Bank of Cyprus UK Pension and Life Assurance Scheme – 31 December 2023

Statement of Investment Principles

Introduction

The Pensions Act 1995 (the "Act") (as amended) requires that the trustees of a pension scheme must ensure that a written statement of principles covering investment decisions about the Scheme's assets is prepared and maintained.

The Trustee of the Bank of Cyprus UK Pension and Life Assurance Scheme (the "Scheme") has drawn up this Statement of Investment Principles (the "Statement"). As required under the Act, the Trustee has consulted a suitably qualified person (Mercer Ltd.) and has obtained written advice. The Trustee, in preparing this Statement, have also consulted Bank of Cyprus Public Company Limited (the "Sponsoring Company"), and will discuss any proposed changes to the Statement with them.

The Trustee will review this Statement regularly and without delay after any significant change in policy. The Statement will be amended should any changes be made to the Scheme's investment arrangements. The Trustee is committed to maintaining the accuracy of this Statement on an ongoing basis.

The investment responsibilities of the Trustee are governed by the Scheme's Trust Deed, a copy of which is available for inspection on request.

Overall, investment policy falls into two parts. The strategic management of the assets (as set out in Sections 1.1 to 1.4 inclusive) is fundamentally the responsibility of the Trustee acting on expert advice. It is driven by the investment objectives as set out in Section 1.1. The remaining elements of policy are part of the day to day management of the assets, which is delegated to professional investment managers and described in Section 1.5.

Investment Arrangements

1.1 Investment Objectives

To guide them in the strategic management of the assets and control of the various risks to which the Scheme is exposed, the Trustee has considered appropriate objectives and adopted the following:

- to secure the Scheme's liabilities with an insurer via a bulk annuity transaction;
- the acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions from the Sponsoring Company, the cost of current and future benefits which the Scheme provides as set out in the Trust Deed and Rules;
- to limit the risk of the assets failing to meet the liabilities over the long term; and
- to minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the above objectives.

Quantitative Objectives

- To achieve, over the long term, a best estimate rate of investment return of 1.0% p.a. in excess of long gilt yields.

1.2 Risk

There are various risks to which any pension scheme is exposed. The Trustee has considered the following risks:

- the risk of a deterioration in the value of the Scheme's assets;
- the risk of changes in the value and profile of the liabilities in relation to the value and profile of the assets;
- the risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustee. This may lead to a higher than expected cost to the Sponsoring Company.
- the risk of a shortfall of assets relative to the Scheme's liabilities as determined if the Scheme were to wind up;

- the risk of fluctuations in currency on the performance of the Scheme's assets which are not denominated in sterling;

- the risk of variation in the Scheme's surplus or deficit resulting from stock market volatility; and

- associated with all the above, the risk of volatility in the level of the Sponsoring Company contribution rate and the implications of this to the Sponsoring Company and the security of members' benefits.

- other investment risks such as default risk, equity risk, credit risk, illiquidity risk, climate risk, political risk and expropriation risk.

Subject to accepting the risk from a mismatch of assets and liabilities, the Trustee believes that the asset allocation policy in place provides an adequately diversified distribution of assets.

1.3 Policy on Compliance with the Statutory Funding Objective (SFO)

The Statutory Funding Objective (SFO) applies to the Scheme from the time of the Scheme's formal actuarial valuation as at 31 March 2022. The SFO will require that the Trustee, having taken advice from the Scheme Actuary, and consulted with the Company, formulate and maintain a Statement of Funding Principles which takes into account the Scheme's specific circumstances and documents the policy for meeting the SFO.

The Trustee considers at the present time that the investment policy and asset allocation benchmark described in this Statement remain appropriate under the SFO. The Trustee will keep this aspect under consideration in future reviews of investment policy.

1.4 Investment Strategy

The Trustee targets the following long term asset allocation for the assets of the Scheme, based on expert advice:

Asset Class	Target Asset Allocation %
Passive Developed Market Equities (GBP hedged)	4.15
Diversified Growth	4.15
Total Growth	**8.3**
Liability Driven Investment (“LDI”)	55.7
Buy & Maintain Credit	36.0[1]
Total Matching	**91.7**
Total	**100.0**

[1]The Buy & Maintain target allocation is based on the current asset allocation.
Total may not sum due to rounding.

The target interest rate and inflation hedge ratios are 95% of the Scheme’s gilts flat liabilities.

There is no automatic re-balancing policy in place to move the actual allocation back to the target allocation, should this deviate significantly due to relative market returns. The Trustee reviews the actual allocation versus the target asset allocation, at least quarterly, to assess whether rebalancing should be undertaken.

New contributions are to be invested in such a way, that the overall split of assets between growth and matching is brought as close as possible to the target asset allocation, with due consideration given to associated costs. On an annual basis, the Trustee will review the above investment strategy in conjunction with its investment consultant.

