

**BOARD HUMAN RESOURCES &
REMUNERATION COMMITTEE
TERMS OF REFERENCE**

October 2018

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A. AUTHORITY

1. The Board Human Resources and Remuneration 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 obliged to inform the Committee at the next meeting.
6. The Committee reviews the Terms of Reference on an annual basis and recommends necessary adjustments to the Board.

B. ROLE OF THE COMMITTEE

The role of the Committee is:

1. To ensure that the Company and all of its subsidiaries (together, “**the Group**”) is equipped with the Human Capital (relevant competencies) necessary for the achievement of its strategic goals, whose rewards will be based on personal performance and Group results.
2. To ensure that the Group is equipped with the Organisational Capital (Values, Engagement, Alignment, Leadership) to be able to effect continuous improvement.
3. To ensure that the Group is equipped with the Information Capital and the technology necessary to facilitate process improvements that will create a comparative advantage in the market.
4. To consider, agree and recommend to the Board the over-arching principles and parameters of Compensation & Benefits policies across the Group and to exercise oversight for such issues.
5. Within the over-arching principles and parameters recommended by the Committee and approved by the Board as referred to above, to consider and set the remuneration

arrangements of the executive directors of the Company, Senior Management and the employee compensation policy, bearing in mind the EBA Guidelines on remuneration policies and practices of 2015, the Directive for the Governance and Management Arrangements issued by the Central Bank of Cyprus, the UK Corporate Governance Code and any other applicable statutory or regulatory requirements.

C. COMMITTEE COMPOSITION

1. The Committee has a minimum of 3 members. The Committee must consist entirely of independent non-executive Directors. At least one member of the Committee should possess appropriate knowledge and expertise on HR and remuneration issues. The Chairperson of the Board may also serve on the Committee as an additional member if he/she was considered independent on appointment as Chairperson.
2. 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.
3. The Board appoints the members of the Committee annually on the recommendation of the Nomination & Corporate Governance Committee in consultation with the Committee Chairperson.
4. The Board appoints a Chairperson of the Committee.
5. The Company Secretary or his/her nominee acts as a secretary to the Committee.
6. The Committee shall be provided with sufficient resources to effectively undertake its duties.

D. COMMITTEE MEETINGS

1. The Committee holds at least six meetings per year and, additionally, ad hoc meetings, whenever called by the Chairperson, or any two members, 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, 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.

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 3/4 of all meetings (regular and extraordinary) and that any continuous absences not to exceed 2 in number.

8. Attendees:

Regular Attendees: Director of Human Resources (withdrawing if required to do so by the Chairperson of the Committee)

Right to attend: Chairperson (but not as Chairperson of the Committee) and Vice Chairpersons of the Board
All independent non-executive Directors

By invitation of the Committee: Any officer or employee of the Group or any external parties (in order to advise or inform the Committee on the issues discussed).

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

9. No-person should play any part in decisions on his/her own remuneration. Remuneration for non-executive directors will be set by the Board.
10. 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 participations in the decision making processes
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 and the Board Manual process 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

6. *Compensation & Benefits*

- Pursuant to a process which is formal and transparent, consider, agree, recommend to the Board and keep under review an overall remuneration policy for the Group (the “**Group Remuneration Policy**”) on an annual basis which:
 - applies to all Executive Directors, Senior Management and other staff across the Group;
 - aligns remuneration with job value, individual performance and potential;
 - takes into account market conditions;
 - is aligned with the Group’s long term business strategy and objectives, its values and its long-term interests;
 - is in line with the Remuneration Framework as this is described in the Central Bank of Cyprus Directive on Governance and Management Arrangements; and
 - is aligned with the Group’s capital and liquidity availability, the interests of its shareholders, does not encourage excessive risk taking and ensures an appropriate balance between fixed and performance-related remuneration, immediate and deferred remuneration.

