



**REPORT ON CORPORATE  
GOVERNANCE CODE  
2011**

24 April 2012

## **Board of Directors Report on Corporate Governance**

### **Part A**

The establishment and adoption of corporate governance principles and the reinforcement of the supervisory role of the Board of Directors are aiming to the full transparency over the total administration of USB Bank Plc (the "Bank"), the continuous servicing of corporate interest and investors' interest, the provision of timely information, as well as the guarantee that the Board of Directors is sufficiently independent in its decision making.

The Board of Directors recognizes the importance of implementing sound corporate governance policies as a basic precondition for the creation of value to the shareholders and the community.

The Bank declares that from the 9 November 2004, the Board of Directors decided to fully adopt all the provisions of the Corporate Governance Code of the Cyprus Stock Exchange ("C.S.E.").

In March 2011 the C.S.E. published the 3<sup>rd</sup> Revised Edition of the Code. The Bank has adopted the Code and applies its principles.

Following the successful Public Offer by BLC Bank SAL to the shareholders of the Bank for the acquisition of up to 100% of the issued share capital, the dispersion of the Bank has dropped below 10% and as a result of this and in view of the failure to abide by the obligations of the parallel market that the Bank was listed in, the C.S.E. Council decided to transfer the titles of the Bank from the parallel market to the Special Characteristics Market for an additional nine months period which expires on December 27, 2012, during which time the Bank is to become compliant to the relevant regulations for compliance.

Voting rights which correspond to 15,168,543 new shares acquired by BLC Bank SAL on 4 May 2011 are suspended temporarily.

### **Part B**

The Board of Directors of the Bank confirms that during 2011 it has complied with the relative provisions of the Code.

The new edition of the Code includes new provisions which are effective from 2011 and are reflected in the Annual Corporate Governance Report of the Bank for the year 2011. The Board of Directors has proceeded with all necessary actions and ensured compliance with the new requirements.

Information relating to the application of the principles and provisions of the Code, is given below:

## **1. Board of Directors**

### **1.1 Role of the Board of Directors**

The Bank is governed and controlled by the Board of Directors as per the provisions of its Memorandum and Articles of Association. The Board of Directors has mainly the role of setting the strategic objectives and ensuring that these objectives are achieved, through the application of adequate internal administration and internal control system. The Board of Directors is responsible for the monitoring and evaluation of the actions and output of the Executive Management as well as to its conformity with the policies issued.

## **Report on Corporate Governance (continued)**

### **1.2 Operation of the Board of Directors**

According to the Bank's Memorandum and Articles of Association, the number of Board members shall not be less than 5 and no more than 15.

According to the Banks' Articles of Association, at the first annual general meeting of the Bank, all directors shall retire and at the annual general meeting of each consecutive year, one third of the directors or a multiple of three or if their number is not three or a number multiplied by three, then the number nearest to the one third (rounded up), shall retire from their position but they have the right of re-election at the Annual General Meeting of the shareholders.

The Directors to retire in every year shall be those who have been longest in office since their last election. The Board of Directors has power at any time to appoint any person to be a Director either to fill a casual vacancy or as an addition to the existing Directors but so that the total number of Directors shall not at any time exceed the number fixed in accordance with the Articles of Association. Any Director so appointed shall hold office only until the next Annual General Meeting and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting.

### **1.3 Board of Directors Main Responsibilities**

- Target setting and strategic policy of the Bank.
- Approval of the annual budget and the operational plan of the Bank.
- Setting the framework for capital investments and expenditure, mergers, acquisitions, and sale of Bank's assets.
- Adoption and application of amendments to the International Financial Reporting Standards.
- Monitoring of the substantial transactions of the Bank of any nature, in which the Chairman, the Executive Directors, the members of the Board of Directors, the Executive Management, the Secretary, the Auditors, or major shareholder of the Bank as well as their related parties who hold directly or indirectly more than 5% of the issued share capital of the Bank or voting rights, have a direct or indirect substantial interest.
- Selection, appointment and termination of the services of the Bank's Managing Director.
- Smooth succession of the Bank's Top Management.
- Directors' retirement policy.
- Selection and appointment of Bank's Secretary.

The members of the Board of Directors are appropriately informed by the Bank about their responsibilities as well as the responsibilities of their related parties in accordance to the Cyprus Stock Exchange Laws and Regulations, and the laws, regulations and guidelines of the Cyprus Securities and Exchange Commission. They are also informed about the responsibilities of the Bank in accordance to the Cyprus Companies Law Chapt.113, the Cyprus Stock Exchange, the Cyprus Securities and Exchange Commission and the Central Bank of Cyprus.



## Report on Corporate Governance (continued)

### 1.3 Board of Directors Main Responsibilities (continued)

For the best implementation of the responsibilities of the members of the Board of Directors, all the members, after approval by the Board of Directors, can take independent professional advice with all expenses covered by the Bank.

All Board members may receive advice and other services by the Bank's Secretary.

The Bank's Board of Directors operates in accordance with the principles of collective responsibility and no differentiation exists between groups of Directors with regards to their responsibility.

The Chairman of the Board of Directors is a non Executive member. There is a division of responsibilities between the Chairman and the Deputy Managing Director.

The Secretary ensures the application of the Board of Directors procedures and its compliance with the applicable regulations.

