the Company and is within the limits set by the CBC Fitness and Probity Directive. It was estimated that in 2016 each non-executive Director spent at least 36 days on board-related duties.

1.2.5 Group Chairman and Group Chief Executive Officer

There is a clear and distinct segregation of duties between the Chairman of the Board and the Group CEO. The terms of reference of these two roles form part of the Group Board Manual which has been approved by the Board and they distinguish between the running of the Board and the executive responsibility for running the Company's business.

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

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

1. Board of Directors (continued)

1.2 The Role of the Board (continued)

1.2.5 Group Chairman and Group Chief Executive Officer (continued)

The Chairman commits a substantial amount of time to the Group. There were no changes to the other significant commitments of the Chairman during the year ended 31 December 2016. During the year the Chairman and 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 and execute the approved strategy, lead the senior management team in the day-to-day running of the business, 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 was reviewed and renewed on 1 February 2016 for a further two-year period.

1.2.6 Senior Independent non-Executive Director

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

1.3 Board Balance and Independence

Both the CSE Code and the UK Code provide that at least 50% of the Board of Directors, 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 considers the independence status of each Director on appointment. In addition the independence status of each Director is reviewed on an annual basis to ensure that the determination regarding independence remains appropriate.

In 2016 the Board considered the principles relating to independence contained in the CSE Code and the UK Code, as well as the CBC Fitness and Probity Directive and concluded that the status of each Director as determined remained appropriate. The status of each Director is presented in the biographical details in section 2 of this report.

Mr. Maksim Goldman is a senior executive of a corporation controlled by a significant shareholder in the Company and therefore he is not considered independent by reference to the provisions of the CBC Directive on Fitness and Probity, the CSE Code and the UK Code. The Board considers that each non-executive Director brings independent challenge and judgement to the working of the Board, through their character, objectivity and integrity.

The Board comprises a majority of independent non-executive Directors to ensure that no individual or small group can dominate its decision making.

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

2. Members of the Board of Directors

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.

2. Members of the Board of Directors (continued)

2.1 Non-Executive Directors (continued)

Josef Ackermann (Chairman) (continued)

Dr. Ackermann has held numerous board positions including sitting on the Board of Directors at Zurich Insurance Group, Royal Dutch Shell plc, Siemens AG and EQT Holdings AB among others. Dr. Ackerman also served as Vice-Chairman of the Foundation Board of the World Economic Forum. 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. Dr. Ackermann studied economics and social sciences at the University of St. Gallen, where he earned his doctorate, and holds an honorary doctorate from the Democritus University of Thrace in Greece.

Dr. Ackermann has extensive experience of 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 in November 2014

External Appointment:

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

Independent:

On appointment

Committee Membership:

Chairman of the Nominations and Corporate Governance Committee

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 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 until June 2014, BankUnited, Inc., until March 2014; Talmer Bancorp., Assured Guaranty, International Textile Group; NBNK Investments PLC; PB Materials Holdings, Inc.; Ohizumi Manufacturing; Ocwen Financial Corp.; Navigator Holdings until November 2014; Plaspar Participacoes SA until 2014 and Air Lease Corporation from 2010 to December 2013; International Coal Group from April 2005 to June 2011, Montpelier Re Holdings Ltd. from 2006 to March 2010, The Greenbrier Companies 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. He 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 has been elected to both the Private Equity Hall of Fame and the Turnaround Management Association Hall of Fame. He 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)

Wilbur L. Ross (Vice-Chairman) (continued)

Term of Office:

Appointed to the Board in November 2014
Resigned on 1 March 2017 following his
appointment as U.S. Secretary of Commerce

External Appointment:

WL Ross Holding Corp.
Arcelor Mittal
EXCO Resources, Inc.
DSS Holdings LP
Sun Bancorp
Brookings Economic Studies Council
Palm Beach Civic Association
The Japan Society Inc.
Margritte Museum
British American Business Inc.
Harvard Business School Club of New York Inc.
Yale University School of Management Board of
Advisors
Partnership of New York City

Independent:

Yes

Committee Membership:

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

Arne Berggren (Chairman of the Risk Committee)

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

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

Term of Office:

Appointed to the Board in November 2014

External Appointment:

Eusticon AB
Pireaus Bank Group

Independent:

Yes

Committee Membership:

Chairman of the Risk Committee
Member of the Audit Committee

2. Members of the Board of Directors (continued)

2.1 Non-Executive Directors (continued)

Maksim Goldman (Vice Chairman)

Born in 1971. Mr. Goldman currently serves as Director of Strategic Projects at Renova where he is responsible for coordinating the business development of various significant assets under management of the Group. Previously, Mr. Goldman served as Deputy Chief Investment Officer of Renova Group, responsible for implementing the investment policy and support of key mergers and acquisitions transactions. 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).