For the purposes of discharging its responsibilities as set out in E1 above, the Committee shall:

- Give careful consideration to the compensation commitments of the Group in the situation of early termination, with the aim of requiring Executive Directors to mitigate for their loss and avoiding the Group making payments for poor performance.
- Fix compensation for loss of office so that it does not exceed one year’s salary.
- Aim for a maximum notice period for termination of one year; any initial longer periods in relation to external recruits should reduce to one year or less after the initial longer period.
- Ensure that the quantum of remuneration for Executive Directors is appropriate, reflects their role and responsibility and is no more than is necessary.

- Aim for simplicity rather than complexity and minimise the scope for flexibility and the exercise of discretion.
 - Use bench-marking against comparative companies with caution, with a view to avoiding an increase in remuneration levels with no corresponding improvement in corporate and individual performance.
 - Seek to avoid: over-frequent benchmarking; increases in base pay in excess of inflation or as awarded to the rest of the Group's employees; and ex-gratia and other non-contractual payments.
 - Ensure that performance-related elements of Executive Directors' remuneration are transparent, stretching, rigorously applied and linked to the attainment of the Company's strategy and long-term value-creation and otherwise in line with Schedule A of the UK Corporate Governance Code.
 - Seek to recognise and manage conflicts of interest when receiving views from executive Directors or senior management, or consulting the Chief Executive Officer about its proposals.
 - Seek to ensure that Executive Directors' annual salary increases are not out of line with general increases across the Group.
 - Ensure the Company is able to recover sums paid, or to withhold the payment of any sum, and specify the circumstances under which it is appropriate to do so.
 - Review the Non-Salary Benefits & Allowances Policy and forward to the Board for approval.
 - Ensure that staff members who are involved in the design, review and implementation of the Group Remuneration Policy and Practices have relevant expertise and are capable of forming independent judgment on the suitability of the Group Remuneration Policy and Practices, including their suitability for risk management.
 - Review the operation and effectiveness of the Group Remuneration Policy on an annual basis and report back to the Board on the findings of such review.
 - Review a number of possible scenarios to test how the remuneration policy will react to future external and internal events and back test it as well.
 - When using the services of a consultant to obtain information on market standards for remuneration systems, ensure that this consultant is not also giving advice to the Human Resources Division or the Executive Directors of the Company
- Propose fees payable to the Chairperson and Vice Chairpersons to the Board for approval.
- **Executive Members of Group BoD:** Within the terms of the Group Remuneration Policy, review and approve their remuneration packages vis-à-vis their performance. In relation to new appointments make appropriate recommendations to the Board.

- Recommend and monitor the level and structure of remuneration for Senior Management and other key personnel whose total annual fixed remuneration exceeds €120K as per the below:
 - **All Divisional Directors that report to the CEO or D-CEO, General Managers of major subsidiaries (Eurolife, GIC) and other employees whose total annual remuneration exceeds €120K:** Within the Group Remuneration Policy and the recommended level and structure of remuneration for Senior Management, review and approve their remuneration packages (incl. salary, pension policy additional to any possible membership of the Provident Fund, option plans and other types of compensation), recommended by the CEO or D-CEO.
 - **Divisional Directors and other staff that report to Board Committees (Risk, Internal Audit, Compliance):** Within the Group Remuneration Policy and the recommended level and structure of remuneration for Senior Management, review and approve their remuneration packages, recommended by the Chairpersons of Risk and Audit Committees respectively (in consultation with Group CEO and Group HR).
 - **Country CEOs:** Within the Group Remuneration Policy and the recommended level and structure of remuneration for Senior Management, review and approve their remuneration (jointly with the Country Board Remuneration Committee), recommended by the Chairperson of the Country Board.
- Hold briefings by HRD of the Bank's reviewed Grading structure, as approved by ExCo.
- Approve the Bank's Pay structure, upon recommendation by the CEO.
- Approve major changes in the main company pension schemes and any changes in trustees.
- Ensure compliance with the Group Remuneration Policy.

