



BOARD RISK COMMITTEE TERMS OF REFERENCE

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A. AUTHORITY

1. The Board Risk Committee ("**the Committee**") is a Committee of the Board of Directors ("**the Board**") of the Bank of Cyprus Holdings Plc ("**the Company**") from which it obtains its authority and to which it regularly reports.
2. The Committee has been delegated authority by the Board in respect of the functions and powers in these Terms of Reference.
3. The Committee is concerned with the business of the Company, its business units and subsidiaries (the Company and its subsidiaries being "the Group") and accordingly its authority extends to all relevant matters relating to the Group.
4. The Committee has authority to investigate any matters within its responsibilities and to obtain such information as it may require from any director, officer or employee of the Group.
5. The Committee has authority to obtain independent advice and information from external parties, as long as the commitment and obligations it incurs on behalf of the Group are reasonable and within the Terms of Reference of the Committee. The Chairperson's limit in this respect is limited to approval of all sorts of expenditure up to a maximum of €20.000 and he/she is required to inform the Committee at the next meeting.
6. For other risk- related engagements the Chairperson of the Committee is authorised to provide preliminary approval up to €150.000 with the requirement that upon such approval all Committee members are notified (through an e-mail) and they provide their positive confirmation.
7. The Committee reviews annually the Terms of Reference and recommends necessary changes to the Board.
8. Although the Board has delegated authority to the Committee as referred to above (including such matters that may be considered and reviewed independently from the executive Directors), the Board as a whole retains ultimate responsibility for the risk management of the Company (including the assessment of applicable risks and setting the Company's risk appetite) and it should reach its own conclusions regarding the reports and recommendations it receives.

B. ROLE OF THE COMMITTEE

The main purpose of the Committee is to review, on behalf of the Board, the aggregate Risk Profile of the Group, including performance against Risk Appetite for all risk types and ensure both Risk Profile and Risk Appetite remain appropriate. Specifically it will:

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- Identify, assess, control and monitor financial / economic risks and non-financial risks (including operational, technological, tax, legal, reputational and compliance risks) which the Group faces in cooperation with the responsible Board Committees;
 - Consider and recommend to the Board the Group's overall Risk Appetite;
 - Review on behalf of the Board the aggregated Risk Profile for the Group and performance against Risk Appetite;
 - Identify the potential impact of key issues and themes that may affect the Risk Profile of the Group;
 - Ensure that the Group's overall Risk Profile and Risk Appetite remain appropriate given the evolving external environment, any key issues and themes impacting the Group and the internal control environment;
 - Seek to identify and assess future potential risks which, by virtue of their uncertainty, of low probability and unfamiliarity may not have been factored adequately into review by other Board Committees; and
 - Ensure effective and on-going monitoring and review of the Group's management or mitigation of risk, including the Group's control processes, training and culture, information and communication systems and processes for monitoring and reviewing their continuing effectiveness;

C. COMMITTEE COMPOSITION

1. The Committee has a minimum of 3 members. The Committee must consist entirely of non-executive Directors of whom at least the majority must be independent non-executive Directors.
2. The Committee should consist of Directors who possess adequate knowledge, skills and expertise to fully understand and monitor the risk strategy and the risk appetite of the Group.
3. The composition of the Committee must be communicated to the Central Bank of Cyprus within one (1) month of their set up or of change of composition.
4. The Board appoints the members of the Committee annually on the recommendation of the Nomination & Corporate Governance Committee in consultation with the Chairperson of the Committee.
5. The Board appoints a Chairperson of the Committee.
6. The Company Secretary or his/her nominee acts as secretary to the Committee.
7. The Committee shall be provided with sufficient resources to effectively undertake its duties.