The Bank's Directors hold positions in other companies' Boards of Directors. The members of the Board of Directors notify to the Bank the companies in which they take part and also their role in these companies (executive or non executive). Their participation in other Boards of Directors does not prevent them from dedicating the required time and attention in carrying out their duties as part of their role in the Bank's Board of Directors.

### 1.4 Meetings of the Board of Directors

The Board of Directors must convene regularly, at least 6 times in a year. During 2011, the Board of Directors has convened eleven times.

The Directors receive prompt written notice together with all essential documentation before any Board of Directors meeting, so that they are appropriately prepared during the meeting.

### 1.5 Composition of the Board of Directors

On 31 December 2011 the Bank's Board of Directors comprised of fifteen members as follows:

#### Chairman:

Mr. Maurice Sehnaoui

#### Members:

Fransabank SAL represented by Mr. Adel Kassar	Non Independent,	Non Executive
Mr. Nadim Kassar	Non Independent,	Non Executive
Mr. Nabil Kassar	Non Independent,	Non Executive
Mr. Walid Daouk	Non Independent,	Non Executive
Fransa Invest Bank SAL represented by Mr.Mansour Bteish	Non Independent,	Non Executive
Mr. Raoul Nehme	Non Independent,	Non Executive
BLC Bank SAL represented by Mr. Walid Ziade	Non Independent,	Non Executive
Mrs Tania Moussallem	Non Independent,	Non Executive
Mr. Agis Taramides	Independent,	Non Executive
Mr. George Galatariotis	Independent,	Non Executive
Mr. George Stylianou	Independent,	Non Executive
Mr. Philippos Philis	Independent,	Non Executive
Mr. Andreas Theodorides	Non Independent,	Executive
Mrs Despo Polycarpou	Non Independent,	Executive



**Report on Corporate Governance (continued)**  
**1.5 Composition of the Board of Directors (continued)**

Secretary:

Andreas Theodorides

**Changes in the composition during 2011**

Following the successful Public Offer which resulted to the acquisition of the majority stake of the Bank by BLC BANK SAL, a reorganization of the Board of Directors was made on 21 March 2011.

The following members resigned from the Board of Directors:

Messrs Michalis Kleopas, Yiannos Mouzouris, Yiannos Christofi, Marios Hannides, Garo Keheyant Georges Tabet and Echo Naji while on the same day the following new members were appointed:

Messrs Maurice Sehnaoui, Fransabank sal (represented by Mr. Adel Kassar), Nadim Kassar, Nabil Kassar, Walid Daouk. Fransa Invest Bank sal (represented by Mr. Mansour Bteish), Raoul Nehme, BLC Bank sal (represented by Mr. Walid Ziade), Tania Moussallem, Agis Taramides and George Galatariotis.

Mr. Maurice Sehnaoui was elected as the new Chairman of the Board of Directors, following the resignation of Mr. Michalis Kleopas.

Their appointment has been validated during the Annual General Meeting of the shareholders which took place on 28 June 2011.

Also, on 21 March 2011 the Board Member Mr. Andreas Theodorides was appointed as the Secretary of the Board in replacement of Mr. Michalis Kleopas who resigned from his position as the Chairman, Member and the Secretary of the Board of Directors on the same date.

**Structure of the Board of Directors as at 31.12.2011**

Total Board Members, fifteen out of which:

Executives/Non-Independent Members:	two
Non-Executive & Independent Members:	four
Non-Executive & Non-Independent Members:	nine

## Report on Corporate Governance (continued)

### 1.6 Senior Independent Director

With a Board of Directors decision, dated 12 December 2008, Mr. George Stylianou was appointed as Senior Independent Director.

The Senior Independent Director is available to listen to the concerns of the shareholders, that have not been resolved through the normal communication channels.

### 1.7 Non executive Directors

The thirteen non executive Directors, represent over 86% of the total members of the Board of Directors, which is in line with the provisions of the Corporate Governance Code, that requires that the non executive Directors should not be less than 1/3 of the Board of Directors with regards to Companies which are listed on markets other than the CSE's Main Market or the Major Projects Market or the Shipping Companies Market.

### 1.8 Classification criteria for determining Independent Directors

The Bank has adopted classification criteria for the Independent Directors, which were determined in accordance to the Code of the Cyprus Stock Exchange and the Directive<sup>1</sup> of the Central Bank of Cyprus for the Framework of Principles of Operation and Criteria of Assessment of Banks' Organizational Structure, Internal Governance and Internal Control Systems (the "Directive").

Based on an internal policy, the Bank, has drawn up the "Director's Declaration of Independence", which is completed and submitted to the Bank by the Members of the Board of Directors. This Declaration is submitted to the C.S.E. in compliance with the provisions of the Code.

The Bank has proceeded with the revision of the criteria for determining Independent Directors, based on the new guidelines issued by the Central Bank of Cyprus (No.348/2009) which was put into effect from 16 October 2009 and also on the provisions of the revised Corporate Governance Code (3<sup>rd</sup> edition – March 2011) with the ultimate purpose of compliance with the new requirements.

On an annual basis, an Assessment Report concerning the non executive and independent members is submitted to the Board of Directors in order to evaluate their compliance with the criteria of Independence. Based on the structure of the Board of Directors, the Bank confirms that during the year 2011, it has complied with the Provision A.2.3 of the Code, by the participation of four Independent members in the Board of Directors.