7. Training

- Review the annual training plan, as presented by HRD and approved by Group CEO and ensure that it creates and/or develops the right competencies and behaviours that are necessary for meeting the Bank's strategic priorities. These are:
 - Customer Service & Engagement
 - Deposit gathering/Retention
 - Quality of Advances/Collections
 - Risk Management
 - Compliance Culture and responsibilities/obligations
 - Modernized Management Practices and
 - Any other important training need that may arise

8. *Performance Appraisal, Development and Succession*

- Review the annual performance appraisals of Senior Management (except Heads of Internal Control Functions), performed by the Group CEO.
- Review succession planning for Identified staff on an annual basis, as presented by the Group CEO (April each year).
- Review the Bank's annual performance appraisal results and main findings on an annual basis (April each year), as presented by HRD.
- Review the annual HVE Report, as presented by HRD.
- Review on a quarterly basis the report pertaining to Underperformers, as presented by HRD.

9. *HR Best Practices*

- Ensure that all people who lead people are familiar with Best H.R. practices and contribute towards the achievement of high levels of engagement and the attainment of high morale and also ensure that everybody is a firm believer in **change**.
- Ensure the application and systematic reporting of the Bank's KBIs and KPIs, in relation to strategic goals.
- Review the results of the annual Staff Engagement Survey, Management Practices Survey, 360 and other HR initiatives, as presented by HRD.
- Review and approve material changes to the Group's management and control (organisational) structure.
- Review any voluntary retirement / separation schemes for material subsidiaries in cooperation with the Group HR Division (through Group CEO) and forward to BoD for approval.
- Monitor compliance with the Code of Conduct and review disciplinary controls and measures of the Group, as presented by HRD on an annual basis.
- Monitor the resources, qualifications, scope and effectiveness of the Human Resources Division, and make appropriate recommendations to the Board.
- Is informed of the outcome of the annual review of the Group Anti-Bribery Policy together with recommendations for revision, as presented by Director Group Compliance and submitted (by Director Group Compliance) to the AC for approval.

10. Personnel Management Best Practices

- Oversee compliance with the Bank's personnel practices and processes relating to all steps of the HR pipeline, as indicated below:
 - Attraction
 - Recruitment
 - Induction
 - Development
 - HVE Identification
 - Retention
 - Succession Planning
 - Under-performer management
- Review and approve appointments, transfers and dismissals of Senior Management (except the CEO and Heads of Internal Control Functions – Group Internal Audit, Group Compliance and Group Risk), recommended by the Group CEO and ensure that all contractual obligations are adhered to.

11. Engagement with the Trade Union

- Review the framework of industrial relations and collective agreements and ensure that they are relevant to best practices and conducive to good performance.
- Exercise oversight of negotiations with the Trade Union and advise the Board on the approval of the Collective Agreements.
- Provide guidance and support to the negotiating team.

12. Communication & Reporting

- Formulate the Board of Directors' Remuneration Report included in the Annual Report of the Group, taking into account the requirements of Annex 1 of the Cyprus Stock Exchange Corporate Governance Code (*Appendix 12*), the UK Corporate Governance Code and other applicable laws/regulations, and submit the report to the shareholders' Annual General Meeting for approval.

The Report should contain:

- (a) a statement by the Chairperson of the Remuneration Committee;
- (b) the Company's policy on Directors' remuneration;
- (c) information on how the remuneration policy was implemented (including in relation to every element of remuneration, how it supports the Company's long-term strategy and performance and the Company's approach to recruitment and loss of office payments);
- (d) where the Company releases an executive Director to serve as a non-executive Director with another company, a statement as to whether or not the Director will retain the earnings from such role (and, if he/she does, the amount of such earnings); and

(e) details of any remuneration consultants that may have been appointed and a statement as to whether they have any other connection with the Company.

The Report should point out the remuneration factors that especially concern the Company and should be submitted to the Annual General Meeting of shareholders for voting. The Report on the Company's Remuneration Policy should also be posted on the company's official website. The exact content of the Report from a Cyprus perspective is described in Annex 1 of the CSE Code; content required from a UK perspective is prescribed by the UK Code and certain UK legislation.

Shareholders must be informed, through the Report, on the total remuneration of Senior Management.

The remuneration policy must be submitted to a shareholder resolution at least every three years and, if the Company wishes to make any changes to the policy, the new policy must be submitted to shareholders for approval at a general meeting. The Company may only make remuneration and loss of office payments which are permitted within the approved policy, unless approved by a separate shareholder resolution.

