

**REPORT ON CORPORATE  
GOVERNANCE  
FOR THE YEAR 2016**

31 May 2017

**Report on Corporate Governance**

The Board of Directors of USB BANK PLC (the “Bank”), aiming to the continuous servicing of corporate interest and investors’ interest and the provision to the Members of timely information, relating to the Board and the total administration and corporate developments in relation to the Bank, and taking into consideration the provisions of the Directive of the Central Bank of Cyprus to Credit Institutions on Governance and Management Arrangements in Credit Institutions of 2014 (“the Directive on Governance”) and all relevant Laws and Regulations in relation to the Governance of the Bank, provides the Members with the present Report on Corporate Governance.

**Update on Corporate developments during 2016**

During the Annual General Meeting of the shareholders of USB Bank PLC, which was held on 26<sup>th</sup> July 2016, a resolution was approved pursuant to article 59A of the Companies Law, which stated that the Board of Directors of the Bank was authorised to issue and allot 115,000,000 new ordinary shares of nominal value €0.10 each at the Issue price of €0.20 each (the “Issue”). The resolution stated that the pre-emption rights of the existing Members of the Bank in relation to the said Issue were waived in accordance with the provisions of the Cyprus Companies Law Cap.113 (as amended). Furthermore, that for the purpose of the increase of the issued share capital of the Bank, the 115,000,000 new ordinary shares of nominal value €0.10 were not offered to all of the existing Members of the Bank on a pro rata basis but were to be issued and allotted at the issue price of €0.20 per share to BLC Bank SAL, following an irrevocable commitment by BLC Bank SAL, the majority shareholder of the Bank, to fully cover the new increase of capital and by depositing €23 million in an escrow account for this purpose. The decision provided further that the 115,000,000 new ordinary shares would rank pari passu with the existing fully paid shares of the Bank.

Due to the fact that the proposed issue would not be allocated to all existing Members, BLC Bank SAL expressed its commitment to dispose up to 1,343,160 ordinary shares at the price of €0.20 per share, that represented the issue price of the new shares, to those registered Members of the Bank who within 30 days from the date of the Issue to BLC Bank SAL (“Expiry Date”), following the approval of the above resolution at the Annual General Meeting, would express their interest in acquiring such number of shares as would correspond to the ratio and number that the Members would hold on the Expiry Date. The number 1,343,160 represented the number of shares that would have been offered to them if the issue was offered and allotted to all Members of the Bank on a pro rata basis.

The issue to BLC Bank SAL took effect on 26<sup>th</sup> of July 2016 and therefore, the Expiry Date was the 25<sup>th</sup> of August 2016. No requests were received from the existing shareholders for the acquisition by them of any of the aforesaid 1,343,160 ordinary shares.

In view of the successful completion of the issue and allotment of 115,000,000 new ordinary shares to BLC Bank SAL, as aforesaid, the issued share capital of the Bank amounts to €32,173,733 divided into 321,737,330 ordinary shares of nominal value of €0.10 each.

## **1. Board of Directors**

### **1.1 Overall purpose/objectives**

The Bank is governed and controlled by the Board of Directors as per the provisions of its Memorandum and Articles of Association and in compliance with the provisions of the Directive on Governance. 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 systems. The Board of Directors is responsible for the monitoring and evaluation of the actions and output of the Executive Management as well as for its conformity with the policies issued.

### **1.2 Board of Directors Main Responsibilities**

Pursuant to the Directive on Governance, all members of the Board of Directors are required to carry out their corresponding duties and responsibilities in accordance with the requirements of the Directive on Governance. Furthermore, all members of the Board of Directors must act in accordance with the provisions of USB BANK PLC's Internal Governance Manual for the Board of Directors and its Committees. The main duties and responsibilities of the Board of Directors include amongst others the following:

- a) The Board of Directors of the Bank has the primary responsibility for internal governance at all times. It defines and oversees the implementation of governance arrangements that ensure effective and prudent Management of the Bank, including the segregation of duties and the prevention of conflicts of interest.
- b) The Board of Directors has the overall responsibility for the Bank and approves and oversees the implementation of the Bank's strategic objectives, risk strategy and internal governance,
- c) The Board of Directors ensures the integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with the law and relevant standards,
- d) The Board of Directors oversees the process of disclosure, is responsible for setting and overseeing the selection of key positions as well as for providing effective oversight of Senior Management and the Control Functions.
- e) The Board of Directors monitors and periodically assesses the effectiveness of the Bank's governance arrangements and takes appropriate steps to address any deficiencies.

