

INTERNAL AUDIT CHARTER

IDENTIFICATION

Title	Internal Audit Charter
Document Number	IA 2015.03.001
Revision Number	9
Classification	Internal Use
Applicability	Internal Audit staff members
Owner	Internal Audit Division
Reviewer(s)	Internal Audit Director
Approved by	Board of Directors, through the Group Audit Committee
Issuing Date	12/12/2024
Effective Date	12/12/2024
Related Policies and Circulars	-

Revision Table

Version	Approval Date	Initiator	Approver	Description / Changes
1.0	04/05/2015	Internal Audit	Group Audit Committee	Initial Write up
2.0	25/02/2016	Internal Audit	Group Audit Committee	Paragraphs 7 (last bullet point added), 9, 11
3.0	29/05/2017	Internal Audit	Group Audit Committee	Paragraphs 2, 3, 6, 8, 9, 13
4.0	26/03/2018	Internal Audit	Group Audit Committee	Paragraph 5



Version	Approval Date	Initiator	Approver	Description / Changes
5.0	27/03/2019	Internal Audit	Group Audit Committee	Paragraphs 7, 8
6.0	25/05/2020	Internal Audit	Group Audit Committee	Paragraphs 3, 5, 6, 7, 10
7.0	27/09/2021	Internal Audit	Group Audit Committee	Paragraph 9
8.0	25/09/2023	Internal Audit	Group Audit Committee	New Template and to align with other Control Functions
9.0	12/12/2024	Internal Audit	Board of Directors, through the Group Audit Committee	Alignment with Global Internal Audit Standards

TABLE OF CONTENTS

TABLE OF CONTENTS	3
1. INTRODUCTION	4
2. ABBREVIATIONS.....	4
3. INTERNAL AUDIT PURPOSE & SCOPE.....	4
4. MANDATE.....	5
5. CHANGES TO THE MANDATE AND CHARTER	6
6. IA ROLES AND RESPONSIBILITIES	7
7. ORGANISATIONAL STRUCTURE	8
8. RESPONSIBILITY, ROLE AND ACCOUNTABILITY OF THE IAD	8
9. COMMITMENT TO ADHERING TO THE STANDARDS.....	11
10. SUPPORT FROM EXTERNAL SERVICE PROVIDERS	12
11. COORDINATION WITH THE EXTERNAL AUDITORS	13
12. RELATION WITH OTHER CONTROL FUNCTIONS	13
13. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM	13
14. SCOPE AND TYPE OF INTERNAL AUDIT SERVICES	13
15. ERROS AND OMISSIONS	13

1. INTRODUCTION

Purpose and Scope:

The IA Charter is formed in accordance with the Global Internal Audit Standards (the “Standards”). The Charter complies also with the minimum requirements of the Central Bank of Cyprus Internal Governance of Credit Institutions Directive of 2021.

The purpose of the Charter is to define the standing, authority and responsibility of IA and of the IA Director of the Bank of Cyprus Group, as well as, their reporting lines, compliance with the Standards, relations with other control functions and coordination with the external auditors.

2. ABBREVIATIONS

Within this document, the following abbreviations are used:

Abbreviation	Definition
AC	Group Audit Committee
Bank	Bank of Cyprus Group
BoC	Bank of Cyprus Group
BoD, Board	Board of Directors
CBC	Central Bank of Cyprus
CEO	Chief Executive Officer
Charter	Internal Audit Charter
ECB	European Central Bank
IAD	Internal Audit Director
IA	Internal Audit Division
QAIP	Quality Assurance and Improvement Program
SLA	Service Level Agreement
Standards	Global Internal Audit Standards applicable 9 January 2025

3. INTERNAL AUDIT PURPOSE & SCOPE

The purpose of the IA is to strengthen the Bank’s ability to create, protect, and sustain value by providing the Board, AC and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The internal audit function enhances the Bank’s:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.

- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

The primary scope of IA is the examination and evaluation of the adequacy and effectiveness of BoC's system of internal controls, corporate governance and risk management processes.

4. MANDATE

Authority

The Board, through the AC, grants the internal audit function the mandate to provide the Board and senior management with objective assurance, advice, insight, and foresight.

The IA Division's authority is created by its direct reporting relationship to the Board, through the AC. Such authority allows for unrestricted access to the Board.