### 1.9 Definition and Division of Responsibilities of the Chairman and Managing Director

The Chairman responsibilities are performed by Mr. Maurice Sehnaoui and the responsibilities of the Managing Director by Mr. Andreas Theodorides – Deputy Managing Director. The Chairman is responsible for the proper running of the Board of Directors meetings and the General Meetings of the Bank, guides the Board of Directors and deals with strategic issues of the Bank. The Deputy Managing Director has the responsibility for the daily operations of the Bank and deals with the management and the effective monitoring of the activities and operations of the Bank.

The division of the Chairman position and the Managing Director position satisfies the relative provision A.2.6 of the Code.

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<sup>1</sup> The Directive was issued according to article 41 of the Banking Laws of 1997.

## Report on Corporate Governance (continued)

### 1.10 Re-election of Directors

For the year ended 31 December 2011 and according to the Banks' Articles of Association at the next Annual General Meeting of the shareholders Messrs Raoul Nehme, Tania Moussallem, George Galatariotis, Andreas Theodorides and Despo Polycarpou, will retire but they offer themselves for re-election.

The names of the Directors who are submitted for election or re-election are accompanied by their biographical details, so that the shareholders can make an informed decision on their election.

### Biographical Details of the Members of the Board of Directors

Short biographical details of the members of the Banks' Board of Directors as at the date of this report are set out below: -

H.E. Maurice Sehnaoui (Chairman of the Board of Directors)

He was born in 1943. Mr. Maurice Sehnaoui is the Chairman of the Board of Directors and General Manager of BLC Bank since 2008. He holds a degree in Economics (June 1967) from Saint Joseph University of Beirut. He was a former Minister of Energy and Water from 2004 to 2005. Mr. Sehnaoui was the Chairman–General Manager of Société Générale de Banque au Liban from 1984 to 2007, the Chairman of Societe General Cyprus Ltd from 1990 to 2008 and the Vice Chairman of Societe Generale Jordan from 2000 and until 2008. He is a Board member and holds participations in a number of companies and owns a large real estate portfolio including prestigious buildings in the Beirut city center. He is Chevalier of the French “Légion d’Honneur” and Officer of the French “Ordre National du Mérite”.

Mr. Adel Kassar representing Fransabank SAL

He was born in 1932. He has a degree in Lebanese and French law of the St. Joseph University, Beirut and has thirty years of experience in banking. He is a former Chairman of the Association of Banks in Lebanon and is the Honorary Consul General of the Republic of Hungary in Lebanon. He is the Deputy Chairman of the Board of Directors of Fransabank SAL and the Chairman of the Board of Directors of Fransabank Syria SA. He is also the Chairman of the Board of Directors of Fransabank France SA and the Chairman of the Board of Directors and General Manager of Bancassurance SAL and Lebanese Leasing Company SAL, which are Fransabank subsidiaries and a member of the Board of Directors of BLC Bank SAL

Mr. Nadim Kassar

He was born in 1964. He has a degree in Business Administration of the American University of Beirut. He is a board member of the Banking Association in Lebanon since 2001 where he actually heads the AML Committee, General Manager of Fransabank s.a.l., Chairman of Fransa Invest Bank “FIB”, Chairman of Fransabank Al Djazair and Vice-Chairman of BLC Bank SAL, he also is a board member of MasterCard Incorporated South Asia, Middle East & Africa Region, SAMEA Regional Board of Directors since 2005. He is a member of the Board of Directors of a number of other affiliated companies.

**Report on Corporate Governance (continued)**  
**Biographical Details of the Members of the Board of Directors (continued)**

Mr. Nabil Kassar

He was born in 1970. He holds a bachelor degree in Law from the St. Joseph University, Beirut, Lebanon. Currently he is the Secretary General of Fransabank SAL He is also a member of the Board of Directors of BLC Bank SAL and of a number of other overseas companies.

Mr. Walid Ziade representing BLC Bank SAL

He was born in 1971. He has a degree in Business Administration and Management of the Ecole Superieure de Commerce de Paris, France and also a degree in Law and Political Sciences of the St. Joseph University, Beirut. Currently he is a partner in Boutros, Ziade & Associates, Beirut. He is a member of the Board of Directors of BLC Bank SAL

H.E. Mr. Walid Daouk, Esq.

He was born in 1958. He has a degree in Lebanese and French law of the St. Joseph University Beirut, he is a practionner lawyer member of the Beirut Bar Association since 1982 and is a member of the Board of Directors of various companies, real estate, banks and financial institutions in Lebanon and abroad including Fransabank France, Fransabank El Djazair, BLC Bank and the Lebanese Leasing Company SAL. He is the Government Commissioner at the Beirut Stock Exchange and the Chairman of the Audit Committee and member of the Corporate Governance and Risk Management Committees, he is a former member of the Board of Directors of the Counsel of Development and Reconstruction of Lebanon. Since June 2011 he is the Minister of Information of the Republic of Lebanon.

Mr. Mansour Bteish representing Fransa Invest Bank SAL

He was born in 1954. He has a degree in Business Administration of the St. Joseph University, Beirut and also a Masters degree in Money & Banking. Currently he holds the position of General Manager at Fransabank SAL. He is also General Manager at Fransa Invest Bank SAL (FIB), member of the Board of Directors of BLC Bank s.a.l and also he is a member of the Board of Directors of a number of other overseas companies.