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

### **1.3 Membership and Functioning**

- a) Pursuant to the Directive on Governance, the Board of Directors consists of not less than seven members and not more than thirteen members.
- b) At least fifty percent (50%) of the members of the Board of Directors, rounded down plus one, are Independent.
- c) The Executive members must be at least two. They must be not more than twenty five percent (25%) of the members of the Board of Directors rounded down. One of them must be the Chief Executive Officer.
- d) A Non-Executive member of the Board of Directors holds the position of the Vice Chairperson of the Board of Directors to fulfil the roles and responsibilities of the Chairperson in the absence of the latter.
- e) An Independent member of the Board of Directors is appointed Senior Independent member of the Board of Directors. The Senior Independent member of the Board of Directors cannot hold the position of the Chairperson or the Vice-Chairperson.
- f) Pursuant to the Articles of Association of the Bank, 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 Members of the Bank. The Chief Executive Officer is not taken into consideration for the purposes of this calculation, nor is he eligible for retirement in the aforesaid manner.
- g) 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 Directive on Governance. 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
- h) The Board of Directors holds regular meetings to carry out their responsibilities adequately and effectively.
- i) A quorum for any meeting of the Board of Directors, including a teleconference meeting, shall be 50% of the members, rounded down, plus one.
- j) Members of the Board of Directors may not be absent from Board of Directors meetings, whether physically or otherwise, for more than two (2) consecutive meetings or twenty five percent (25%) of the meetings held annually.
- k) Decisions are taken by a majority and in the event of a tie the Chairperson has a casting vote.
- l) The Non-Executive members of the Board of Directors hold regular meetings on their own or with the external auditors and/or the Heads of the Control Functions as appropriate, without the presence of the Executive members, at least on a semi-annual basis.

## 1. Board of Directors (continued)

The Non-Executive members of the Board of Directors meet without the Chairperson present at least annually to appraise the Chairperson's performance.

The Chairperson of the Board of Directors is a Non-Executive member. There is a division of responsibilities between the Chairperson and the Executive Management.

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

During 2016, the Board of Directors convened ten 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 2015 the Bank's Board of Directors comprised of eleven members, six being independent and five being non-independent. Out of the five non-independent members, two were Executive members. Board membership was as follows:

#### Chairperson:

Mr. Maurice Sehnaoui	Non Independent, Non-Executive Chairperson
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#### Members:

Mr. Nadim Kassar	Non Independent, Non-Executive Vice Chairperson
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Fransa Invest Bank SAL represented	Non Independent, Non-Executive
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by Mr.Mansour Bteish

Mr. Ziyad Baroud	Independent, Non-Executive
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Mr. Henri Guillemin	Independent, Non-Executive
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Mr. Agis Taramides	Independent, Non-Executive
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Mr. George Galatariotis	Independent, Non-Executive
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Mr. George Stylianou	Independent, Non-Executive
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Mr. Philippos Philis	Independent, Non-Executive
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Mr. Andreas Theodorides	Non Independent, Executive
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Mrs Despo Polycarpou	Non Independent, Executive
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#### Secretary:

Panayiota Charitonos

## 1. Board of Directors (continued)

### Changes in the composition during 2016

Pursuant to the Articles of Association of the Bank, at the Annual General Meeting of the Members of the Bank which was held on the 26<sup>th</sup> July 2016, three members of the Board of Directors, namely Messrs. Maurice Sehnaoui, Fransa Invest Bank SAL represented by Mr. Mansour Bteish and Mr. Agis Taramides, retired but were re-elected by the Members of the Bank.

Furthermore Mr. Ziyad Baroud and Mr. Henri Guillemin were elected, having been appointed by the Board of Directors in July and November 2015 respectively.

During the meeting of the Board of Directors held on the 26<sup>th</sup> of July 2016 following the Annual General Meeting, Mr. Maurice Sehnaoui and Mr. Nadim Kassar were re-elected as Chairperson and Vice-Chairperson of the Board of Directors, respectively. Furthermore, Mr. George Stylianou was re-appointed as Senior Independent member of the Board of Directors.

### Structure of the Board of Directors from 31/12/2016 until today

The total number of Board members as at 31/12/2016 remained eleven with the same composition as on 31/12/2015.

During the meeting of the Board of Directors held on the 23rd of February 2017, the Chairman of the Board of Directors, Mr Maurice Sehnaoui, resigned from his position both as Chairperson and as member of the Board of Directors and the Board of Directors comprised of ten members. Mr. Henri Guillemin was elected as Chairperson of the Board during the same meeting and the composition of the Board of Directors became as follows:

#### Chairperson:

Mr. Henri Guillemin Independent, Non-Executive Chairperson

#### Members:

Mr. Nadim Kassar Non Independent, Non-Executive Vice Chairperson

Fransa Invest Bank SAL represented Non Independent, Non-Executive

by Mr.Mansour Bteish

Mr. Ziyad Baroud 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

#### Secretary:

Panayiota Charitonos

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

### **1.6 Senior Independent Director**

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

### **1.7 Definition and Division of Responsibilities of the Chairperson and Managing Director**

The responsibilities of the Chairperson are performed by Mr. Henri Guillemin and the responsibilities of the Chief Executive Officer by Mr. Andreas Theodorides. The Chairperson 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 Chief Executive Officer 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.

### **1.8 Re-election of Directors**

At the next Annual General Meeting of the Members of the Bank, and according to the Articles of Association of the Bank, Mr. Philippos Philis, Mrs Despo Polycarpou and Mr. Nadim Kassar, will retire but are offered for re-election.