The Trustee believes that the target asset allocation is appropriate for controlling the risks identified in Section 1.2.

The full benchmark details are provided in Section 1.5.

Day to Day Management of the Assets

1.5 Main Assets

The Trustee has agreed to delegate the day-to-day management of the Scheme’s assets to its investment managers.

The investments are subject to agreements between the investment managers, the Trustee and the governing documents for each fund.

Individual mandates are set out below.

Growth Portfolio

Passive Global Equities (4.15% of total Scheme assets)

Fund	Allocation %	Benchmark Index
Global Equity (GBP Hedged)	4.15	FTSE Developed (GBP Hedged) Index
Total	**4.15**	

The portfolio is passively managed. The pooled fund aims to produce a return in line with its corresponding benchmark outlined in the table above within tolerance ranges stated by the investment manager.

Diversified Growth Fund *(4.15% of total Scheme assets)*

Fund	Allocation %	Benchmark Index
Diversified Growth Fund	4.15	SONIA
Total	**4.15**	**SONIA**

The Trustee expects the Diversified Growth Fund manager to achieve outperformance relative to the benchmark equal to or in excess of 5.0% per annum before fees over rolling five year periods with a volatility of returns below that of equities (and less than 10% p.a.).

Matching Portfolio

Buy & Maintain Credit, LDI and Sterling Liquidity Fund (91.7% of total Scheme assets)

Fund	Allocation %	Benchmark Index
LDI – Fixed and Real leveraged LDI Funds and Sterling Liquidity Fund	55.7	Composite
Buy and Maintain Credit	36.0	n/a*
Total	**100.0**	**-**

Note: There is no rebalancing between the LDI and Buy & Maintain Credit.

**Due to the nature of the mandate, the investment manager does not manage the strategy with reference to a benchmark.*

The value of the LDI portfolio is expected to change in a similar way to the Scheme's liabilities as interest rates and inflation expectations fluctuate.

The portfolio invests, according to the documents governing the appointment, in a range of pooled funds managed by the investment manager that hold cash, bonds and derivatives and may use leverage to achieve a greater level of exposure to the underlying asset. These funds aim to track their relevant reference benchmarks.

The investment manager does not manage the Buy & Maintain Credit fund against a formal benchmark. The stated aim of the fund is "to capture the credit risk premium within a globally diversified portfolio of predominantly investment grade credit and to preserve value over the course of the credit cycle by avoiding defaults and securities experiencing a significant deterioration in credit quality". Therefore, the Trustee assumes that actual performance equals benchmark for purposes of performance measurement.

Further details in relation to the Scheme's investments may be found in the Investment Policy Implementation Document which is available to members upon request.

1.6 Investment Restrictions

The assets of the Scheme are invested in pooled fund vehicles and therefore, the investment managers determine the investment restrictions applying to these pooled funds.

The Trustee has not set any investment restrictions on the appointed investment managers in relation to particular products or activities (e.g. sustainability, etc.), but may consider this in future.

1.7 Additional Assets

The Scheme has historically provided a facility for members to pay additional voluntary contributions ("AVCs") into the Scheme to enhance their benefits at retirement. Those members who have made such contributions are offered a range of funds in which to invest. No new contributions are permitted into the AVC arrangement.

1.8 Buying and Selling of Investments

The Trustee has delegated the responsibility for buying and selling investments to the investment managers. As already mentioned, the day-to-day activities, which the investment managers carry out for the Scheme, are governed by the arrangements between the Trustee and the investment managers. These are reviewed from time-to-time to ensure that the operating instructions, guidelines and restrictions remain appropriate.

Member views are not taken into account in the selection, retention and realisation of investments. The Trustee will review this aspect of the policy periodically.

1.9 Monitoring the Investment Managers

The Trustee receive reports from their investment managers regularly and conducts a formal review of each manager's investment performance and processes periodically. Through this process of regular reporting and regular review, the Trustee aims to ensure that the investment managers are carrying out their work competently and in compliance with the Pensions Act and that the investment manager is meeting the Trustee's objectives.

1.10 Socially Responsible Investment and Corporate Governance

The Trustee acknowledges that Environmental, Social and Governance ("ESG") factors may have a material impact on investment risk and return outcomes. It is also recognises that long-term sustainability issues, particularly climate change, presents risks and opportunities that increasingly may require explicit consideration.

The day-to-day management of the Scheme's assets is delegated to a number of investment managers and the Trustee expects them to integrate ESG factors into their processes. To assess the extent of ESG integration by the investment managers, on a quarterly basis, the Trustee will monitor the ESG ratings (assigned by the Scheme's investment consultant) for the strategies held and will compare these to their peers on a triennial basis.

These are applied to both equity and debt investments, as appropriate, and covers a range of matters including the issuers' performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.