D. COMMITTEE MEETINGS

1. The Committee holds regular meetings, at least 4 per year and additionally, ad hoc meetings whenever called by the Chairperson of the Committee.
2. Notice of meetings together with the agenda and support material of the items to be discussed shall be forwarded to each member of the Committee or any other person required or invited to attend no later than 5 working days before the date of the meeting.
3. The Chairperson of the Committee (using the services of the Company Secretary to the extent necessary and appropriate) ensures that:
 - (a) the Agenda appropriately addresses the issues that require the Committee's attention;
 - (b) the Committee members are provided with information in a timely manner in order to effectively consider and decide on the agenda issues and to keep the Committee focused on its primary oversight responsibilities; and
 - (c) the Committee is proactive in setting its agenda.
4. The Company Secretary or his/her nominee shall record and maintain detailed minutes of the meetings of the Committee, including noting the names of those present and in attendance. Draft minutes must be finalised no later than fifteen (15) business days following the meeting, formally approved at the next meeting, and at the same time be submitted to the Board and to the Central Bank of Cyprus within one (1) month from the meeting date.
5. The quorum for a meeting is 2 members or 50% rounded up, whichever is the highest.
6. Questions arising at any meeting shall be decided by a majority of votes. In case of an equality of votes the Chairperson shall have a second or casting vote.
7. The Board's directions for minimum annual attendance requirements for Committees of the Board require Committee members to participate in at least $\frac{3}{4}$ of all meetings (regular and extraordinary) and that any continuous absences not to exceed 2 in number.
8. Attendees:
 - a) Regular Attendee of the Committee is the Group Chief Risk Officer. Based on the nature of their duties as Heads of Internal Control Functions, the other two Heads of Group Compliance and Internal Audit are also considered as regular attendees but shall attend only if a topic related to their function is discussed and they have been invited by the Committee's Chairperson.
 - b) (b) By invitation of the Committee Any Director, officer or employee of the Group and external auditors

No person other than a member of the Committee is entitled to attend meetings of the Committee, unless invited by the Committee.

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9. The Chairperson of the Committee is entitled to invite other Directors that are not members of the Committee, members of the management of the Group or external parties to participate in a meeting, in order to advise or inform the Committee on the issues discussed at the meeting. Any such persons are present only during the discussion of the specific items and leave the meeting room immediately after, without any participation in the decision making processes.
 10. The Risk Committee should meet periodically with the Audit and other risk-relevant Committees to ensure effective exchange of information and effective coverage of all risks, including emerging risks and any needed adjustments to the risk governance framework of the Group in the light of its business plans and the external environment.
 11. Each member /attendee is personally responsible / liable to declare any conflicts of interest and abstain from the meeting during which the conflicted issue is under discussion. The Secretary of the Committee maintains a relevant section in the Committee minutes and is also responsible for creating and maintaining a Conflicts of Interest Register as per the provisions of the Group Conflicts of Interest Policy (*Appendix 15*) and the Board Manual process (*Section G of the Board Manual*) for dealing with conflicts of interest.
 12. The Secretary of the Committee, under the overall responsibility and supervision of the Chairperson of the Committee shall ensure that training is provided to members of the Committee on an induction, ongoing and timely basis. The induction programme shall cover the role of the Committee (including its terms of reference and expected time commitment of its members) and an overview of the Company's business model and strategy (identifying the main business dynamics and risks).
 13. The Committee shall have access to the services of the Company Secretary, who has the responsibility of ensuring that the Committee receives information and papers in a timely manner.
 14. The Committee shall annually establish a schedule of major topics to be discussed during the year.

E. RESPONSIBILITIES

1. Risk Appetite and Strategy

- Review management proposals on the desired risk strategy both at individual company as well as at Group level, i.e., the risk appetite/exposure, in each area of risk (market, liquidity, credit, equity, regulatory, information security, operational and capital resources) and make appropriate recommendations to the Board.
- Evaluate and report to the Board on the Group's overall current and future risk appetite and strategy, taking into account the financial and risk profile of the institution and the capacity of the Group to manage and control risk.

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- Determine the nature, the amount, the format, and the frequency of the information on risk that the Committee desires to receive on the risk situation of the Group and of each type of risk and business unit in order to properly carry out its roles to review, monitor and provide assurance or recommendations to the Board in its areas of responsibility and when there are gaps, how they are to be addressed.
 - Approve metrics or a process to satisfy the Committee that the risk reports and information the Committee receives are accurate, comprehensive, sufficient, objective and depict an appropriate view of the institution's risk profile.
 - Ensure that risk parameters and risk models developed and used to quantify risk exposures are subject to periodic independent validation.
 - Evaluate the Group's governance, risk and control framework and oversee its integration with the Bank's decision making process, covering the whole spectrum of the Bank's activities and units as well as subsidiaries.
 - Assist the Board in setting the Company's risk culture, communicating it to management, incentivising the desired behaviour and sanctioning inappropriate behaviour and assessing whether the desired culture has become embedded at all levels within the Group.
 - Submit to the Board proposals and recommendations for corrective action whenever weaknesses are identified in implementing the risk strategy.
 - Review and propose to the Board approval limits in each risk area that comply with the overall risk strategy of the Group.
 - Regularly monitor and ensure compliance of the Group with the adopted risk strategy by reviewing reports prepared by the Group Risk Management Division, and any other information the Committee considers necessary and make recommendations to and inform the Board on the significant risks to which the Bank is exposed.
 - Examine whether incentives provided by the remuneration system take adequately into consideration risk, capital, liquidity and the likelihood and timing of earnings without prejudice to the tasks of the HRRC.
 - Examine management reports concerning changes anticipated in the economic and business environment, or major internal changes, or new and emerging risks (in markets in which the Group operates), and the extent to which they affect the Group's risk profile and appetite, and make appropriate recommendations to the Board.
 - Examine high-risk transactions and make recommendations to the Board.
 - Examine the adequacy and effectiveness of the contingency and insurance strategy of the Group, and make appropriate recommendations to the Board.
 - Review the composition, authorities, duties and responsibilities and effectiveness of other Risk Committees, where such Committees are appointed, that function within the Group and make recommendations to the respective Country Board for rectification.