### **Biographical Details of the members of the Board of Directors**

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

#### **Mr. Henri Guillemin (Chairperson of the Board of Directors)**

Mr. Henri Guillemin was born in France in 1947. Graduate of St. Joseph de Reims College, France with a Bachelor in Mathematics and holder of a Diploma with Honours from the Institute of Political Sciences in Paris, he acquired a Master degree in Economics from the Paris-Sorbonne University and a Master degree in Business Administration from INSEAD Fontainebleau. He commenced his career in 1973 and has an extensive Banking experience serving in various positions in a number of Financial Institutions including the position of CEO of the Indosuez Bank Bahrain Branch, Managing Director and CEO of the Banque Saudi Fransi in Riyadh and Managing Director and CEO of Credit Agricole Egypt. He was also regional manager for Middle East and African countries at Credit Agricole – Corporate Investment Bank Headquarters in Paris between 2000 and 2007. From 2012 until today he serves as an Independent member of the Board of Directors of Fransabank SAL, Beirut and from 2015 he serves as an Independent member of the Board of Directors of Fransa Invest Bank Sal.

## 1. Board of Directors (continued)

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

#### **Mr. Nadim Kassar (Vice Chairperson)**

Mr. Nadim Kassar is the Vice-Chairman and General Manager of BLC Bank SAL. He holds currently the following positions: General Manager of Fransabank SAL, Founder and Board member of Fransa Invest Bank SAL (FIB), Founder and Chairman of Fransabank Al Djazaïr SPA, Board member of the Association of Banks in Lebanon since 2001, Board member of USB Bank PLC, Board member of Lebanese International Finance Executives (LIFE), Co-Manager of A.A. Kassar (France) SARL and General Manager of A.A. Kassar SAL. Mr. Kassar also is a Board member of the following Institutions: MasterCard Incorporated Asia, Pacific, Middle East & Africa, SAMEA Regional Board of Directors since 2005, NetCommerce, Interbank Payment Network, IPN SAL, Credit Card Management, Founder and Board member of the American Lebanese Chamber of Commerce. He holds as well the position of Deputy Chairman of Société Financière du Liban.

His social activities include the Makassed Philantropic Islamic Association in Beirut as a member of the Board of Trustees, a member of the Lebanese-Chinese inter-parliamentary friendship committee, a member of the Lebanese-Tunisian friendship committee and Treasurer of the Comité des Propriétaires-Ouyoun As Simane. Mr. Kassar was born in 1964 and holds a Bachelor's degree in Business Administration from the American University of Beirut.

#### **Mr. Mansour Bteish representing Fransa Invest Bank SAL**

Mr. Mansour Bteish joined Fransabank SAL in 1974. Over the course of four decades, Mr. Bteish held various management positions and headed major Central Departments until he was appointed General Manager of Fransabank SAL in 2005. Mr. Bteish is currently a member of the Board of Directors of several subsidiaries in Lebanon and abroad, including Fransa Invest Bank, BLC Bank SAL, BLC Invest Bank, Lebanese Leasing Company, Fransabank (France), Fransabank El Djazaïr SPA (Algeria), USB Bank PLC (Cyprus), and United Capital Bank (Sudan). Born in 1954, Mr. Bteish holds a Bachelor's degree in Business Administration and a Master's degree in Money and Banking from Université Saint Joseph.

#### **H.E. Mr. Ziyad Baroud**

Mr. Ziyad Baroud was born in Lebanon in 1970. Graduate of College Saint Joseph Antoura, he acquired a Masters' degree in Law from Saint Joseph University of Beirut and pursued doctoral studies in Paris. He is a court lawyer and managing partner at HBD-T Law Firm, a member of the Board of Directors of BLC BANK SAL, Lebanon and also a member of the Board of Directors of other overseas companies. Between July 2008 and June 2011, he served as the Minister of Interior and Municipalities of the Republic of Lebanon. Prior to his appointment as Minister, he has held a number of academic posts as lecturer at the University Saint Joseph, held a number of significant positions among which: member of the Lebanese National Commission on Electoral Law, Secretary General of the Lebanese Association for Democratic Elections, served as Board member for a number of significant organisations in Lebanon and has received a number of important Lebanese and overseas awards.



## 1. Board of Directors (continued)

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

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

Mr. George Stylianou 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 Stylianou & Co. Certified Public Accountants and Registered Auditors. He is a member of the Board of Directors of a number of other companies.

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

Mr. Philippos Philis was born in 1961. He is the founder of Lemissoler Group and has been Managing Director since its establishment in 1996. He is appointed as Chairperson and Chief Executive Officer of the Group since 2009. The Group is active in the shipmanagement, ship operations and shipowning in a diversified fleet of Bulk Carriers, Containers and Ro-Ro / Paper Carriers. In early 1997, he started IMCL Inter Marine Container Lines, one of the most successful container feeder operators in the Baltic Sea, which has been merged with Unifeeder at the end of 2009 creating the largest short sea and container operator in Europe. He graduated from RWTH Aachen with the title of Dipl. Ing. in Mechanical Engineering. He is specialized in Expert Systems applications in Logistics and completed the Executive Leadership Program (ELP) at the Cyprus International Institute of Management (CIIM). He also completed the Private Equity and Venture Capital (PEVC) executive course at the Harvard Business School (HBS). He is an elected member of the Board of Directors of the Cyprus Shipping Chamber (CSC) and has been appointed as Vice President of the Chamber. He is a member of the Board of Directors of the European Communities Shipowners' Associations (ECSA) and a member of the Board of Directors of the International Chamber of Shipping (ICS). He is an elected member of America Bureau of Shipping (ABS), a member of the DNV GL Cyprus Committee and an elected Chairperson of the Cyprus Shipowners Employers Association (CySea). He is a member of the Cyprus Professional Engineers Association (CPEA), the Scientific & Technical Chamber of Cyprus (ETEK) and the Institute of Marine Engineering, Science & Technology (IMarEST). He is a member of the Board of Directors of a number of other companies. He speaks fluent Greek, German and English.