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 in November 2014

External Appointment:

United Company RUSAL Plc
OAO 'Volga'
FC 'Ural'
United Company of Kalahari Ltd

Independent:

No

Committee Membership:

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

Lyn Grobler

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

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

Term of Office:

Appointed to the Board in February 2017

External Appointment:

Board Intelligence Ltd
Hyperion Services Ltd
Howden Broking Group

Independent:

Yes

Committee Membership:

Chairperson of the Technology Committee

2. Members of the Board of Directors (continued)

2.1 Non-Executive Directors (continued)

Michael Heger

Born in 1955. Dr. Heger currently serves as the general manager of finance and investment and as an independent senior advisor for S.I.F. International Holding S.A., Luxembourg at its representative office in Vienna. Previously, during 2009-2012 he served as general manager and chief executive officer of Metal Trade Overseas AG in Zug, Switzerland. He began his career in 1980 as a manager in export finance and legal affairs for Waagner-Biro AG in Vienna, Austria. Having spent two years at Waagner-Biro AG, he moved to UniCredit Bank Austria Group, where he held various management positions from 1982 to 2002. Between 2001-2002, he served as general manager and head of structured trade finance at Bank Austria AG. From 2002-2003, he served as the deputy general manager and head of International division for Raiffeisenlandesbank Niederösterreich-Wien AG. Dr. Heger then joined MPH Management and Participation Holding S.A., a special purpose company for equity participation in commercial and industrial companies, financial institutions and in property developments as well as for financial and consulting services for domestic and international clients and commodity trading, as the general manager of finance and investment and head of the representative office from 2004-2009. Dr. Heger holds a doctorate in law from the University of Vienna and obtained a postgraduate degree in law from the College of Europe in Bruges, Belgium.

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

Term of Office:

Appointed to the Board in June 2016

External Appointment:

None

Independent:

Yes

Committee Membership:

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

Marios Kalochoritis

Born in 1973. Mr. Kalochoritis 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.

Mr. Kalochoritis is an experienced financial services professional having served in various senior roles in banking and other industries.

2. Members of the Board of Directors (continued)

2.1 Non-Executive Directors (continued)

Marios Kalochoritis (continued)

Term of Office:

Appointed to the Board in September 2013

External Appointment:

Carouge Investments
Loggerhead Management Consultants
Loggerhead Holdings

Independent:

Yes

Committee Membership:

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

James B. Lockhart III

Born in 1946. Mr. Lockhart serves as Vice Chairman of WL Ross & Co LLC in New York since 2009 and as a member of Investment Committees and the Management Committee thereof. Prior to this position, Mr Lockhart served in the U.S Government in several positions. In 2008-2009 he was the Director (CEO) and Chairman of the Federal Housing Finance Agency (FHFA) Oversight Board. In 2006-2007 he served as the Director (CEO) of the Office of Federal Housing Enterprise Oversight. He also served on the Troubled Asset Relief Program's (TARP's) Financial Stability Oversight Board which is chaired by the Federal Reserve Chairman. From 2002 to 2006, Mr. Lockhart served as the Principal Deputy Commissioner and Chief Operating Officer of the Social Security Administration (SSA). He served on the Executive Committee of President Bush's Management Council and as Secretary of Social Security's Board of Trustees. Mr. Lockhart's private sector financial services experience includes senior positions with NetRisk, National RE, Smith Barney, pension Benefit Guaranty Corporation, Alexander & Alexander Services and Gulf Oil Corporation. He graduated from Harvard University with an MBA and from Yale University with a bachelor's degree in Liberal Arts.

Mr. Lockhart has extensive experience in the financial services and through his government roles has important insight in the regulatory environment as well as oversight experience of banking institutions.

Term of Office:

Appointed to the Board in March 2017
(subject to ECB approval)

External Appointment:

WL Ross & Co. LLC
Cascade Bancorp
Shellpoint Partners LLC
Bruce Museum
Bipartisan Policy Centre Commission on Retirement Security

Independent:

Yes

Committee Membership:

Member of the Risk Committee (subject to ECB approval)
Member of the Nominations and Corporate Governance Committee (subject to ECB approval)

Michael Spanos (Senior Independent Director)

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

2. Directors (continued)

2.1 Non-Executive Directors (continued)

Michael Spanos (Senior Independent Director) (continued)

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

Term of Office:

Appointed to the Board in November 2014

External Appointment:

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

Independent:

Yes

Committee Membership:

Chairman of the Human Resources and Remuneration Committee

Ioannis Zographakis

Born in 1963. Mr. Zographakis is a senior Executive with a broad and diverse international experience in the banking industry. He has worked with Citibank for over 20 years, in the USA, UK and Greece. His line/business positions and divisional/corporate responsibilities, have provided him with an extensive background in corporate governance, business restructuring, re-engineering, crisis management, separation of businesses, business strategy, profit & loss management, finance, product and segment management, operations & technology management, and dealing with various regulatory bodies and industry related organisations. He started his career in 1990 with Citibank in Greece as a Management Associate for Europe, Middle-East & Africa (EMEA). He then worked as the Deputy Treasurer and Treasurer for the Consumer Bank in Greece, before moving to the USA in 1996 as the Director of Finance for CitiMortgage. In 1997 he became the Financial Controller for Citigroup's Consumer Finance business in the US and then he 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 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 of 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 in September 2013

External Appointment:

None

Independent:

Yes

Committee Membership:

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

2. Directors (continued)

2.2 Executive Directors

John Patrick Hourican (CEO)

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

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

Term of Office:

Appointed to the Board in December 2013

External Appointment:

Atradius N.V.