Mrs Tania Moussallem

She was born in 1972. She has over 16 years of banking experience and is currently Assistant General Manager heading the Strategic Development and Financial Management Group at BLC bank. She joined BLC Bank in 2008 where she initiated, headed and implemented several strategic and innovative development projects involving external and organic growth for the bank. Areas covered include acquisitions, finance, insurance, factoring, investment banking, technology, corporate social responsibility, etc. She had started her carrier at Société Générale de Banque au Liban where she held several managerial positions and headed among others Investment Banking, Specialized Financing and SME's Departments. In parallel, she acted as Deputy Head of the Corporate and Investment Banking Division. She developed as well an extensive experience in privatization of the energy and water and waste water sectors including a 6 months period as member of the Minister of Energy and Water Cabinet. She holds a Masters degree in Finance & Communication from Ecole Superieure des Sciences Economiques et Commerciales ESSEC, France and a degree in Business Administration from the American University of Beirut.



## **Report on Corporate Governance (continued)**

### **Biographical Details of the Members of the Board of Directors (continued)**

#### **Mr. Raoul Nehme**

He was born in 1956. Mr. Raoul Nehme is the General Manager of BLC Bank SAL and a Board member. He graduated from Ecole Polytechnique de Paris and Ecole des Mines de Paris (France). He was previously the Advisor to the Chairman and Head of Corporate and Investment Banking at Société Générale de Banque au Liban. He has been working in the banking sector since 2001.

#### **Mr. George Stylianou (Senior Independent Director)**

He was born in 1966. He has a BA (Honours) degree in Economics from Ealing College of United Kingdom. He is a Fellow of the Association of Chartered Certified Accountants and the Association of Certified Public Accountants of Cyprus. From 1990 to 1993 he worked in London for Moore Stephens Chartered Accountants and from 1994 until today he works as a partner in Moore Stephens/Panayiotis Stylianou & Co. Accountants and Consultants in Cyprus. He is a member of the Board of Directors of a number of other companies.

#### **Mr. Philippos Philis**

He was born in 1961. He has a Dipl. Ing.(MSc) Mechanical Engineering Rwth Aachen, Germany ELP (Executive Leadership) CIIM. In 1996 he founded Lemissoler Shipping Group with activities in international shipping. From the date of the Company's set up he is acting as an Executive Director for the Group, which has offices in Limassol, in Hamburg Germany, in Gdynia Poland, in Kiev and Odyssov Ukraine, in New Delhi India, in Kuwait, in Bahrain, in Riga Latvia. He is a member of the Cyprus Professional Engineers Association, the Cyprus Scientific and Technical Chamber and the Institute of Marine Engineering, Science & Technology (IMAREST). He is also a member of the Executive Board and President of the Technical Committee of the Cyprus Shipping Chamber. He is a member of the Board of Directors of a number of other companies.

#### **Mr. George Galatariotis**

He was born in 1948. He has a B.Sc Economics degree of the University of London and also an MBA of City University. Since 1986 he is the Managing Director of Galatariotis Technical Ltd.

#### **Mr. Agis Taramides**

He was born in 1971. He has a Bachelors degree in Mathematics, Statistics and Operational Research and also a Masters Degree in Statistics. He is a Chartered Accountant, member of the Institute of Chartered Accountants in England & Wales and the Institute of Certified Public Accountants of Cyprus. He started his career in 1997 with Hallidays (Chartered Accountants) Limited in the United Kingdom. As from April 2010 he is the Managing Director of COR Limited.

#### **Mr. Andreas Theodorides**

He was born in 1970. He has a BA Economics with specialization in Accounting and Finance of the University of Manchester, United Kingdom. He is a Chartered Accountant, member of the Institute of Chartered Accountants in England & Wales, the Association of Certified Public Accountants of Cyprus and the Association of Internal Auditors Cyprus. He started his career in 1992 in the audit firm of Arthur Andersen Manchester and then in Lombard Natwest Bank Ltd. He is being employed in USB BANK PLC since 1998 where he held various managerial positions. In 2009 he was appointed as Chief Financial Officer and as from 1 July 2010 he holds the position of Deputy Managing Director of the Bank.

## Report on Corporate Governance (continued)

### Biographical Details of the Members of the Board of Directors (continued)

Mrs Despo Polycarpou

She was born in 1957. She is a Fellow of the Chartered Institute of Bankers (FCIB) and holds the ACIB degree. She is the Secretary General of the Cyprus Institute of Financial Services. She started her career in 1976 in Hellenic Bank. She was employed in USB BANK PLC in 1999 where she held various positions including Manager Banking Operations and Trade Services, Nicosia Regional Manager, Manager Banking Services Development, Manager Retail Sector and currently she holds the position of the Assistant General Manager, Manager of Compliance & Projects and also the position of the Manager of Human Resources.

## **2. Confirmations by the Board of Directors**

### **2.1 Going Concern**

The Board of Directors confirms that it is satisfied that the Bank has adequate resources to continue in business as a going concern for the next twelve months.

The impairment loss of €9.455.741 on the Greek Government Bonds as at 31 December 2011 based on the specific terms of the Private sector involvement (PSI) voluntary plan, have led to lower capital adequacy levels than the required levels of the Central Bank of Cyprus.

The major shareholder of the Bank, BLC Bank SAL is committed to take all necessary actions to ensure that the capital adequacy levels will fall within the limits set by the Central Bank of Cyprus.