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

Mr. George Galatariotis 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**

Mr. Agis Taramides was born in 1971. He has a Bachelor's degree in Mathematics, Statistics and Operational Research and also a Master's Degree in Statistics. He is a fellow of the Institute of Chartered Accountants in England & Wales (FCA), a Certified Fraud Examiner (CFE) and a member of the Institute of Certified Public Accountants of Cyprus. He started his career in 1997 with Hallidays (Chartered Accountants) Limited in the United Kingdom and has since then worked for various audit and advisory firms in Cyprus and abroad. He possesses vast experience in corporate finance, financial advisory and fraud. He is currently acting as a freelance specialist advisor in the fields of Fraud and Financial Advisory Services.

## 1. Board of Directors (continued)

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

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

Mr. Andreas Theodorides 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 has been employed by USB BANK PLC since 1998 where he held various managerial positions. In 2009 he was appointed as Chief Financial Officer. On 1 July 2010 he was appointed as the Deputy Managing Director and as from 29 April, 2014 he holds the position of the Chief Executive Officer of the Bank.

#### **Mrs. Despo Polycarpou**

Mrs. Despo Polycarpou was born in 1957. She is a Fellow of the Chartered Institute of Bankers (FCIB) and holds the ACIB degree. She started her career in 1976 in Hellenic Bank until 1999 when she was employed by USB BANK PLC. At USB BANK PLC she held various positions including Manager Banking Operations and Trade Services, Nicosia Regional Manager, Manager Banking Services Development, Manager Retail Sector and currently holds the position of the Assistant General Manager, Manager of Compliance & Projects and also the position of the Manager of Human Resources. She is a member of the Board of Cyprus Employers & Industrialists Federation (OEB). During the period from 2009 until October 2015, she was the Secretary General of the Cyprus Institute of Financial Services (formerly The Chartered Institute of Bankers, Cyprus)

## 2. Confirmations by the Board of Directors

### 2.1 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 as well as 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. Athos Fasouliotis, Chartered Accountant. The Department currently employs five people.

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 is 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. The Bank has assigned to the parent company BLC Bank SAL, the provision of services for the audit of the Information Technology of the Bank.

### **3. Board of Directors Committees**

In accordance with the provisions of the Directive on Governance, an Audit, a Nominations and Internal Governance, a Remuneration and a Risk Committee have been set up.

#### **3.1 Audit Committee**

##### **Overall Purpose / Objectives**

The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities. In performing its duties, the Committee maintains effective working relationships with the Board of Directors, the Executive Management, the Internal Audit Function, the External Auditors and the Compliance Function.

##### **Membership and Functioning**

- a) The Committee is appointed by the Board of Directors and consists of a minimum of three members.
- b) The Chairperson of the Board of Directors cannot be a member of the Committee.
- c) The Committee consists only of Non-Executive members and more than fifty percent (50%) must be Independent members.
- d) A quorum for any meeting, including a meeting conducted via teleconference, is 50% of its members rounded down plus 1.
- e) Decisions are taken by a majority and in the event of a tie the Chairperson has a casting vote.
- f) In the absence of the Chairperson for more than 5 minutes following the time set for a meeting, the members present may elect one of their number to chair the meeting.
- g) The Bank's Secretary or his/ her nominee is the Secretary of the Committee.
- h) At least one member of the Committee shall have sufficient experience and knowledge in Banking and financial matters.
- i) It is also desirable that one member has sufficient knowledge on technology issues relevant to the activities of the Bank.
- j) The Board of Directors is authorized to replace any member or the Chairperson of the Committee during their service and fill in their vacant post.

##### **Audit Committee Chairperson**

The Chairperson of the Committee:

- a) Is appointed by the Board of Directors,
- b) Must be independent and
- c) Must have specialist knowledge and experience in the application of accounting principles and Internal Control processes.

### 3.1 Audit Committee (continued)

#### Frequency of meetings and participation

- a) The Committee meets at least once each quarter. Depending on the circumstances, additional meetings can be convened as required. Additional meetings of the Committee may be convened by the Chairperson of the Committee, any member of the Committee, the Internal Auditor or the External Auditor if they consider that this is necessary.
- b) The Committee meets at least once a year with the External Auditors without the presence of the management or any other executive.