Independent:

No

Committee Membership:

None

Christodoulos Patsalides (DCEO & COO)

Born in 1962. From 1989 to 1996, Dr. Patsalides worked for the Central Bank of Cyprus in the management of Government External Debt and Foreign Exchange Reserves Department. In 1996, Dr. Patsalides joined the Company 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 in November 2014

External Appointment:

Cyprus Anti-Cancer Society

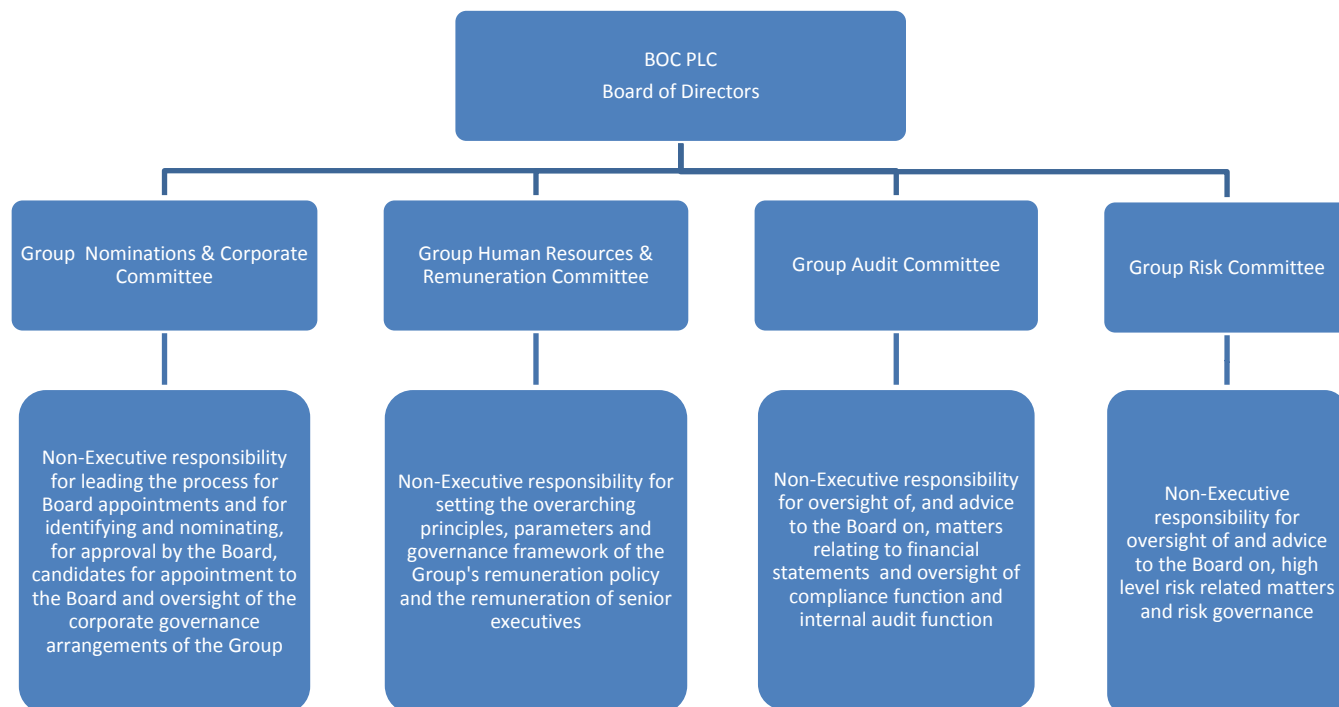
Independent:

No

Committee Membership:

None

3. Board Committees



In order to exercise proper oversight of risk and control, the Board has set up four main Board committees in accordance with the relevant requirements of the CSE Code, the UK Code and the relevant provisions of the CBC Governance Directive. The key roles of the Board committees are described above.

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. 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).

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 Risk Committee and the Audit Committee.

In addition to a number of cross-committee memberships, the chairperson of each committee reports to each meeting of the Board on the activities of the committee since the previous Board meeting and the Board receives the minutes of each of the committee's meetings.

The Board has recently set up a Technology Committee to drive the digital transformation of the Company. The Committee is comprised of three non-executive members and is chaired by Mrs Lyn Grobler whose extensive knowledge and experience in this industry will be instrumental.

3.1 Nominations and Corporate Governance Committee

At 31 December 2016 the NCGC comprised three non-executive Directors, two of whom were independent. It is chaired by the Chairman of the Board and its composition is fully compliant with the CSE Code, the UK Code and the CBC Governance Directive. The members of the Committee as at the date of this report following Mr. Ross' resignation are:

- Josef Ackermann (Chairman)
- Maksim Goldman

3. Board Committees (continued)

3.1 Nominations and Corporate Governance Committee (continued)

Biographical details, including each member's background, experience and independence status are set out in section 2 of this report.

The NCGC leads the process for appointments and renewals of the Board and Board committees, overseeing the process for non-executive Director appointments and renewals to key subsidiary boards as well as overseeing subsidiary governance to ensure that appropriate and proportionate governance arrangements are in place for Group subsidiaries. Furthermore, the role of the NCGC is to support and advise the Board in relation to the Directors' development and succession planning and to ensure that the Board is comprised of members who are best able to discharge the duties and responsibilities of Directors.

The Committee with the support of the Corporate Governance Compliance Officer, keeps the Board's governance arrangements under review and makes appropriate recommendations to the Board to ensure that these arrangements are consistent with best practice and corporate governance standards.