The Board, through the AC, authorizes the IA Division to:

- Have full and unconditional access to all functions records, information, files, personnel, data and physical properties of the institution including access to management information systems and records and the minutes of all consultative and decision-making bodies, pertinent to carrying out internal audit responsibilities.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the division's objectives.
- Obtain assistance from the necessary personnel of the Bank and other specialized services from within or outside the Bank (provided that a relevant Service Level Agreement (SLA) allows for such communication) to complete internal audit services.
- Examine any activity or entity of the following:
 - The Group, including other control functions;
 - The external service providers of the Bank, provided that a relevant SLA exists; and
 - The Bank of Cyprus Oncology Centre, provided that a relevant SLA exists.
- Attend and observe all or part of executive committee meetings and any other key management decision-making fora, thus enabling the IAD to better understand the strategy of the Group, key business issues and decisions and to adjust internal audit priorities, where appropriate.
- Freely express and report the IA's findings to the AC and the Board of Directors without the presence of executive members of the Board of Directors.

IA staff are not authorised to:

- Perform any operational duties for BoC.
- Initiate or approve transactions (financial or accounting).
- Direct the activities of any BoC staff not employed within the Internal Audit, except to the extent that such staff members have been appropriately assigned to the auditing team or to otherwise assist IA.

Independence

BoC has established the Three Lines of Defence model as a framework for effective risk management and control. In this model, management which is the first line, is responsible for managing risks. The second line (i.e. Compliance Division, Risk Management Division and the Information Security), is responsible for developing and maintaining an effective risk and compliance framework to support management in the delivery of its business and strategic objectives. Internal Audit, as the third line, provides independent assurance over the effectiveness of the risk management framework and governance.

Independence is interpreted as “the freedom from conditions that may impair the ability of the Internal Audit to carry out internal audit responsibilities in an unbiased manner”¹. In order to achieve independence, the following have been established:

- Organisational independence of IA from the activities assigned to be audited by the Internal Audit, to enable internal audit services and responsibilities to be performed without interference from management. This positioning provides the organizational authority and status to bring matters directly to senior management and escalate matters to the Board, through the AC, when necessary, without interference and supports the internal auditors’ ability to maintain objectivity.
- IAD confirms to the Board, through the AC, at least annually, the organizational independence of the Internal Audit division.
- Remuneration of internal auditors is not linked to the performance of the activities IA audits.
- IAD reports directly to the Audit Committee.
- IAD reports functionally to the Board of Directors through the Audit Committee, and administratively to the Chairman of the Audit Committee.
- IAD is authorised to have direct and unrestricted access to senior management and the Board of Directors, through the Audit Committee.
- Whenever practicable and without jeopardising the competence and expertise of IA, staff are periodically rotated within IA or from other units of the Bank, to ensure that an individual’s capacity for critical judgement is not called into question because of possible loss of objectivity from continuously performing similar tasks or routine jobs.

5. CHANGES TO THE MANDATE AND CHARTER

Circumstances may justify a follow-up discussion between the IAD, BoD, through the AC, and senior management on the internal audit mandate or other aspects of the internal audit charter. Such circumstances may include but are not limited to:

- A significant change in the Standards.
- A significant acquisition or reorganization within the organization.
- Significant changes in the IAD, Board, AC and/or senior management.

¹ Interpretation provided by Standard 7.1 Organizational Independence.

- Significant changes to the organization’s strategies, objectives, risk profile, or the environment in which the organization operates.
- New laws or regulations that may affect the nature and/or scope of internal audit services.

6. IA ROLES AND RESPONSIBILITIES

Internal Audit’s role includes periodic reporting to the Board, through the AC, on its purpose, authority, responsibility, and performance relative to its Internal Audit Plan. Furthermore, reporting includes significant risk exposures and control issues identified during the audits, including fraud risks, governance issues, cultural issues and other matters requested by the Board of Directors.

IA main responsibilities include, but are not limited to, the following:

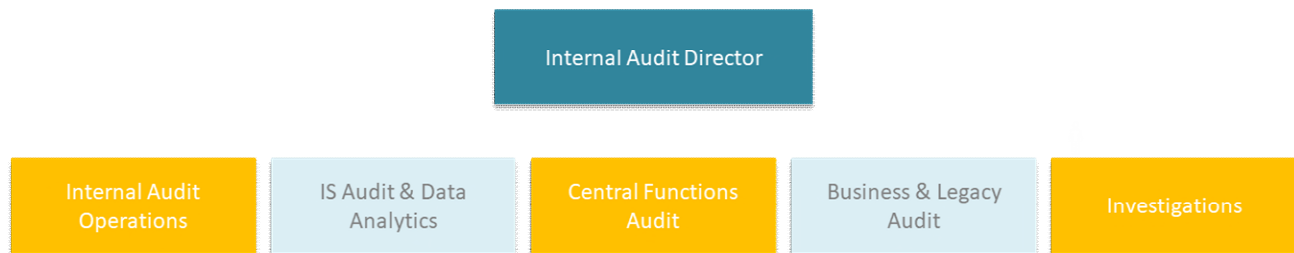
- Assessing the design and operational effectiveness of internal governance structures and processes of the Group.
- Appraising the means by which the Group manages and mitigates risks to preserve its assets, and seeks to prevent fraud, misappropriation or misapplication of assets.
- Assessing whether the risk appetite of the Group is established and reviewed through the active involvement of the Board and Executive management and whether this is embedded within the activities, limits and reporting of the Group.
- Evaluating the reliability, integrity and completeness of the accounting, financial reporting, management information and information technology systems.
- In relation to key corporate events (e.g. mergers and acquisitions, floating to another stock exchange, etc.), evaluating whether key risks are being adequately addressed and reported, as well as whether the information being used in such key corporate decision making is fair, balanced and reasonable and whether the related procedures and controls have been followed.
- Conducting investigations to examine and determine the veracity of allegations or suspicions of misconduct and/or fraud involving personnel as well as shareholders, consultants, vendors, contractors and/or any other parties with a business relationship with the Group. The results of the investigation are reported to the Audit Committee and/or other reporting lines, where applicable.
- Assess information received through the whistleblowing reporting channels and if deemed necessary to fully investigate and report to the Audit Committee and/or other reporting lines, where applicable.
- Leveraging data and analytics to provide additional value to the Group through meaningful insights and recommendations to enhance the internal control framework and also to assist in the optimisation of the Bank’s operating model and financial services offered (Operational Excellence).
- Assessing the risk and control culture of the Bank. In particular, assessing whether the processes, actions, tone at the top and observed behaviors across the Group, are in line with the espoused values, ethics, risk appetite and policies of the Group.
- Review and assess the organisational culture of the Group in order to ensure that it adequately supports its Strategy and Objectives, providing relevant feedback to the AC and executive management.

- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organization. Also evaluating specific operations at the request of the Board of Directors or Management, as appropriate.
- Providing feedback on risks and controls on new product / services / delivery channel of the Bank or on significant changes / modifications to existing products or services.
- Drafting policies and procedures in relation to the work of Internal Audit and duly receiving approval of the Board, through the AC, for these policies.

Oversight framework with subsidiaries

The framework under which IA exercises its oversight to the various subsidiaries (GI, Eurolife, CISCO, Jinius etc.), is governed by the various Bank policies and procedures in place and the established SLAs.

7. ORGANISATIONAL STRUCTURE



8. RESPONSIBILITY, ROLE AND ACCOUNTABILITY OF THE IAD

Responsibilities of the IAD are set out in accordance with the Standards and the CBC Internal Governance of Credit Institutions Directive.

The IAD is responsible for:

- At least annually, developing a risk-based Internal Audit Plan that considers the input of the AC, the Board and senior management.
- Discussing and submitting the plan to the Board, through the AC for review and approval.
- Communicating the impact of resource limitations on the Internal Audit Plan to the Board, through the AC and senior management.
- Reviewing and adjusting the Internal Audit Plan, as necessary, in response to changes in Bank's business, risks, operations, programs, systems, and controls.
- Communicating with the Board, through the AC, and senior management if there are significant interim changes to the Internal Audit Plan.
- Ensuring internal audit engagements are performed, documented, and communicated in accordance with the Standards.

- Identifying and considering trends and emerging issues that could impact BoC and communicate to the Board, through the AC, and senior management as appropriate.
- Ensuring that internal auditors conform with the Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Considering emerging trends and successful practices in internal auditing.
- Establishing and ensuring adherence to methodologies designed to guide the internal audit function.
- Ensuring adherence to BoC's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the Standards. Any such conflicts will be resolved or documented and communicated to the Board, through the AC and senior management.
- Coordinating activities with other internal and external providers of assurance and advisory services.
- Ensuring the independence of Internal Audit.
- Ensuring the internal audit function collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the Standards and fulfil the internal audit mandate. This is achieved through:
 - Acquiring human resources with sufficient qualifications and skills to ensure the competence of the Internal Audit to carry out its tasks and responsibilities.
 - Continually assessing and monitoring the skills necessary to carry out Internal Audit's duties to the required level.
 - Ensuring the appropriate ongoing training of Internal Audit staff in order to carry out the increasing diversity of tasks that need to be undertaken as a result of the introduction of new products and processes within the institution, changes in regulations or professional standards and other developments in the financial sector.
- Promptly informing the heads of other internal control functions for any findings relating to them.
- Submitting reports to the Board of Directors through the AC and attending the latter's meetings in order to present the said reports and provide additional information and/or clarification or assistance on managing the issues raised.
- Preserving continuous communication with the AC by informing its members about major areas of concern and seeking, where necessary, their approval for initiating special investigations.
- Preparing and delivering to newly appointed members of the Board of Directors, an induction seminar adequately covering the respective areas of responsibilities of the Internal Audit with references to the responsibilities of the Board of Directors and the requirements of the regulatory framework.
- Expressing an opinion on the selection as well as the fitness of the persons in charge of the respective internal audit functions of subsidiaries in Cyprus and abroad.
- Updating the Central Bank of Cyprus and European Central Bank on any significant findings or developments that come to his/her attention and which have material impact on BoC's risk profile.
- Holding meetings with the Central Bank of Cyprus and European Central Bank at least annually or at any other interval the Central Bank of Cyprus may require, in order to discuss the scope and coverage of the work of the Internal Audit, its risk analysis, findings and recommendations.