#### Duties and Responsibilities

The Audit Committee has, amongst others, the following main duties and responsibilities:

- a) Reviews and evaluates on an annual basis the adequacy and effectiveness of the Internal Control System as per the relative information provided by the Internal Audit Function, the findings and observations of the External Auditors and the Central Bank of Cyprus. On the basis of this review, it submits to the Board of Directors recommendations for addressing any weaknesses which have been identified and oversees the timely implementation of the corrective actions carried out by the Bank's competent Units/Departments,
- b) Reviews the Bank's Annual Reports/ Statements on Internal Control and their compliance with the current guidance on Governance and Management Arrangements prior to their submission to the Board of Directors. In particular the Committee reviews:
  - i. The Policies and overall process for identifying and assessing business risks and managing their impact on the Bank,
  - ii. The reports submitted periodically by the Management, the Internal Audit and the External Auditors concerning control mechanisms and risk management,
  - iii. The timeliness and effectiveness of corrective and/ or preventive measures taken by the Senior Management.
- c) Considers whether, under the Legal and Regulatory requirements, any disclosures should be made for issues related with Internal Control Procedures,
- d) Reviews and ensures that appropriate procedures are in place for identifying/ detecting fraud or misconduct,
- e) Oversees the Bank's Internal Audit Function,
- f) Oversees the Bank's Compliance Function,
- g) Assesses and advises the Board of Directors, drawing on the work of the Compliance Function and External Auditors, on the adequacy and effectiveness of the Compliance Framework,
- h) Submits proposals to the Board of Directors on the appointment, compensation, substitution or rotation of the External Auditors,
- i) Enters into adequate dialogue with the External Auditor on the scope and timing of the audit to understand the issues of risk, information on the insurer's operating environment which is relevant to the audit, and any areas in which the Board of Directors may request for specific procedures to be carried out by the External Auditor, whether as part or extension of the audit engagement,
- j) Reviews and considers the results of the external audit, its cost effectiveness and the audit fee,

### 3.1 Audit Committee (continued)

#### Duties and Responsibilities (continued)

- k) Reviews, prior to its consideration by the Board of Directors, the External Auditor's report,
- l) Reviews and discusses with the Management and/or the External Auditors any Preliminary Results, Interim Information and Annual Financial Statements.

#### Composition and service of the members of the Audit Committee during 2016 until today

##### Composition of the Committee until 23/02/2017

###### **Chairperson:**

George Stylianou from 07/07/2008 Non-Executive, Independent

###### **Members:**

Philippos Philis from 21/01/2009 Non-Executive, Independent

Agis Taramides from 21/03/2011 Non-Executive, Independent

Fransa Invest Bank Sal from 21/07/2015 Non-Executive, Non Independent  
(represented by Mr. Mansour Bteish)

Henri Guillemin from 20/11/2015 Non-Executive, Independent

##### Composition of the Committee after 23/02/2017

###### **Chairperson:**

George Stylianou from 07/07/2008 Non-Executive, Independent

###### **Members:**

Philippos Philis from 21/01/2009 Non-Executive, Independent

Agis Taramides from 21/03/2011 Non-Executive, Independent

Fransa Invest Bank Sal from 21/07/2015 Non-Executive, Non Independent  
(represented by Mr. Mansour Bteish)

During the year 2016 the Audit Committee met seven times.

### **3.2 Nominations and Internal Governance Committee**

#### **Overall Purpose / Objectives**

The Committee has the responsibility of ensuring the Bank's compliance with the Bank's Internal Governance Policy and the relevant requirements of the Legal and Regulatory Framework.

The Committee, within the scope of its role and responsibilities, assists the Board of Directors in fulfilling its duties. In discharging its duties, the Committee maintains effective working relationships with the Board of Directors and its Committees, the Management, the Control Functions and the Human Resource Function.

The Committee also has the responsibility of overseeing the selection and appointment process to ensure that competent and suitable individuals are appointed on the Bank's Board of Directors. The Committee prepares and submits to the Board of Directors proposals for the appointment of the Executive and Non-Executive Board of Directors members.

Furthermore, the Committee closely cooperates with the relevant Board of Directors Committees for the review of the composition, authority and independence of the Bank's Control Functions.

#### **Membership and Functioning**

- a) The Committee is appointed by the Board of Directors and consists of a minimum of three members.
- b) The Committee consists only of Non-Executive members and more than fifty percent (50%) must be Independent members.
- c) A quorum for any meeting, including a meeting conducted via teleconference, is 50% of its members rounded down plus 1.
- d) Decisions shall be taken by a majority and in the event of a tie the Chairperson has a casting vote.
- e) In the absence of the Chairperson for more than 5 minutes following the time set for a meeting, the members present may elect one of their number to chair the meeting.
- f) The Bank's Secretary or his/ her nominee is the Secretary of the Committee.
- g) The Board of Directors is authorized to replace any member or the Chairperson of the Committee during their service and fill in their vacant post.

#### **Nominations and Internal Governance Committee Chairperson**

The Chairperson of the Committee is appointed by the Board of Directors.

In the event that the Chairperson of the Board of Directors is also the Chairperson of the Nominations and Internal Governance Committee then he/ she may not participate in the process of appointing his or her successor.

### 3.2 Nominations and Internal Governance Committee (continued)

#### Frequency of meetings and participation

The Committee meets at least once each year. Depending on the circumstances, additional meetings can be convened as required. An additional meeting of the Committee may be convened by the Chairperson of the Committee or any member of the Committee.