During 2016, the Committee held 8 meetings. Matters considered by the Committee were:

- Structure, size, diversity and composition (skills, knowledge and expertise) of the Board and Board committees
- The independence of the non-executive members
- Board and individual member performance evaluation
- Effectiveness of performance of each committee
- Nominations, appointments to the Board and major subsidiary boards
- The alignment of the corporate governance framework to the UK Code
- Director rotation
- Diversity Policy and gender diversity targets
- Annual Corporate Governance Report
- Corporate governance quarterly reports
- Changes to the management structure of the Company
- Potential conflicts of interest with Directors' other appointments
- Updated the Corporate Governance Guidelines for Group subsidiaries to align practice across the Group, and to enhance the oversight framework for subsidiaries
- Remediation plan and response to ECB's risk governance and appetite thematic review
- Approval of the annual Director training agenda

The Committee reviewed a gap analysis of the existing corporate governance framework with the UK Code and implemented an action plan to close the few identified gaps by the time the London listing was achieved. To this effect, it approved the revision to the Group Board of Directors manual, the terms of reference of Board committees and the Corporate Governance Policy.

The Committee reviewed the composition of the boards of Eurolife Ltd and General Insurance of Cyprus Ltd and recommended to the Board the appointment of independent Directors to these subsidiaries. Additionally, the Director rotation of the Company was discussed and a recommendation was made to the Board. The Committee also began a search for the nomination of a new member to the Board in line with the recommendations deriving from the Board performance evaluation and the assessment of the composition of the Board.

The Committee also approved the revised:

- Group Board Nominations Policy
- Group Corporate Governance Policy
- Board manual
- Terms of reference of the main committees

in order to align them with the provisions of the UK Code.

The internal evaluation report on the performance of the Board, its committees and members was ratified and submitted to the Board for approval.

3. Board Committees (continued)

3.1 Nominations and Corporate Governance Committee (continued)

3.1.1 Diversity

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

Following review in 2016, the NCGC determined that the skills of the Board were appropriate and relevant to the business of the Group including financial services, strategy development, finance, risk management, business experience, economics etc. Directors bring their individual knowledge, skills and experience to bear in discussions on the major challenges facing the Group. The Group recognises the benefits of having a diverse Board and is committed to this respect. In reviewing board compositions 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.

During 2016, the NCGC reviewed the Board Diversity Policy (the latest version of which is available on the Group's website www.bankofcyprus.com) which sets out to achieve gender diversity by 2020 with appointments based on meritocracy. The Board has set a target to achieve and maintain 40% female representation by the end of 2020 and a plan prepared by the Company Secretary has been approved by the NCGC describing all key intervening milestones leading to the accomplishment of this target. On 30 August 2016 the Board had appointed Mrs Lyn Grobler subject to ECB approval, which was provided on 7 February 2017.

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.

3.1.2 Appointment, Retirement and re-election of Directors

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

According to the Articles of Association of the Company one third of the Directors retire each year and if eligible offer themselves for re-election. At the AGM of shareholders on 25 October 2016, Mr. Maksim Goldman, Mr. Michael Spanos and Mr. Arne Berggren resigned and, being eligible, offered themselves for re-election. Dr. Michael Heger was elected to the Board following his appointment on 9 June 2016. Mrs Lyn Grobler was also elected to the Board subject to ECB approval which was provided on 7 February 2017.

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 Annual General Meeting following his appointment.

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

3. Board Committees (continued)

3.1 Nominations and Corporate Governance Committee (continued)

3.1.2 Appointment, Retirement and re-election of Directors (continued)

The process also involves the NCGC satisfying itself as to the candidate's ability to devote sufficient time to the role, independence, fitness and probity and assessing and documenting its consideration of possible conflicts of interest. The NCGC then makes recommendations to the Board. The process described above was followed in the selection of Mrs Lyn Grobler in August 2016. Egon Zehnder, an external search consultancy firm with no other connection to the Company was engaged in respect of this non-executive Director appointment.

Non-executive Directors are appointed for an initial three-year term, and are typically expected to serve two three-year terms. The Board may invite Directors to serve additional periods once their performance has been assessed as adequate. A non-executive's term of office will not extend beyond 12 years in total and any re-appointment beyond 6 cumulative years will be subject to rigorous review and should take into account the need for progressive refreshing of the Board. The Articles of Association of the Company will be amended prior to the next AGM so that henceforth all Directors will retire every year and offer themselves for re-election, if they so wish.

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 the Company's website www.bankofcyprus.com. 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 Senior Independent Director and committee chairpersons are required to allocate additional time in fulfilling those roles.

3.1.3 Directors' induction and ongoing development

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

Focused training of the Board is arranged in conjunction with scheduled Board meetings where information is provided to ensure that Directors receive adequate insight into a particular area and through dedicated training sessions on particular issues (refer to table below for 2016 training schedule) 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.

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, specialised training sessions were provided covering issues relating to the London Stock Exchange listing with the contribution of external advisors.