The Scheme does not own any securities directly and hence does not have voting rights on individual stocks. Voting rights on investments held in pooled funds are exercised by the investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

Equity managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis, with the Trustee reviewing adherence triennially. The Trustee monitor the extent, and the manner in which, the investment managers exercise voting and engagement rights every three years.

1.11 Non-financial matters

Members' views on "non-financial matters" (where non-financial matters" includes members' ethical views separate from financial considerations such as financially material ESG issues) are not explicitly taken into account in the selection, retention and realisation of investments. The Trustee would review this policy in response to significant member demand.

1.12 Investment Manager Arrangements

Aligning manager appointments with investment strategy

The investment managers are appointed based on their capabilities and, therefore, the perceived likelihood of achieving the expected return and risk characteristics required for the asset class they are selected to manage.

Ahead of investing, the Trustee undertakes due diligence[1] and seeks the views of its consultant to support decisions around selection (and retention). Should an investment manager make changes to any of these factors, the Trustee will assess the impact and (where no longer aligned) consider what action to take.

The Trustee only invests in pooled investment vehicles. The Trustee therefore accepts it cannot specify the risk profile and return targets of the investment manager, but pooled funds are chosen with appropriate characteristics to align with the overall investment strategy.

Some investments are actively managed and the investment managers are incentivised to achieve the objectives set for them (which are consistent with the Trustee's policies and objectives). An investment manager appointment will be reviewed following periods of sustained underperformance. The Trustee will review the appropriateness of using actively managed funds (on an asset class basis) periodically.

Incentivising Medium and Long Term Performance

The Trustee aims to meet with the investment managers as deemed appropriate, to discuss performance and other investment related matters (including integration of ESG and climate change into the investment process and voting and engagement activities). As part of this, the Trustee will challenge decisions that appear out of line with the Scheme's stated objectives and/or policies.

To assist with this, the Trustee considers its consultant's assessment of how each investment manager embeds ESG considerations into its investment process and explores how it aligns with its responsible investment policy. This is monitored on a quarterly basis as part of the Scheme's performance reporting.

The Trustee considers the method of remunerating investment managers to be consistent with incentivising them to make decisions based on assessments of medium to long-term financial and non-financial performance of the issuer of debt or equity. By encouraging a

[1] Which includes but not limited to: the underlying assets held and how they will allocate between them; risks associated with the underlying mix of assets and the steps the investment manager takes to mitigate them; expected return targeted by the investment managers and details around realisation of the investment; and impact of financial and non-financial factors, including but not limited to ESG factors and climate change, on the investment over the long term.

medium to long-term investment time horizon, it will in turn encourage the investment managers to engage with issuers of debt and equity in order to improve their performance in the medium to long-term.

The investment managers are aware that their continued appointment is based on the success in delivering the mandate for which they have been appointed over the long term. Consistent periods of underperformance could lead to the investment manager being terminated.

Evaluating investment manager performance

The Trustee reviews the performance of the investment managers on a regular basis versus agreed benchmarks and targets, over multiple time periods, with an emphasis on the long-term.

The Trustee takes a long-term view when assessing whether to replace the underlying investment managers, and such decisions would not be made solely based on short-term performance concerns. Instead, changes would be driven by a number of factors that may lead to significant reduction in the Trustee's confidence that the investment manager will be able to perform in line with the stated objective of a strategy over the long term.

The investment managers are remunerated by way of a fee calculated as a percentage of assets under management. The Trustee is also happy to consider paying a performance related fee where it believes it makes sense to do so. However, the nature of the Scheme's investment strategy and the Trustee's endgame objective mean that the likelihood of the Trustee appointing an investment mandate where the manager is remunerated with a performance fee is small.

Portfolio turnover costs

Portfolio turnover costs refer to those incurred due to the buying, selling, lending or borrowing of investments.

The Trustee receives MiFID II reporting from the investment managers, which provides this information, but does not actively monitor portfolio turnover costs and has not set ranges in respect of them. This position is kept under review.

Duration of investment arrangements

The Trustee is a long-term investor and does not look to change the investment arrangements on a frequent basis.

The Scheme's assets are invested in open-ended vehicles and expect to retain them unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or investment manager; or

- The investment manager appointment has been reviewed and the Trustee has decided to terminate the investment manager.

1.13 Compliance with this Statement

The Trustee of the Bank of Cyprus UK Pension & Life Assurance Scheme, the investment managers, and Mercer Ltd ("Mercer"), the consultants (all of whom have been appointed by the Trustee) will perform the following duties:

- The Trustee will review this Statement regularly on the advice of Mercer and will record compliance with it at the relevant Trustee's meeting. The Trustee will review the Statement at least once every year and without delay after any significant change in investment policy.

- Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

- Mercer, the consultants, will provide the advice needed to allow the Trustee to review and update this statement regularly.