#### Duties and Responsibilities

The Committee has, amongst others, the following main duties and responsibilities:

- a) Periodically reviewing the Policy of the Board of Directors for the selection and nomination of members of the Board of Directors.
- b) Considering issues relating to succession planning and making recommendations to the Chairperson of the Board of Directors, at least once a year, for Board of Directors' succession over the longer term in order to maintain an appropriate balance of diversity, skills and experience and to ensure progressive renewal of the Board of Directors.
- c) Preparing a description of the roles and capabilities for any vacancy, the profile of the potential candidates for the Board of Directors, including their academic and professional qualifications, their experience and abilities and also assessing the time commitment expected.
- d) Identifying and nominating suitable candidates for the consideration and approval of the Board of Directors for filling up Board of Directors vacancies in a timely manner and aiming at ensuring smooth succession, in particular for the positions of the Chairperson and the Chief Executive Officer. The Committee's recommendations are based on the needs of the Board of Directors.
- e) Assessing on an ongoing basis the independence of the Non-Executive and Independent members and whether there are any relationships or circumstances which are likely to affect, or could appear to be affecting a member's independence.
- f) Contributing in the process carried out by the Audit Committee for the appointment or removal of the Heads of the Internal Audit Function and Compliance Function.
- g) Contributing in the process carried out by the Risk Committee for the appointment or removal of the Heads of the Risk Management Function and Information Security Function.

#### Composition and service of the members of the Nominations and Internal Governance Committee during 2016 until today.

##### Chairperson:

Ziyad Baroud	from 21/07/2015	Non-Executive, Independent
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##### Members:

Nadim Kassar	from 21/03/2011	Non-Executive, Non Independent
Agis Taramides	from 21/07/2015	Non-Executive, Independent
Henri Guillemin	from 20/11/2015	Non-Executive, Independent

During the year 2016, the Committee met eight times.

### **3.3 Remuneration Committee**

#### **Overall Purpose / Objectives**

The Remuneration Committee assists the Board of Directors in determining and implementing the Bank's Remuneration Policy.

The Committee reviews regularly the remuneration of the Executive and Non-Executive Directors, the Senior Management and any other personnel whose duties may involve increased risk taking and ensures that these are in line with the culture, the strategic plans and objectives and the regulatory environment of the Bank.

Furthermore, in cooperation with the corresponding Board of Directors' Committees, the Committee also oversees the remuneration of the Heads of the Control Functions as a means of strengthening their independence.

In discharging its duties the Committee maintains effective working relationships with the Board of Directors, the Board of Directors Committees, the Control Functions and the Human Resource Function.

It is noted that salaries in the Bank are currently governed by the agreement between the Bank and the Employees' Union. However the Committee is alert at all times to ensure that remunerations are in line with the above objectives.

#### **Membership and Functioning**

- a) The Committee is appointed by the Board of Directors and consists of at least three members.
- b) The Committee consists only of Non-Executive members and more than fifty percent (50%) must be Independent members,
- c) A quorum for any meeting, including a meeting conducted via teleconference, is 50% of its members rounded down plus 1,
- d) Decisions shall be taken by a majority and in the event of a tie the Chairperson has a casting vote.
- e) In the absence of the Chairperson for more than 5 minutes following the time set for a meeting, the members present may elect one of their number to chair the meeting.
- f) The Bank's Secretary or his/her nominee is the Secretary of the Committee.
- g) The Board of Directors is authorized to replace any member or the Chairperson of the Committee during their service and fill in their vacant post.

#### **Remuneration Committee Chairperson**

The Chairperson of the Committee is appointed by the Board of Directors.

#### **Frequency of meetings and participation**

The Committee meets at least once each year. Additional meetings can be convened by the Chairperson of the Committee or any member of the Committee.



### 3.3 Remuneration Committee (continued)

#### Duties and Responsibilities

The Committee has, amongst others, the following main duties and responsibilities:

- a) The Committee is responsible for the preparation of proposed decisions regarding remuneration, including those which have implications for the risk and risk management of the Bank and which are to be taken by the Board of Directors. When preparing the aforesaid proposed decision, the Committee takes into account the long-term interests of Members, investors and other stakeholders of the Bank and the public interest and ensures that:
  - i. These are closely linked with the Bank's business objectives and strategies,
  - ii. These are in line with the requirements set out in 'Part VI Remuneration Framework' of the Directive on Governance.
- b) Non-Executive members are not included in the beneficiaries of performance-related remunerations.
- c) Considers:
  - i. The remuneration and other terms of service of Senior Executives,
  - ii. Proposed compensation and settlement terms on loss of office for Executive Directors and Senior Management,
  - iii. The pension consequences and associated costs to the Bank of basic salary increases and other changes in remuneration.
- d) Reviews the employment contracts of the Executive members.
- e) Submits to the Board of Directors recommendations concerning the Framework and level of remuneration of the Executive members. The remuneration must be sufficient so as to attract and maintain the Executives at the Bank's service,
- f) Submits the proposals for the Director's remuneration, to the Board of Directors for its approval and subsequent presentation to and approval by the Members at an Annual General Meeting.