Name	Overseas listing Legal and other considerations	London Stock Exchange listing Corporate Governance considerations	Further London Stock Exchange listing considerations
J. Ackermann	√	√	√
M. Goldman	√	√	√
W. L. Ross	√	√	√
A Berggren	√	√	√
M. Heger	√	√	√
J. Hourican	√	√	√
M. Kalochoritis	√	√	√
C. Patsalides	√	√	√
M. Spanos	√	√	√
Y. Zographakis	√	√	√

3. Board Committees (continued)

3.1 Nominations and Corporate Governance Committee (continued)

3.1.3 Directors' induction and ongoing development (continued)

The training material is distributed to all Directors regardless of attendance. In 2016 the Company introduced e-learning and three such sessions were made available to the Directors at the end of the year to cover such matters as Anti-Money Laundering ('AML'), Whistleblowing and Anti-Bribery and Corruption.

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

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.

3.1.4 Board Performance Evaluation

The Board is committed to regular and at least annual evaluation of its effectiveness and that of its committees. The internal evaluation of performance of the Board, its committees and individual members conducted in June 2016 by the Corporate Governance Compliance Officer, 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 Board performance evaluation report made several recommendations and an action plan for the implementation of these recommendations was set up. The assessment carried out through questionnaires considered overall performance relative to the role of the Board.

The outcome of the Board evaluation was considered by the NCGC and collectively discussed by the Board which concluded that the Board continues to be effective. The Board also concluded that each Director continues to make a valuable contribution to the deliberations of the Board and all the members of the Board have the appropriate qualifications and broad relevant experience and continue to be effective and demonstrate continuing commitment to the role.

The Senior Independent Director 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.

3.2 Remuneration and Human Resources Committee

Information on the composition and the role of the Committee as well as issues reviewed during 2016 is presented in the Remuneration Policy Report, on page 356 of this report. The Committee is chaired by the Senior Independent Director and its composition complies with the requirements of the CSE Code and the UK Code. From 1 January 2016 the Committee comprised of only two independent non-executive Directors pending the appointment of Michael Heger who became the third independent non-executive member of the Committee as from 9 June 2016, upon the approval of his appointment to the Board by the ECB.

3.2.1 Loans to Directors and Other Transactions

Details of loans to Directors and other transactions with the Group are set out in Note 48 of the Consolidated Financial Statements for the year ended 31 December 2016.

3. Board Committees (continued)

3.2 Remuneration and Human Resources Committee (continued)

3.2.1 Loans to Directors and Other Transactions (continued)

The Banking 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 Company'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 Company'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 and the Banking Law as at 31 December 2016.

3.3 Audit Committee

The Audit Committee during 2016 comprised three non-executive Directors, two of whom were independent. As of 1 January 2017, Maksim Goldman resigned from the AC and was replaced by Michael Heger in order for the Company to comply with the UK Code and the requirement that the audit committee be comprised only of independent non-executive Directors.

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

- Ioannis Zographakis (Chairman)
- Arne Berggren
- Michael Heger (since 1 January 2017)

The Board considers that the AC as a whole has a relevant mix of skills and financial/banking experience. The Board further believes that Ioannis Zographakis can be regarded as having recent and relevant financial experience for the purposes of the UK Code and can be regarded as an AC financial expert. Biographical details, including each member's background, experience and independence status are set out in section 2 of this report.

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/ethics compliance

and make recommendations to the Board on such matters.

3. Board Committees (continued)

3.3 Audit Committee (continued)

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 Committee has:

- Endorsed the going concern assessment for the purposes of the basis of preparation of the financial statements.
- Reviewed and monitored the appropriateness and completeness of the published financial statements and related announcements to shareholders of the Company and any formal announcements relating to the Group's financial performance, including significant financial reporting 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 financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.
- Considered for disclosure all material relevant issues that have concerned management and the Group statutory auditors during the year.
- Reviewed accounting policies and practices, including approval of the critical accounting policies.
- Considered management's recommendations in respect of provisions for impairment of loans and advances and any other impairment losses and charges as reported in the Group's financial statements.

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

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

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

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 customer advances; interest income recognition on acquired loans, and the disclosures relating to provisions and contingent liabilities for legal proceedings and regulatory matters; and the recoverability of deferred tax assets which entails significant judgement due to the uncertainties that exist in projecting into the future. Further the AC considered management's assessment of the appropriateness of preparing the financial statements of the Group for all quarters of year 2016 on a going concern basis. The considerations assessed by the AC are set out in Note 3 of the Consolidated Financial Statements.

3. Board Committees (continued)

3.3 Audit Committee (continued)

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 Corporate Governance Report, but the Audit Committee retains its duty to review and approve the Annual Corporate Governance Report.

In addition AC has responsibility for:

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

3.3.1 Committee Activities in 2016

The Committee held 12 meetings during 2016.

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 2016. In addressing these issues, the AC considered the appropriateness of management's judgments and estimates and where appropriate, discussed those judgments and estimates with the external auditor:

- Discussion of the results of the audit of the financial statements with the external auditors
- Discussion of the IFRS provisioning parameters
- Consideration of key accounting judgements and estimates
- Review of monthly audit reports and internal control issues
- Appointment of the external auditors
- Assessment of the independence of external auditors
- Review of the Annual Audit Report of the Group Internal Audit Division and major audit findings
- Review of the Triennial Audit Plan 2016-2018
- Review and approval of the Audit Plan, the AML Compliance Department Action Plan, the Regulatory & Ethics Compliance Department Action Plan
- Consideration of major compliance issues and reports submitted to it by the Group Compliance Division
- 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
- Approval of the enhanced AML on-site visit methodology to the various branches of the first line of defence
- Review of quarterly Customer Complaints Management Report
- Review of the Annual Corporate Governance Report
- Review of quarterly reports of Cybercrime and Security Incident Response Plan
- Review and approval of the AML risk appetite statement, AML Policy, Customer Acceptance Policy and Sanctions Policy
- Review and approval of the various regulatory & ethics compliance policies
- Review of the independence of the Group Internal Audit Division and the Group Internal Audit Director
- Review of Group Internal Audit Succession Planning
- Review and approval of the quarterly Financial Results
- Review of the provisions for impairment of loans and advances
- Review and discussion of the prospectus and financial information and reports prepared for the listing on the London Stock Exchange (LSE)
- Approval of audit, tax compliance and non-audit fees for year
- Review of the Triennial Assessment of the Group's internal control framework
- Approval of the revised Group Internal Audit charter
- Update on the Quality Assurance and Improvement Program of the Group Internal Audit Division
- Approval of revised terms of reference of the Audit Committee
- Review of group subsidiaries' audit reports

3. Board Committees (continued)

3.3 Audit Committee (continued)

3.3.1 Committee Activities in 2016 (continued)

- Review of Management Responses to the ECB's onsite inspection on risk management and risk control system
- Updated on important forthcoming regulatory developments
- Approval of a roadmap for the rotation of auditors
- Approval of non-audit work assigned to the auditors to ensure independence

3.3.2 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. In early 2016 it received the final report of the triennial review of the effectiveness of the system of internal controls of the Group both on a consolidated and an individual basis that had started in 2015. The Committee received reports over the course of 2016 on the activities of the internal audit function and reviewed its planned activities for the following year.

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

The Committee proposes to the Board the appointment 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 was reviewed by the AC.

3.3.3 Arrangements relating to the external auditor

The objectivity and independence of the external auditors is safeguarded through monitoring of their relationship with the Group by the AC, 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 AC reviews annually a 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.

The AC discussed the EU Regulation on audit reform of public interest entities and its implications relating to the rotation of the external auditors. In accordance with the transitional provisions under the new regulatory framework, the maximum tenure for the current auditors to remain as statutory auditors is year-end 2020. The AC agreed on a roadmap for auditor rotation, with the tender process starting in 2017 and leading to the appointment of a new auditor when practicable in the context of the independence constraints imposed by the new framework.

3. Board Committees (continued)

3.4 Risk Committee

The Risk Committee on 31 December 2016 comprised five non-executive Directors all of whom were independent. The members of the Committee as at the date of this report following Mr. Ross' resignation are:

- Arne Berggren (Chairman)
- Maksim Goldman (since 1 January 2017, replaced Dr. Michael Heger)
- Marios Kalochoritis
- Yiannis Zographakis

Biographical details, including each member's background, experience and independence status are set out in section 2 of this report.

To ensure coordination with the work of the AC, the chairman of the AC is a member of the RC and the chairman of the RC is a member of the AC. At least one member of the RC is also a member of the HRRC to ensure that remuneration decisions take into account a risk perspective.

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 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).
- 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 43 to 46 of the Consolidated Financial Statements and the Additional Risk Disclosures section of the 2016 Annual Financial Report.

During 2016 the RC held 20 meetings. Key areas of focus for the Committee during the year were to set strategies and ensure compliance with reference to non-performing exposures management, review risk policies where necessary to comply with the changing regulatory environment and better support business needs and review the enhancements of the provisioning methodology.

The Committee identified the current and potential impact of key issues and themes that have an actual or potential impact on the Group's risk profile and performed deep dive discussions in order to better understand and provide guidance to the management. Deep-dive discussions for 2016 covered such matters as the recoveries portfolio, corporate management department and small and medium enterprises of Recoveries and Restructurings Division, REMU, liquidity and funding risk, interest rate risk and loan origination optimisation programme.

3. Board Committees (continued)

3.4 Risk Committee (continued)

3.4.1 Committee Activities in 2016

The Risk Committee undertook the following key activities in 2016:

- 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 Board the annual reports of Risk Management, Information Security, ICAAP and ILAAP.
- Review of risk appetite. The Committee reviewed the alignment of risk appetite and Group strategy. Regular reviews were undertaken of the Group's risk profile against the key performance indicators set out in the Risk Appetite Statement which considered the need for any adjustment to the risk appetite.
- Review of the top and emerging risks.
- Review of acquisitions and disposals. The Committee received reports on risk issues relating to disposals and advised the 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, Country Risk Policy, Market Risk Policy, Framework for Model Risk Governance, Valuation Policy, Business Continuity Management Policy, Fraud Management Policy, Operational Risk Management Policy and Reputational Risk 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.
- Approval/recommendation for approval of special restructuring products and solutions.
- Update on Group Regulatory/Supervisory Activity.
- Approval of risk-related limits.
- Update on the Assets-Liabilities Committee meetings minutes.
- Preparation of the 2017 Committee's calendar aiming to fully cover governance and regulatory requirements and the Committee's terms of reference.

4. Internal Control

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 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.

The Board, through the AC and RC, 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 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, internal and external audit reports, as well as regulatory reports. Additionally, the Board receives a confirmation on an annual basis by the Group CEO as to the effectiveness of compliance, risk management and information security system of internal controls.