The Company must prepare an annual report on how the approved pay policy has been implemented, including a single figure for the total pay received by all Directors that year. The information report must be put to an annual advisory vote of shareholders and, if this resolution is not passed, the Company must put the remuneration policy to shareholders in the following year.

Wherever an Executive / non-Executive Director leaves office, the Company must publish a statement setting out what payments the Director has received or may receive in the future.

The total remuneration and other benefits granted to Directors within the year must be identified in detail in the annual accounts and/or the notes of the annual accounts and/or in the Remuneration Report. The exact content of the Company's statement of remuneration required from a Cyprus perspective is described in Annex 2 of the Code; content required from a UK perspective is prescribed by the UK Code and certain UK legislation.

The total amount of remuneration is broken down between remuneration for services rendered as Members of the Board of Directors and remuneration for executive services. The total remuneration of Directors should be broken down by remuneration for each Director identified by name and include information for fixed income such as salary as well as variable income such as bonus, shares, share options etc, in order to ensure full transparency relating to the remuneration and the benefits of all the Directors.

The relevant information is included in the Annual Group Financial Statements.

- Respond, through the Chairperson of the Committee, to shareholder questions regarding the Compensation & Benefits Policies of the Group at the Annual General Meeting.
- Report to the Board regularly.
- Ensure there is transparent internal communication and adequate and appropriate external disclosure in relation to the matters within the Terms of Reference of the Committee.

- Conduct a self-assessment process and reports its conclusions and recommendations for improvements and changes to the Board.
- Consider and make recommendations to the full Board on any significant changes to the existing and on all new long-term incentive schemes. Such schemes are subject to approval by the Board, and by shareholders.
- Ensure there is proactive consultation with major shareholders in relation to pay policies and practices.
- To help fulfil its obligations, the Committee shall have authority to appoint third party remuneration consultants and to commission or purchase any relevant reports, surveys or information which it deems necessary (subject to any budgetary limits set by the Board from time to time).
- Ensure that the Committee's terms of reference are available on the Company's official website.

13. 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 have been delegated by the Main Body of the Board of Directors to the HRRC:

- Approval of specific remuneration packages of executive directors and other executives or general managers, within the Group Remuneration Policy
- Approval of major changes in the main Company pension schemes and changes of trustees
- Approval of the appointment and termination of employment of senior management (except the CEO and Heads of Internal Control Functions)

The HRRC Chairperson will be responsible to present in summary to the Main Body the various decisions taken on matters delegated to HRRC by it.

GLOSSARY

Compensation & Benefits Policies: Refer to:

- Salary
- Short Term Incentive Plans – STIP (which are performance related),
- Long Term Incentive Plans – LTIPs (incl. Share Option Scheme),
- Non-Salary Benefits and Allowances Policy (incl. company cars, car allowances, mobile phones and other electronic devices, inland and international travelling allowances etc.),
- Pension Plans;
- Medical Plans

Senior Management:

- All Divisional Directors that report to the CEO or D-CEO
- Divisional Directors of Control Functions and other staff that report to Board Committees and
- General Managers of major subsidiaries (Eurolife, GIC, UK)

HVEs: Members of staff that are highly valued due to their (i) high performance (ii) potential for assuming more senior positions in the future and/or (iii) the importance of their position (measured in terms of specialised knowledge and experience). They are also considered to be potential agents for change.

Performance Management: The primary purpose is to link pay and development paths with performance, where performance is measured by (i) comparing actual to potential and (ii) level of customer satisfaction (both external and internal).

Key Result Areas:

- Management
- Financial Results
- People Development
- Leadership
- Relationships
- Customer and Innovation
- Corporate Social Responsibility

Sustainability: Is the balanced pursuit of three goals simultaneously, namely economic welfare, social equity and environmental health.

HR Values:

- Integrity, Meritocracy, Transparency
- Confidentiality
- Professionalism and Accountability
- Fairness and Equal Treatment
- Self confidence to people
- Sense of urgency
- Simplicity
- Courtesy and Service
- Adaptiveness
- Pleasure of working and achieving
- Solidarity