### 3.3 Remuneration Committee (continued)

#### Composition and service of the members of the Remuneration Committee during 2016 until today

##### Composition of the Committee until 23/02/2017

**Chairperson:**

George Galatariotis	from 21/03/2011	Non-Executive, Independent
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**Members:**

Maurice Sehnaoui	from 21/03/2011	Non-Executive, Non-Independent
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Ziyad Baroud	from 21/07/2015	Non-Executive, Independent
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##### Composition of the Committee after 23/02/2017

**Chairperson:**

George Galatariotis	from 21/03/2011	Non-Executive, Independent
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**Members:**

Nadim Kasar	from 23/02/2017	Non-Executive, Non-Independent
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Ziyad Baroud	from 21/07/2015	Non-Executive, Independent
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During the year 2016, the Committee met five times.

### 3.4 Risk Committee

#### Overall Purpose / Objectives

The Risk Committee assists the Board in fulfilling its oversight responsibilities in risk management, hence the Committee members have appropriate knowledge, skills and expertise to fully understand and monitor the risk strategy, the risk appetite of the Bank and the Bank's Risk Management Framework.

In discharging its duties, the Committee maintains effective working relationships with the Board of Directors and Committees, the Management, the Risk Management Function, the Information Security Function and the External Auditors.

### **3.4 Risk Committee (continued)**

#### **Membership and functioning**

- a) The Committee is appointed by the Board of Directors and consists of a minimum of three members who possess appropriate knowledge, skills and expertise to fully understand and monitor the risk strategy and the risk appetite of the Bank.
- b) The Committee consists only of Non-Executive members and more than fifty percent (50%) must be Independent members.
- c) A quorum for any meeting, including a meeting conducted via teleconference, shall be 50% of its members rounded down plus 1.
- d) Decisions shall be taken by a majority and in the event of a tie the Chairperson shall have a casting vote.
- e) In the absence of the Chairperson for more than 5 minutes following the time set for a meeting, the members present may elect one of their number to chair the meeting.
- f) The Bank's Secretary or his/ her nominee is the Secretary of the Committee.
- g) The Board of Directors is authorized to replace any member or the Chairperson of the Committee during their service and fill in their vacant post.

#### **Risk Committee Chairperson**

The Chairperson of the Committee is appointed by the Board of Directors.

#### **Frequency of meetings and participation**

The Committee meets at least once each quarter. Additional meetings may be convened by the Chairperson of the Committee, any member of the Committee, the Risk Manager or the External Auditor if they consider this necessary.

#### **Duties and responsibilities**

The Committee has, amongst others, the following main duties and responsibilities, without prejudice to the overall responsibility of the Board of Directors for risks:

- a) Advises the Board of Directors on the Bank's overall current and future risk appetite and strategy, taking into account:
  - i. The requirements set out in the Directive on Governance,
  - ii. The financial and risk profile of the Bank and
  - iii. The capacity of the Bank to manage and control risk.
- b) Advises the Board of Directors on the determination of the principles which should govern the Management of risks.
- c) Oversees the development of an Internal Risk Management Framework and its integration with the Bank's decision making process, covering the whole spectrum of the Bank's activities and units, as well as any subsidiaries.
- d) Examines whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings.

**3.4 Risk Committee (continued)****Duties and responsibilities (continued)**

- e) Assesses the adequacy of and oversees the carrying out of the annual stress test and other scenarios to assess:
  - i. Market risk,
  - ii. Credit risk,
  - iii. Liquidity risk and
  - iv. Operational risk.
- f) Assesses the various risks involved in the participation of the Bank in new markets, new companies or new operations and submits proposals to the Board of Directors.
- g) Seeks and receives adequate reassurance that:
  - i. The Senior Executive Management fully comprehends and applies the acceptable risk taking levels, as these have been defined by the Board of Directors,
  - ii. That all affected employees comprehend and apply the risk taking and risk Management Policy and
  - iii. That excessive risk-taking is not encouraged.
- h) Oversees the Bank's Risk Management Function,
- i) Oversees the Bank's Information Security Function.
- j) Evaluates the quarterly reports submitted to it by the Risk Management Function and briefs the Board of Directors on the most important risks which have been assumed by the Bank.
- k) Assesses, on an annual basis:
  - i. The adequacy and effectiveness of the Risk Management Policy,
  - ii. The appropriateness of the risk appetite and risk limits,
  - iii. The adequacy of provisions and effectiveness of strategies and policies with respect to maintaining, on an ongoing basis, amounts, types and distribution of both internal capital and own funds adequate to cover the risks of the Institution,
  - iv. The overall capital adequacy of own funds in relation to the size and nature of the risks undertaken,
- l) Advises the Board of Directors, drawing on the work of the Audit Committee, risk Management Function and External Auditors, on the adequacy and effectiveness of the Risk Management Framework,
- m) Advises the Board of Directors, drawing on the work of the Audit Committee, Information Security Function and External Auditors, on the adequacy and effectiveness of the Information Security Framework,
- n) Advises the Board of Directors, drawing on the work of the Audit Committee, Risk Management Function and Information Security Function and External Auditors, on the adequacy and robustness of information and communication systems to:
  - i. Enable identification, measurement, assessment and reporting of risk in a timely and accurate manner,
  - ii. Ensure the adequate protection of the Bank's confidential and proprietary information,

**3.4 Risk Committee (continued)**
**Duties and responsibilities (continued)**

- o) Submits to the Board of Directors proposals and recommendations for corrective action, whenever weaknesses are identified in implementing the risk strategy,
- p) Reviews whether prices of liabilities and assets offered to clients take fully into account the Bank's business model and risk strategy. In the event that they do not, the Committee presents a remedy plan to the Board of Directors.