### **2.2 Internal Control Systems**

The Board of Directors confirms that the Bank maintains an effective internal control system, designed to manage and minimize risks which is annually reviewed and assessed for its effectiveness from both the Directors but also the Audit Committee of the Board of Directors. In this way the procedures for the accuracy and validity of the information provided to investors are reviewed.

The Bank maintains an Internal Audit Department headed by the Manager of Internal Audit Mr. Stelios Alexandrou. The Department currently employs four people.

According to the provision C.2.1. of the Code, the Board of Directors confirms that it has conducted a review of the effectiveness of the Bank's internal control systems and the procedures for verifying the correctness and completeness of the information which are provided to the investors and states its satisfaction. The review covers all the systems of controls, including the financial and operational systems as well as the risk management systems.

Additionally the Board of Directors confirms that, to its knowledge, no violation of the Stock Exchange Legislation and Regulations has occurred.

## Report on Corporate Governance (continued)

### 3. Board of Directors Committees

According to the Code of the Cyprus Stock Exchange but also in accordance to the Central Bank of Cyprus Directive, the following Board of Directors Committees have been set up:

#### 3.1 Audit Committee

##### **Role of the Committee**

The role of the Audit Committee is to establish specific and transparent procedures relating to the implementation of the Banks' internal control audit system, the preparation of its financial statements, the implementation of the Corporate Governance principles and the maintenance of appropriate relationship with the Banks' External Auditors.

##### **Composition and terms of reference of the Committee**

- The Board of Directors appoints the members of the Committee.
- The Committee Chairman is appointed by the Board of Directors and should have experience in the area of Accounting and Finance.
- The majority of the Audit Committee should have experience and knowledge in the wider operations of the Bank and to the information technology systems.
- The Chairman position and the members of the Committee are selected taking into account the need for member rotation and ensuring that no dependency is created on a single member of the Committee.
- The Committee should have at least three non executive Directors, with the majority being independent.
- Three members of the Committee comprise a quorum.
- The Committee meets regularly and at least once every three months.
- The Committee keeps minutes for its decisions, and submits a copy to its members and the Board of Directors.
- The Committee has the approval of the Board of Directors to obtain independent professional advice whenever it deems this necessary.
- The Board of Directors is authorized to replace any member or the Chairman of the Committee during their service and to fill any vacant position.
- The Chairman of the Committee is available to answer any questions, which are submitted at the Annual General Meeting, or any other informative meeting held for the Bank's shareholders.

**Report on Corporate Governance (continued)**  
**Board of Directors Committees (continued)**  
**3.1 Audit Committee (continued)**

**Duties and responsibilities of the Committee**

- Recommendations to the Board of Directors with regards to the appointment, termination and remuneration of the Bank's external auditors.
- The continuous supervision of the extent and effectiveness of the external audit and the independence and objectivity of the auditors.
- Review in cooperation with the Risk Management Committee the implementation of the Basel II framework.
- Review and evaluation on an annual basis of the adequacy and effectiveness of the Internal Control System as per the relative information provided by the Internal Audit Department, the findings and observations of the External Auditors, the Central Bank of Cyprus and the Cyprus Securities and Exchange Commission. On the basis of this examination, it recommends the corrective actions to be taken by the Bank's Board of Directors.
- Review of the six monthly, interim statements and the final financial statements before submission to the Board of Directors for approval.
- Guarantees that the Bank appoints every three years external auditors for the evaluation of the Internal Control System according to the Central Bank of Cyprus Directive.
- Review of any significant events or risks that affect the Bank's operations.
- Review the material transactions of the Bank which the Chairman, the Executive Directors, the members of the Board of Directors, the Executive Management, the Secretary, the Auditors or major shareholder of the Bank as well as their related parties who hold directly or indirectly more than 5% of the issued share capital or the voting rights of the Company, have a direct or indirect substantial interest, in order to ensure that these transactions are carried out in the normal course of business and at arm's length.
- The performance of any other related duties, which may be assigned by the Board.

**Composition and service of the members of the Committee during 2011 until today**

Current composition

Chairman	George Stylianou	from 7/7/2008	Non Executive, Independent
Members:	Philippos Philis	from 21/1/2009	Non Executive, Independent
	Walid Daouk	from 21/3/2011	Non Executive, Non Independent
	BLC Bank SAL represented by Mr. Walid Ziade	from 21/3/2011	Non Executive, Non Independent
	Agis Taramides	from 21/3/2011	Non Executive, Independent

On 21 March 2011 Messrs Walid Daouk, BLC Bank SAL represented by Mr. Walid Ziade and Agis Taramides were appointed in replacement of Messrs Marios Hannides, Yiannos Christofi and Georges Tabet who resigned as members of the Board on the same date.

During the year 2011, the Audit Committee has met seven times.

**Report on Corporate Governance (continued)**  
**Board of Directors Committees (continued)**

**3.2 Nominations/Internal Governance Committee**

**Role of the Committee**

The Committee has the responsibility to ensure the application by the Bank of corporate governance principles. It also has the responsibility of overseeing the selection and appointment process to ensure that competent and suitable individuals participate in the Bank's Board of Directors.