4. Internal Control

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 2016, significant steps have been made which further strengthened the Group's system of internal controls. An area where progress was made is the non-performing exposure management and the arrears management process, even though it still poses the most important risk for the Group. Moreover, there is still room for improvement in certain areas within the Information Systems and Information Security environment. Overall, the Board of Directors confirms the effectiveness of internal controls.

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).

4.1 Going concern

Management has made an assessment of the Group's ability to continue as a going concern. The conditions that existed during 2016 and the developments up to the date of approval of the consolidated financial statements that have been considered in management's going concern assessment include, amongst other, the operating environment in Cyprus and of the Group.

Management believes that the Group is taking all necessary measures to maintain its viability and the development of its business in the current economic environment. Management, taking into consideration a number of factors and the uncertainties that existed at the reporting date, is satisfied that the Group has the resources to continue in business for the foreseeable future and, therefore, the going concern principle is appropriate for the reasons set out in Note 3 of the consolidated financial statements despite a number of uncertainties as set out in Notes 4.2.3 and 45 of the consolidated financial statements.

4.2 Group Code of Conduct and Whistleblowing Policy

The Group has set out the standards that are expected from all the employees of the Group in a Code of Conduct applicable to all employees and Directors which gives 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. The policy's general principles are:

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

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

5. Other matters

On 15 November 2016, the Company announced that it is applying for a standard listing on the London Stock Exchange with a view to applying for a premium listing at a future date. To achieve this objective, the Company proposed to introduce a new parent company of the BOC Group, by a way of a scheme of arrangement. In addition to the listing on the LSE, the shares would also be listed on the Cyprus Stock Exchange. The Company has determined that an Irish-incorporated holding company would be appropriate since Ireland is a FTSE eligible Eurozone country, has a common law legal system similar to that of Cyprus and is a commonly adopted jurisdiction for companies wishing to apply for a listing on the LSE. To facilitate the scheme, a new company called Bank of Cyprus Holdings Public Limited Company ('BOCH') would be incorporated in Ireland and the shareholders of Bank of Cyprus Public Company Ltd would continue to own 100% of the Company. The Directors of the Company would also be the Directors of BOCH.

5. Other matters

At the Extraordinary General Meeting of the shareholders of the Company on 13 December 2016 the scheme was approved. Under the scheme, the share capital of the Company was reduced by the cancellation of all the existing shares resulting in a reserve arising in the books of accounts. This reserve was then used to issue fully paid-up shares in BOCH. As a result, the Company would become a wholly owned subsidiary of BOCH. The scheme of arrangement was sanctioned by the District Court of Nicosia on 21 December 2016 and became effective on 18 January 2017.

5.1 Company Secretary

The Board appointed Mrs Katia Santis as Company Secretary.

5.2 Group Internal Auditor

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

5.3 Corporate Governance Compliance Officer

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

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 Annual Financial Report of the Group, after the Report on Corporate Governance. The Remuneration Policy Report is presented to the AGM of shareholders for approval. Information on the remuneration of the members of the Board for the year 2016 is disclosed in Note 48 of the Consolidated Financial Statements of the Group, as well as in the Remuneration Policy Report.

7. Shareholder Relations

On 30 August 2016, the Board appointed Mrs Annita Pavlou, Manager Investor Relations Department, as Investor Relations Officer, responsible for the communication between shareholders and the Group, following the departure of Mr. Constantinos Pittalis. 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 Company 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.

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 is available at the AGM to answer shareholders' questions.

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 2016 the following were the major shareholders in Bank of Cyprus Public Company Limited:

• Cyprus Popular Bank Public Co Ltd	9.62%
• Lamesa Holding S.A	9.27%
• TD Asset Management	5.24%
• European Bank for Reconstruction and Development	5.02%
• Tyrus Capital S.A.M	3.47%
• Osome Investments Ltd	3.32%
• Senvest Management LLC	3.22%

The powers of the Directors are determined by the Companies Law and the Company's Articles of Association. The Directors are authorised to issue and allot shares subject to annual shareholder approval at the AGM.

7. Shareholder Relations (continued)

The AGM was held on 25 October 2016 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 2016 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 and released to the Stock Exchange.

The AGM of the Company in 2017 is scheduled to be held on 29 August 2017.

Remuneration Policy Report for the year 2016

1. Introduction

In accordance with the provisions of the Code of Corporate Governance (the 'CSE 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 Policy Report which is ratified by the Board of Directors (the 'Board') and submitted to the shareholders' Annual General Meeting. The Board of Directors Remuneration Policy Report for the year 2016 was ratified by the Board on 27 March 2017.

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

2. Human Resources and Remuneration Committee

The HRRC 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 Directive on Governance and Management Arrangements of Credit Institutions (the 'CBC Governance Directive') which came into effect in August 2014 and incorporated the requirements for Remuneration Policies included in the European Capital Requirements Directive ('CRD IV') and the European Banking Authority ('EBA') Guidelines on sound remuneration policies issued in December 2015, 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 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 48) of the Consolidated Financial Statements of the Group and the Remuneration Report itself.

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 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 Report and relevant criteria, as well as the total remuneration of the executive and non-executive members of the Board.

Remuneration Policy Report for the year 2016 (continued)

3. Governance of Group Remuneration Policy (continued)

3.2 EBA Guidelines

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 Other Risk Takers.