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- Assist the Board in overseeing the effective implementation of the risk strategy by senior management, including the development of mechanisms to ensure material exposures that are close to, or exceed approved risk limits are managed and where necessary, mitigated in an effective and timely manner and the identification and escalation of breaches in risk limits and of material risk exposures in a timely manner.
 - Review whether prices of liabilities and assets offered to clients take fully into account the Group's business model and risk strategy. Where prices do not properly reflect risks in accordance with the business model and risk strategy, the Risk Committee shall present a remedy plan to the Board.
 - Assess and monitor the independence, adequacy and effectiveness of the Group Risk Management Division and the Information Security function.
 - Review and recommend to the Board for approval the Annual Risk Report.
 - Review and recommend to the Board for approval the Annual Information Security Risk Report.
 - Review and approve the Annual Compliance Matrix Report.
 - Advise the Board, drawing on the work of the Audit Committee, the Group Risk Management Division, Information Security function and external auditors, on the adequacy and effectiveness of the Risk Management and Information Security Framework.
 - Advise the Board, drawing on the work of the Audit Committee, the Group Risk Management Division, Information Security function and external auditors, on the adequacy and robustness of information and communication systems to enable identification, measurement, assessment and reporting of risk in a timely and accurate manner and ensure the adequate protection of the institution's confidential and proprietary information.
 - Review and approve the Group's corporate social responsibility strategy and associated policies, including policies on charitable donations, citizenship and environment.
 - The Committee is responsible for the oversight of the whole Group but may delegate tasks to subsidiary risk committees to avoid duplication.

2. *Risk Policies and Systems*

- Determine the principles that should govern the management of risks, through the establishment of appropriate Risk Policies.
- Approve all such risk policies.
- Advise the Board, drawing on the work of the Audit Committee, the Group Chief Risk Officer and external auditors, on the adequacy and effectiveness of risk management policies, processes, systems and controls of the Group, including the appropriateness of limits, the adequacy of provisions and in general, the adequacy of capital resources in relation to the level of undertaken risks with respect to maintaining on an ongoing basis, amounts, types and distribution of both the internal capital and own funds adequate to cover the risks to the institution.
- Monitor and ensure compliance of the Group with risk management policies, and regulatory requirements and make appropriate recommendations to the Board.
- Review, evaluate and make any relevant recommendations to the Board on the Internal Capital Adequacy Assessment Process (ICAAP) report which aims to assess all important risks undertaken by the Group and determine capital requirements of the Group. Ensure that the risk profile of the Group is in line with the risk appetite and capital planning approved by the Board.
- Review, evaluate and make relevant recommendations to the Board on the Internal Liquidity Adequacy Assessment Process (ILAAP) report which aims to assess all risk to the liquidity of the Group and ensures that the risk profile of the Group is in line with the liquidity adequacy of the Group and its strategic plans.
- Ensure that the Other Systemically Important Institutions (O-SII) buffer is maintained within the limits set by the Central Bank on an individual and consolidated basis and which consists of and is supplementary to Common Equity Tier 1 Capital (CET1).
- Ensure that stress tests and related procedures are carried out as appropriate on all major risks, at least on an annual basis and where necessary, challenge the appropriateness of limits and adequacy of capital and budgets.
- Review and recommend for approval to the Board the Group Recovery Plan and any revisions thereof.
- Review and recommend to the Board for approval changes to limits (e.g. Value at Risk, stop loss and position limits for FX, the Interest Rate Risk in the Banking Book (IRRBB) etc).
- Oversee the SRT (Significant Risk Transfer) framework and monitor compliance with the SRT Policy.
- Review SRT transactions and make recommendations to the Board for approval.