**Composition and terms of operation of the Committee**

- The Board of Directors appoints the members of the Committee
- The Board of Directors appoints the Chairman of the Committee.
- The Chairman of the Committee may be either the Chairman of the Board of Directors (non executive), or a non executive member.
- The majority of the members of the Committee should be non executive Directors.
- The Chairman position and the members of the Committee are selected taking into account the need for member rotation and ensuring that no dependency is created on a single member of the Committee.
- The Committee should consist of at least three or more members.
- Three members of the Committee comprise a quorum.
- The Committee meets when required.
- The Committee keeps minutes for all its decisions and submits a copy to its members and the Board of Directors.
- The Committee has the approval of the Board of Directors to obtain independent professional advice whenever it deems this necessary.
- The Board of Directors is authorized to replace any member or the Chairman of the Committee during their service and to fill any vacant position.
- The Chairman of the Committee is available to answer any questions, which are submitted at the Annual General Meeting, or any other informative meeting held for the Banks' shareholders.

**Report on Corporate Governance (continued)**  
**Board of Directors Committees (continued)**

**3.2 Nominations/Internal Governance Committee (continued)**

**Duties and responsibilities of the Committee**

- Determining the selection criteria for the members of the Board of Directors. The minimum criteria set by the Committee are:
  1. The specific qualifications that are required as per the Central Bank Directive concerning the “Ability and Suitability (Criteria of Evaluation) of Board Members and Executives of Banks Directive of 2006 and 2007.
  2. Availability of time to perform the duties of a Board member at the Bank.
  3. Appropriate knowledge, experience and abilities.
  4. Integrity and objective judgement.
- Submission to the Board of Directors of recommendations for the appointment of new Directors based on their academic and professional qualifications, as well as their personalities.
- Evaluation and recommendation to the Board of Directors regarding the composition and structure of the Board in accordance with the provisions of the Code.
- Planning the succession of the resigned members in cooperation with the Secretary of the Board of Directors.
- The evaluation of the effectiveness of the Board of Directors, members’ knowledge and experience.
- The evaluation of the compliance achieved by the Bank in terms of corporate governance.
- The performance of any other related duties, which may be assigned by the Board.

**Composition and service of the members of the Committee during 2011 until today**

Current composition

Chairman	Philippos Philis	from 25/2/2010	Non Executive, Independent
Members:	Raoul Nehme	from 21/10/2010	Non Executive, Non Independent
	Nadim Kassar	from 21/3/2011	Non Executive, Non Independent
	Nabil Kassar	from 21/3/2011	Non Executive, Non Independent
	BLC Bank SAL represented by Mr. Walid Ziade	from 21/3/2011	Non Executive, Non Independent
	Andreas Theodorides	from 21/3/2011	Executive, Non Independent

On 21 March 2011 Messrs Nadim Kassar, Nabil Kassar, BLC Bank SAL represented by Mr. Walid Ziade and Andreas Theodorides were appointed in replacement of Messrs Michalis Kleopas, Yiannos Mouzouris and Yiannos Christofi who resigned as members of the Board on the same date.

Also, on 21 March 2011 Mrs Tania Moussallem resigned as member of the Committee following the reorganisation of all Committee memberships as a result of resignations and new appointments in the Board of Directors.

During the year 2011, the Committee has met once.

**Report on Corporate Governance (continued)**  
**Board of Directors Committees (continued)**

### **3.3 Remuneration Committee**

#### **Role of the Committee**

The Committee reviews the remuneration of the Executive and Non Executive Directors as well as Senior Management and ensures that these are in line with the culture, the strategic plans and objectives and the regulatory environment of the Bank.

#### **Composition and terms of operation of the Committee**

- The Board of Directors appoints the members of the Remuneration Committee.
- Only non executive Directors comprise the Committee with the majority being independent.
- The Chairman position and the members of the Committee are selected taking into account the need for member rotation and ensuring that no dependency is created on a single member of the Committee.
- The Committee should consist of minimum three or more members.
- Three members of the Committee comprise a quorum.
- The Committee should include at least one member with knowledge and experience in remuneration policy.
- The Committee meets when required.
- The Committee keeps minutes for its decisions, and submits a copy to its members and the Board of Directors.
- The Committee has the approval of the Board of Directors to obtain independent professional advice whenever it deems this necessary.
- The Board of Directors is authorized to replace any member or the Chairman of the Committee during their service and to fill any vacant position.
- The Chairman of the Committee is available to answer any questions, which are submitted at the Annual General Meeting, or any other informative meeting held for the Banks' shareholders.

#### **Duties and responsibilities of the Committee**

- Submission to the Board of Directors of recommendations concerning the framework and level of remuneration of the Executive Directors. The remuneration must be sufficient so as to attract and maintain the Directors at the Bank's service.
- Review of employment contracts of the Executive Directors.
- Periodic review of the Remuneration Policy for the Executive Directors or the Managing Directors, including the policy regarding remuneration, based on shares and its application.
- Submission of the Directors' remuneration Policy to the shareholders for approval at an Annual General Meeting.
- Evaluation and approval of the Annual Directors' Remuneration Statement in accordance with Annex 2 of the Code, to be included in the Annual Report.
- The Remuneration Committee recommends the Remuneration Policy Report in accordance with Annex 1 of the Code. The Remuneration Policy Report is included in the Bank's Annual Report and is presented to the Annual General Meeting of the shareholders for approval.