3.3 Terms of Reference of the Human Resources and Remuneration Committee

The Role of the Committee

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 propose adequate remuneration considered necessary to attract and retain high value-adding professionals. Therefore, remuneration has to be satisfactory vis-a-vis peer companies
- To set the overarching principles and parameters of compensation & benefits policies across the Group and exercise oversight for such issues
- To consider the remuneration arrangements of the executive Directors of the Group, other identified staff and the employee compensation policy bearing in mind the EBA Guidelines on remuneration policies and practices, the CBC Governance Directive and the CSE Code

The Committee reviews the implementation and effectiveness of the Remuneration Policy and ensures this is in line with the Remuneration Framework as this is described in 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 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 ('HRD') 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 ensures that it creates and/or develops the right competencies and behaviours that are necessary for meeting the Company's strategic priorities.

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.

Remuneration Policy Report for the year 2016 (continued)

3. Governance of Group Remuneration Policy (continued)

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

Senior Management and other Identified Staff

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

The Committee also reviews the performance appraisals of Group divisional directors (except heads of internal control functions), senior managers and subsidiaries' general managers 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 Annual General Meeting to answer any questions regarding the Remuneration Policy of the Group.

Appointment of the Committee

The Committee on 31 December 2016 comprised of 3 independent non-executive members who are appointed by the Board on an annual basis. The members of the Committee as at the date of this Report are as follows:

- Michael Spanos (Chairman)
- Marios Kalochoritis
- Michael Heger (since 9 June 2016)

Biographical details, including each member's background, experience and independence status are set out in section 2 of the Corporate Governance Report.

On 23 October 2015 Maksim Goldman resigned from the Committee to limit his participation to two committees and thereafter the Committee continued with only two Independent non-executive members until 9 June 2016 when Michael Heger was appointed to the Board and to the HRRC. The chairman of the Committee is the Senior Independent Director.

4. Committee's Activities in 2016

The Committee held 9 meetings during 2016 and, inter alia, undertook the following activities:

- Review and approval of the Group's Remuneration Policy
- Evaluation of Highly Valued Employees ('HVEs'), with emphasis on front line
- Review of the training plan for the year
- Review of the update on the Long Term Incentive Plan ('LTIP')
- Review of Management Practices Survey
- Review of the Remuneration Report
- Review of changes to the management structure of the Company
- Review and approval of the staff optimisation plan
- Review and update on the Performance Appraisal Policy
- Review of the performance appraisal for senior management
- Approval of the revised terms of reference of the HRRC
- Approval of the Employee Recognition Policy and the Internal Communication Policy
- Update on collective agreement process with the local labour union

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 25 October 2016 approved the same levels of remuneration as those approved on 24 November 2015.

4. Committee's Activities in 2016 (continued)

4.1 Remuneration of non-Executive Directors

The Committee proposes fees payable to the Chairman and the two Vice Chairmen, 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, 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.

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 and the NCGC receive annual fees of €30.000 each. Each member of the HRRC 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.

Contracts of Employment

The employment contract of the Group CEO, Mr. John Patrick Hourican, has been renewed for a period of two years from 1 February 2016 to 31 January 2018.

Following the final Supervisory Review and Evaluation Process (SREP) 2016 decision received in December 2016, the ECB's prohibition on variable pay was lifted and replaced with a limitation on variable remuneration to 10% of net revenues.

Service Termination Agreements

The service contract of the Group CEO includes a clause for termination, by service of four months' notice to that effect by the executive Director, without cause but at the Company's sole discretion. In such a case, the Company 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 based on years of service.

Bonus

No bonus was recommended by the Company's Board of Directors for executive Directors for 2016.

Retirement Benefit Schemes

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

The main characteristics of the retirement benefit schemes are presented in Note 14 of the Consolidated Financial Statements for the year ended 2016.

4. Committee's Activities in 2016 (continued)

4.2 Remuneration and Other Benefits of Executive Directors (continued)

Share Options

No share options were granted to executive Directors during 2016.

Other Benefits

Other benefits provided to the executive Directors include medical fund contributions and life insurance. The CEO is provided with other benefits related to his relocation and residence in Cyprus. The relevant costs for executive management are disclosed in Note 48 of the consolidated financial statements for the year ended 2016.

5. Information Regarding the Remuneration of Directors for Year 2016

	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	1.743.634	-	1.743.634	-	-	-	1.743.634	150.433
Christodoulos Patsalides	214.760	-	214.760	-	-	-	214.760	17.550
Non-Executive Directors								
Josef Ackermann	-	150.000	150.000	-	-	-	150.000	-
Maksim Goldman	-	120.000	120.000	-	-	-	120.000	-
Wilbur L. Ross	-	120.000	120.000	-	-	-	120.000	-
Arne Berggren	-	115.000	115.000	-	-	-	115.000	-
Michael Heger	-	50.500	50.500	-	-	-	50.500	-
Marios Kalochoritis	-	90.000	90.000	-	-	-	90.000	-
Michael Spanos	-	100.000	100.000	-	-	-	100.000	-
Ioannis Zographakis	-	115.000	115.000	-	-	-	115.000	-
	1.958.394	860.500	2.818.894	-	-	-	2.818.894	167.983

* Includes employers' contributions excluding contributions to retirement benefits.

27 March 2017