- Communicating with the Regulatory Authorities, following the approval of the AC, keeping also in mind all current laws and regulations.
- Establishing a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action. The results are communicated to the Board, through the AC, and senior management periodically.
- Leveraging data and analytics to enhance the ability of the Internal Audit Department to meet its strategic objectives.

Communication with the Board and Senior Management

The IAD will report at least annually to the Board of Directors, through the AC, and senior management regarding:

- The internal audit function's mandate.
- The Internal Audit Plan and performance relative to its plan.
- Internal audit budget.
- Significant revisions to the Internal Audit Plan and budget.
- Potential impairments to independence, including relevant disclosures as applicable.
- Results from the quality assurance and improvement program, which include the internal audit function's conformance with the Standards and action plans to address the internal audit function's deficiencies and opportunities for improvement.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the board.
- Results of assurance and advisory services.
- Resource requirements.
- Management's responses to risk that the internal audit function determines may be unacceptable or acceptance of a risk that is beyond Bank's risk appetite.

IA Director Reporting Lines:

The IAD reports to the Board of Directors of the Bank, through its AC, on a regular basis. To establish, maintain, and ensure that Bank's Internal Audit function has sufficient authority to fulfil its duties, the Board, through the AC, will:

- Discuss with the IAD and senior management the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the internal audit function.
- Ensure the IAD has unrestricted access to and communicates and interacts directly with the AC and Board, including in private meetings without senior management present.
- Review the internal audit charter annually with the IAD to consider changes affecting the organization, such as the employment of a new IAD or changes in the type, severity, and interdependencies of risks to the organization; and approve the internal audit charter annually.

- Approval of the Internal audit function’s mandate.
- Approval of the risk-based Audit Plan of the Internal Audit.
- Approval of the budgets and expenses of the Internal Audit.
- Approval of the internal audit function’s resources.
- Authorize the appointment and removal of the IAD.
- Approval of the remuneration of the IAD.
- Appraisal of the IAD.
- Assessment of the adequacy and effectiveness of internal control and information systems, based on reports from the Internal Audit.
- Assessment of the independence of Internal Audit.
- Receive communications in relation to the progress of the Internal Audit Plan.
- Recommend for approval to the Board significant revisions to the Internal Audit Plan and budget.
- Recommend for approval by the Board of all IA policies which provide the nature, extent and timing of the work undertaken by IA.
- Ensure a quality assurance and improvement program has been established and review the results annually.
- Exercises oversight that senior management takes the necessary corrective actions in a timely manner to address control weaknesses, non-compliance with policies, laws and regulations and other weaknesses identified by Internal or External Audit or any other internal or external body.

Furthermore, the IAD submits to the Board of Directors, the AC, the European Central Bank and the Central Bank of Cyprus an annual report on the internal control framework of the Bank.

9. COMMITMENT TO ADHERING TO THE STANDARDS

IA will adhere to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, which are the Standards and Topical Requirements. These Standards provide a framework for performing and promoting a broad range of value-added internal auditing.

The IAD will report periodically to the Board, AC and senior management regarding IA’s conformance with the Standards, which will be assessed through a quality assurance and improvement program.

The principles which relate to Ethics and Professionalism are covered through a separate document, the Internal Code of Ethics.

10. SUPPORT FROM EXTERNAL SERVICE PROVIDERS

An external service provider may be engaged by the Board of Directors, Senior Management or the IAD.

Based on the Glossary of the Standards, an external service provider is defined as a “*resource from outside the organization that provides relevant knowledge, skills, experience, and/or tools to support internal audit services*”.