**Composition and service of the members of the Risk Committee during 2016 until today**
Composition of the Committee until 23/02/2017
**Chairperson:**

Philippos Philis	from 21/07/2015	Non-Executive, Independent
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**Members:**

George Galatariotis	from 21/03/2011	Non-Executive, Independent
Fransa Invest Bank Sal (represented by Mr. Mansour Bteish)	from 04/11/2011	Non-Executive, Non Independent
George Stylianou	from 21/07/2015	Non-Executive, Independent
Nadim Kassar	From 20/11/2015	Non-Executive, Non-Independent

Composition of the Committee after 23/02/2017
**Chairperson:**

Philippos Philis	from 21/07/2015	Non-Executive, Independent
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**Members:**

George Galatariotis	from 21/03/2011	Non-Executive, Independent
Fransa Invest Bank Sal (represented by Mr. Mansour Bteish)	from 04/11/2011	Non-Executive, Non Independent
George Stylianou	from 21/07/2015	Non-Executive, Independent

During the year 2016, the Committee met seven times.

#### **4. Report on Remuneration of Board of Directors and Senior Management**

The Bank applies the provisions regarding the Remuneration of the Directors that are included in the Directive on Governance and its remuneration policy.

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 35 of the audited financial statements for the year ended 31 December 2016.

##### **Remuneration of the Non-Executive members of the Board**

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 and is not connected with the profitability of the Bank.

Also, in accordance with the Articles of Association of the Bank, the members of the Board of Directors can claim the expenses incurred in relation to their attendance in meetings and in connection with the execution of the business of the Bank.

The revision of the remuneration of the Non-Executive Directors is authorised by the Members of the Bank at a General Meeting of the Bank.

During the Annual General Meeting of the Members of the Bank on the 26th of July 2016, a revision of the remuneration of the Non-Executive Directors was approved, with retrospective effect as from the 1st of August 2015.

As a result, during 2015 an additional amount of €71.954 had been recognised in the Income statement of the Bank as a provision in relation to the aforesaid increase in the Non-Executive Directors' remuneration.

**4. Report on Remuneration of Board of Directors and Senior Management (continued)**
**Remuneration of the Non-Executive members of the Board (continued)**

Details in relation to the remuneration of the Non- Executive Directors for the years 2015 and 2016 are set out below.

	2016	2015
	€	€
<b>Remuneration of the Non-Executive members of the Board</b>		
Maurice Sehnaoui	45.200	31.781
Nadim Kassar	37.100	8.491
Fransa Invest Bank SAL represented by Mr. Mansour Bteish	33.200	11.003
Agis Taramides	30.000	10.846
George Galatariotis	29.500	11.495
George Stylianou	41.700	14.772
Philippos Philis	39.555	14.642
Ziyad Baroud (appointed on 21/07/2015)	28.400	4.306
Henri Guillemin (appointed on 20/11/2015)	30.600	1.312
Fransabank SAL represented by Mr. Adel Kassar (retired on 21/07/2015)	---	4.133
Nabil Kassar (retired on 21/07/2015)	---	5.832
Walid Daouk (retired on 21/07/2015)	---	8.607
Raoul Nehme (retired on 26/08/2015)	---	7.387
BLC Bank SAL represented by Mr. Youssef Eid (retired on 21/07/2015)	---	7.821
Tania Moussallem (retired on 21/07/2015)	---	4.303
	315.255	146.731

**Remuneration of Executive members of the Board**

The salaries and other short-term benefits of the Executive members of the Board totalling €265K (2015: €265K) concern €163K (2015: €163K) for Mr. Andreas Theodorides and €102K (2015: €102K) for Mrs. Despo Polycarpou.

In accordance with the Remuneration policy of the Bank, the remuneration of the CEO is determined by the Board of Directors and the remuneration of any other Executive Directors is governed and determined by the Collective Agreement as applied to all other staff members of the Bank. No variable remuneration was determined for Executive members of the Board for the year 2016.

All Executive members of the Board of Directors receive the benefits determined by the collective Agreement, with the same terms applicable to all other staff members of the Bank. Note 6 of the audited financial statement for the year ended 31 December 2016, describes the main characteristics of the Staff Retirement Plan, provided in the Collective Agreement.

**Remuneration of Senior Management**

The Remuneration of the Senior Management, which includes the two Executive Directors and all Managers reporting directly to the Chief Executive Officer of the Bank, amounted in 2016 to €1.311.389 (2015 €1.360.036).

## **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 2016 are set out in Note 35 of the audited financial statements. It is certified that all the transactions are conducted in the normal course of the Bank's business, on an arms' length basis and with transparency.

## **6. Investor Relations**

All Members of the Bank are treated on an equal basis. The Bank, within the framework of providing the Members with timely information, announces its financial results.

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

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

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

**Board of Directors**

**USB BANK PLC**

31 May 2017