**Report on Corporate Governance (continued)**  
**Board of Directors Committees (continued)**  
**3.3 Remuneration Committee (continued)**

- The Remuneration Committee shall, when using the services of a consultant to obtain information on market standards for remuneration systems, ensure that this consultant is not also giving advice to the human resources department or the Executive or Managing Directors of the Bank.
- The performance of any other related duties, which may be assigned by the Board.

**Composition and service of the members of the Committee during 2011 until today**

Current composition

Chairman	George Galatariotis	from 21/3/2011	Non Executive, Independent
Members:	Philippos Philis	from 21/10/2010	Non Executive, Independent
	Maurice Sehnaoui	from 21/3/2011	Non Executive, Non Independent

On 21 March 2011 Messrs Maurice Sehnaoui and George Galatariotis were appointed in replacement of Messrs Garo Keheyran and Marios Hannides who resigned as members of the Board on the same date.

Also, on 21 March 2011 Messrs Tania Moussallem and George Stylianou resigned as members of the Committee following the reorganisation of all Committee memberships as a result of resignations and new appointments in the Board of Directors.

All the members of the Remuneration Committee have sufficient knowledge and experience in the remuneration policy sector.

During the year 2011, the Committee has met once.



**Report on Corporate Governance (continued)**  
**Board of Directors Committees (continued)**

### **3.4 Risk Management Committee**

#### **Role of the Committee**

The main role of the Committee is to assist the Board of Directors in the process of establishing a policy for handling risks and managing of funds that reflect the business goals of the Bank.

#### **Composition and terms of reference of the Committee**

- The Board of Directors appoints the members of the Committee.
- The Board of Directors appoints the Chairman of the Committee.
- Directors comprise the Committee with sufficient knowledge and experience in managing risks and at least one of its members is executive and one member an independent non executive.
- The Chairman position and the members of the Committee are selected taking into account the need for member rotation and ensuring that no dependency is created on a single member of the Committee.
- The Committee should consist of minimum three or more members.
- Three members of the Committee comprise a quorum.
- The Committee meets regularly and at least once every three months.
- The Committee keeps minutes for its decisions, and submits a copy to its members and the Board of Directors.
- The Committee has the approval of the Board of Directors to obtain independent professional advice whenever it deems this necessary.
- The Board of Directors is authorized to replace any member or the Chairman of the Committee during their service and to fill any vacant position.
- The Chairman of the Committee is available to answer any questions, which are submitted at the Annual General Meeting, or any other informative meeting held for the Bank's shareholders.

#### **Duties and responsibilities of the Committee**

- Formation of strategy for handling all kinds of risks and the management of funds relating to the business goals of the Bank on an individual but also group basis.
- Development of an internal risk management system of managing risks and integration of this in the decision-making process for all the activities / Departments of the Bank.
- Annual assessment of the adequacy and effectiveness of the risk management policy.
- Assessment of the issues that are raised by the Risk Management Department and inform the Board of Directors regarding the most important risks that the Bank has assumed.
- Performance of annual stress test and other scenarios to assess market risk, credit risk, liquidity risk, and operational risk.
- Overall review in cooperation with the Audit Committee of the implementation of the Basel II Directive.
- Review and assessment of the relevant reports relating to management of risk and submission of proposals for corrective measures to the Board of Directors.
- The assessment of the various risks involved in the participation of the Bank in new markets, new companies or new operations and submission of a proposal to the Board of Directors.
- The performance of any other related duties, which may be assigned by the Board.

**Report on Corporate Governance (continued)**  
**Board of Directors Committees (continued)**  
**3.4 Risk Management Committee (continued)**

**Composition and service of the members of the Committee during 2011 until today**

Current composition

Chairman	Walid Daouk	from 21/3/2011	Non Executive, Non Independent
Members:	Andreas Theodorides	from 12/7/2010	Executive, Non Independent
	Nabil Kassar	from 21/3/2011	Non Executive, Non Independent
	BLC Bank SAL (represented Mr.Walid Ziade)	from 21/3/2011	Non Executive, Non Independent
	George Galatariotis	from 21/3/2011	Non Executive, Independent
	Raoul Nehme	from 4/11//2011	Non Executive, Non Independent
	Fransa Invest Bank SAL (represented by Mr. Mansour Bteish)	from 4/11/2011	Non Executive, Non Independent

On 21 March 2011 Messrs Walid Daouk, Nabil Kassar , BLC Bank SAL represented by Mr. Walid Ziade and George Galatariotis were appointed in replacement of Messrs Yiannos Mouzouris, Yiannos Christofi and Georges Tabet who resigned as members of the Board on the same date.

Also, on 21 March 2011 Mr. George Stylianou resigned as member of the Risk Management Committee following the reorganisation of all Committee memberships as a result of resignations and of new appointments in the Board of Directors.

On 4 November 2011, Mr. Raoul Nehme and Fransa Invest Bank SAL (represented by Mr. Mansour Bteish), were appointed as additional members of the Committee.

During the year 2011, the Committee has met four times.

**4. Report on Remuneration of Board of Directors**

The Bank applies the provisions regarding the Remuneration of the Directors that are included in the Cyprus Stock Exchange Corporate Governance Code as well as the High-level Guidelines for Remuneration Policies issued by the Central Bank of Cyprus.

The Remuneration Committee proposes to the Board of Directors, the Remuneration policy that is prepared in accordance with the above. The Directors Remuneration Report is submitted for approval at the Annual General Meeting of the shareholders.