IA will seek to obtain competent advice and assistance from external service providers in the following cases:

- Lack of knowledge, skills or other competencies needed to perform all or part of the engagement.
- Time and/or resource constraints in executing the approved Internal Audit Plan.
- Time and/or resource constraints in performing non-scheduled engagements, such as fraud/misconduct investigations.

When the IAD intends to use and rely on the work of an external service provider, the following needs to be considered as it relates to the particular assignment to be performed:

- Competence of the external service provider. This depends on the qualifications, appropriate professional experience, reputation for competency and integrity in the sector.
- Independence and objectivity of the external service provider. This depends on whether there are any financial, organizational, or personal relationships that will prevent the external service provider from rendering impartial and unbiased judgments and opinions when performing or reporting on the engagement.
- Adequacy of scope of work, including deliverables, methods/techniques and time frames.
- Ownership and custody of engagement working papers.
- Confidentiality and restrictions on information obtained during the engagement.
- Adequacy of work performed, considering the sufficiency of information obtained to afford a reasonable basis for the conclusions reached and ensuring that the work of the external service provider is appropriately planned, supervised, documented, and reviewed. Based on this assessment, additional work or test procedures may be needed to gain appropriate and sufficient audit evidence.

Each time IA will seek the services of external providers, the established procedure must be followed in relation to whether these services constitute outsourcing or not, as well as the expert opinions of Bank’s Group Outsourcing Officer and Group Legal when deemed appropriate.

If such services are defined as Outsourcing, as per CBC Governance Directive, the established Bank’s Outsourcing Policy must be again adhered to in order to verify whether it is considered ‘Critical’ or ‘Not Critical’; upon which the Bank’s relative internal procedures will be followed, in adherence to the CBC Directive.

11. COORDINATION WITH THE EXTERNAL AUDITORS

The IAD can add value to shareholders by coordinating with the external auditor. The combined different strengths of internal and external auditors increase the effectiveness and efficiency of audits by minimising duplication of audit effort, through sharing information of perceived risk areas. As a result, communication and coordination between the IAD and external auditors on matters of mutual interest raise the possibilities of fraud detection and increase trust between them.

The scope of coordination between the IAD and external auditors encompasses, without being limited to, the consideration by the IAD of the external auditor's Management Letter findings and deviations when setting the priorities of the Internal Audit Plan, as well as, ensuring that relevant follow-up and corrective actions have been taken by the responsible divisions.

The IAD will proactively communicate throughout the year and engage with the external auditor on a regular basis through formal meetings as well as informal discussions.

12. RELATION WITH OTHER CONTROL FUNCTIONS

Relation with other control functions is defined under the Bank's Control Functions Common Operational Framework.

13. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

IA will develop, implement, and maintain a Quality Assurance and Improvement Program that covers all aspects of its activities. The program will include external and internal assessments of the IA function's conformance with the Standards, as well as performance measurement to assess the IA function's progress toward the achievement of its objectives and promotion of continuous improvement. The program will also assess compliance with the laws and/or regulations relevant to internal auditing. Also, the assessment will include plans to address the internal audit function's deficiencies and opportunities for improvement.

The IAD is responsible for providing periodically a self-assessment on IA activity as regards its consistency with the Charter (purpose, authority, responsibility) and performance in relation to the completion of its Internal Audit Plan.

The IAD will communicate to the Board of Directors, through the AC and senior management on an annual basis the IA's QAIP, including results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External Assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Bank; qualifications must include at least one assessor holding an active Certified Internal Auditor credential.

14. SCOPE AND TYPES OF INTERNAL AUDIT SERVICES

The scope of internal audit services covers the entire breadth of the organization, including all Bank's activities, assets, and personnel. The scope of internal audit activities also encompasses, but is not limited to, objective examinations of evidence to provide independent assurance and advisory services to the board and management on the adequacy and effectiveness of governance, risk management, and control processes for the Bank.

The types of IA services provided are outlined in the Internal Audit Activities Policy.

15. ERRORS AND OMISSIONS

According to Standard 11.4 Errors and Omissions, "if a final engagement communication contains a significant error or omission, the chief audit executive must communicate corrected information promptly to all parties who received the original communication. Significance is determined according to criteria agreed upon with the board."

In case where a significant error or omission is identified after the issuance of the final report, the matter is immediately communicated to the IAD. The final report is amended communicated to all parties who received the original communication. When deemed necessary, the initial audit report is retracted from all recipients via email communication by the IAD and a revised final audit report is communicated at a later stage.

The criteria of significant errors or omissions are defined as errors or omissions which may:

- Result in instances of non-compliance with laws and regulations.
- Cause potential reputational damage to the organization.
- Be a result of fraud or unethical behavior.
- Affect strategic decisions.