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- Assess stress situations escalated by the ExCo through the review and assessment of the recovery and early warning indicators and decide whether to escalate further to the Board with a recommendation to declare a 'Recovery Emergency Situation' and perform an assessment of the Recovery Options.
 - Recommend to the Board to assign responsibility to the Crisis Management and Response Committee (CMRC) for the implementation of the Recovery Plan.
 - Review and approve the budgets of the Group Risk Management Division and Information Security function, ensuring that they are sufficiently flexible to adapt to variations in response to developments.
 - Carry out the annual appraisals of the Group Chief Risk Officer and the Head of Information Security function and submit them to the Board.
 - Make recommendations to the Board regarding the appointment or removal of the Head of the Information Security function.
 - Make recommendations to the Board regarding the appointment, replacement or dismissal of the Group Chief Risk Officer.
 - Express the Risk Committee's opinion on the choice and the suitability of managers of divisional/country risk management units and assess the performance of these units.
 - Obtain adequate assurance that:
 - the Senior Executive Management fully comprehends and applies the acceptable risk taking levels, as defined by the Board,
 - all employees comprehend and apply the risk taking and risk management policy and
 - excessive risk-taking is not encouraged.
 - Ensure that communication by the Group Risk Management Division, the Group Compliance Division and the Information Security Function is adequately documented.
 - Review the Reputational Risk Policy and the processes put in place to implement it.
 - Conduct a self assessment and report to the Board the Risk Committee's conclusions and recommendations for improvements and changes.

3. *Approval of Loans and Limits*

The Board has delegated to the Committee the following authorization levels:

- **Facilities from €100 million up to €200 million** - to be discussed and approved by the Committee. Approval by simple majority of members is required and once this is given, it is considered final. No need to escalate these cases to the Board. In case that the approval is by majority vote, then any member of the Risk Committee has the right to escalate the case to the full Board.

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- **Facilities above €200 million** – the Committee should provide its opinion and escalate such cases to the Board for decision.
 - Any other cases, which are below €100 million, but Management is in doubt as to whether they should be approved or not, can be submitted to the Committee for ratification.
 - Urgent cases above €100 million approved by Credit Committee 3 can be submitted to the Risk Committee or the Board of Directors (according to limit amount) for ratification.
 - Write-off limits (Recoveries and Active accounts) between €10million and €20million
 - Approval of ad-hoc limit requests for Treasury transactions, asset possession, and write-off limits with maximum deviation of 20% from Board approved limits - this is subject to an annual review of such limits that will need to be recommended to the Board for final approval.
 - A summary of all material approvals (restructurings, large exposures etc) over €100 million is to be presented to the Board for its information.

4. *Communication and Reporting*

- Ensure adequate coordination/communication exists between the Board and the management on risk management issues.
- Formulate the Annual Risk Committee Report included in the Annual Corporate Governance Report of the Group, which should include the following:
 - Confirmation that the Risk Committee has carried out a robust assessment of the principal risks and uncertainties facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
 - An explanation of these risks and how the Group has managed and mitigated such risks during the period.
 - An assessment of the adequacy and effectiveness of the Group's risk management and internal control systems during the previous year.
 - An assessment of the appropriateness of limits of risks and the adequacy of provisions and capital.
 - An indication of the Committee's membership, the number of its meetings and attendance over the year and its main activities.
- Examine and approve the circumstances under which the Chairperson of the Committee can communicate directly with the main shareholders.
- Inform the Board of its decisions by submitting to it copies of meeting minutes.

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- Respond, through the Chairperson of the Committee, to shareholder questions regarding Group risk management issues at the Annual General Meeting.
 - Report to the Board regularly and at least quarterly on how the Committee discharges its responsibilities and on the nature and content of discussion at Committee meetings, recommendations and actions to take.
 - The Group Chief Risk Officer will meet regularly with the Chairperson of the Committee and will have the right and responsibility to elevate issues to the Chairperson where he/she considers it necessary in the furtherance of his/her responsibilities.
 - The Chairperson of the Committee shall arrange to hold an annual conference call with all chairpersons of subsidiary Audit & Risk Committees and shall report to the Board any concerns.
 - Annually obtain and review the report on risk committee performance of each major subsidiary and take appropriate action.
 - Ensure that the Committee's terms of reference are available on the Company's official website.

5. *Regulatory Framework*

As per *Section R of the Board Manual*

F. DELEGATION OF AUTHORITIES BY THE MAIN BODY OF THE BOARD OF DIRECTORS

The following matters are delegated by the Main Body of the Board of Directors to the RC:

- Approval of all Group Risk Management Policies (including Information Security Policies)
- Approval of the policy governing charitable and political donations

The RC Chairperson will be responsible for presenting in summary to the Main Body of the Board the various decisions taken on matters delegated to the Risk Committee by the Board.

Any such delegation is without prejudice to the responsibility of the Board as a whole for all risk assessment, appetite and management issues.