The remuneration of the members of the Board of Directors is analysed between remuneration as members of the Board of Directors and remuneration for their executive services. The analysis of the remuneration of the Board of Directors is presented in Note 32 of the audited financial statements for the year ended 31 December 2011. Furthermore the Remuneration of the members of the Board of Directors is analyzed as follows:

**4.1 Remuneration of the Non Executive Members of the Board**
***Remuneration of the Non Executive Members of the Board***

	2011	2010
	€	€
Maurice Sehnaoui	24.677	-
Fransabank SAL represented by Mr. Adel Kassar	5.609	-
Nadim Kassar	6.082	-
Nabil Kassar	7.978	-
Walid Daouk	11.773	-
Fransa Invest Bank SAL represented by Mr. Mansour Bteish	6.090	-
Raoul Nehme	8.665	1.353
Tania Moussallem	7.906	1.352
Agis Taramides	8.102	-
George Galatariotis	8.922	-
George Stylianou	14.178	16.456
Philippos Philis	12.336	10.919
BLC Bank SAL represented by Mr. Walid Ziade	10.136	-
Pavlos Savvides (retired on 21.10.2010)	-	32.891
Michalis Kleopas (retired on 21.3.2011)	8.362	17.853
Yiannos Mouzouris (retired 21.3.2011)	3.276	12.418
Yiannos Christofi (retired 21.3.2011)	3.198	13.952
Garo Keheyan (retired 21.3.2011)	1.844	8.602
Kleanthis Demosthenous (retired on 8.10.2010)	-	6.384
Marios Hannides (retired 21.3.2011)	2.146	9.850
Georges Tabet (retired 21.3.2011)	-	1.858
Echo Naji (retired 21.3.2011)	-	1.268
	<b>151.280</b>	<b>135.156</b>

The Remuneration of the Non Executive Members of the Board includes fees for their participation as Members in the Board of Directors of the Bank and also as Members in the Committees of the Board of Directors.

Based on the existing policy of the Bank, the remuneration of the non executive Directors is based on their responsibilities, time spent on meetings and their participation to the various Committees of the Board of Directors. The remuneration of the non executive Directors has last time been revised at the Extraordinary General Meeting of the Banks' shareholders at 21 January 2009, taking into account the above and also the respective remuneration of Directors in other comparable organisations.

Also, as per the Bank's Articles of Association, the members of the Board of Directors can claim the travelling expenses incurred for attendance in meetings.

The revision of the remuneration of the non executive Directors is authorised by the shareholders at the General Meeting of the Bank.

## Report on Corporate Governance (continued)

### 4.2 Remuneration of Executive Members of the Board

The salaries and other short-term benefits of the Executive Members of the Board totalling €245K (2010 €389K) concern €126K (2010:121K) for Mr. Andreas Theodorides and €119K (2010:108K) for Mrs. Despo Polycarpou and also €160K (2010) for Mr. Kyriacos Kyriakides who retired from the Board of Directors on 1 July 2010.

The employment and remuneration of the Executive Directors are governed by the collective agreements as applied to all other staff members of the Bank.

The Executive members of the Board of Directors are also entitled to any other benefits that are offered to the management and personnel of the Bank as part of its overall employment policy and collective agreements.

As far as the remuneration of the Executive Directors is concerned, no Remuneration Policy is provided, under which variable remuneration components are included, nor any schemes were adopted under which share options are granted.

All Executive Members of the Board of Directors are participating in the Staff Retirement Benefits Scheme with the same terms applicable to the personnel of the Bank. The main characteristics of the Scheme are described in Note 6 of the audited financial statements for the year ended 31 December 2011.

### 5. Loans and other transactions of the members of the Board of Directors

Details of the loans and other transactions of the members of the Board of Directors and their related parties for the year ended 31 December 2011 are set out in Note 32 of the audited financial statements. It is certified that All the transactions are conducted in the normal course of the Banks' business, on an arms length basis and with transparency.

### 6. Investor Relations

All shareholders of the Bank are treated on an equal basis. The Bank, within the framework of providing the shareholders with timely information announces its financial results. Besides the Annual General Meeting of the shareholders, the Bank organises from time to time Company Presentations where the audited financial results of the prior year and its short-term strategic plans are presented.

The Board of Directors provide the opportunity to shareholders who represent at least 5% of the Bank's share capital to place items on the agenda of the General Meetings of the shareholders in accordance with the procedures provided for by the Companies Act.

Any amendments or additions to the Bank's Memorandum and Articles of Association are considered valid only by a special resolution at a shareholders' meeting.

The Bank, has appointed the Deputy Managing Director of the Bank Mr. Andreas Theodorides, as the Investor Relations Officer.

The Senior Independent Director Mr. George Stylianou is available to shareholders if they have concerns that have not been resolved through the normal communication channels.



## Report on Corporate Governance (continued)

### **7. Corporate Governance Compliance Officer**

The Bank, has appointed the Deputy Managing Director of the Bank Mr. Andreas Theodorides, as the Corporate Governance Compliance Officer of the Bank.

### **8. Compliance Officer of Stock Market Issues**

The Bank, has appointed the Deputy Managing Director of the Bank Mr. Andreas Theodorides, as the Compliance Officer of Stock Market Issues of the Bank.

**Board of Directors**  
**USB BANK PLC**

24 April 2012