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# Compliance Charter

Version 1



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**List of Abbreviations**

Abbreviation	Explanation
CEO	Chief Executive Officer
LCO	Local Compliance Officer

## **1. Purpose of Compliance Charter**

This Charter is prepared in compliance with the Central Bank of Cyprus Directive on Governance and Management Arrangements in Credit Institutions, dated July 2014.

This Charter is set to define the purpose, standing, authority and responsibility of the Compliance Function within Bank of Cyprus Group, as well as the reporting lines the responsibilities and accountability of the Compliance Director.

### **Compliance Mission**

**To effectively apply throughout the Group a corporate culture of ethics characterized by high standards of integrity, transparency, confidentiality and regulatory compliance.**

With this Charter, the Bank emphasises the importance of managing compliance risk and provides clear mandate to Compliance Division to manage this risk.

This Charter will be reviewed at least annually, or as needed to ensure it reflects developments in applicable laws and regulations, sound corporate governance, internal rules and policies as well as industry standards and best practices. The Charter is submitted for approval to the Audit Committee. It is available to all staff and on the website.

## **2. Scope, Key Features & Responsibilities of Compliance Division**

The Compliance Division supports the Bank and its management in managing all forms of compliance risk (including regulatory, corporate governance, data privacy, financial crime and sanctions management compliance risks) and embedding and improving compliance arrangements in all levels and structures of the Organization. It also ensures that the highest international standards and practices of corporate governance apply and that the Board's functioning is a model in reflecting these standards.

The scope of Compliance Division covers all relevant business areas of the Group (units, branches and subsidiaries in Cyprus and abroad as the structure of the Group might be from time to time).

Compliance scope includes but is not limited to establishing, implementing and maintaining an appropriate compliance framework set by the Compliance Governance Policy and supported by the compliance program, mechanisms, policies, procedures and activities as these are described by the four areas below:

### **A. Regulatory framework**

- Identify and maintain a registry with all compliance obligations including compliance with laws, primary legislation, directives, rules and standards issued by legislators and supervisors, market conventions, codes of practice promoted by industry associations etc.

These go beyond what is legal obligation and embrace broader standards of integrity and ethical conduct.

- Assess the possible impact to the Group of any changes in the legal or regulatory environment.
- Facilitate and monitor the implementation of actions to ensure timely and effective compliance with regulatory obligations.

#### **B. Risk identification, assessment, monitoring**

- Carry out risk assessment to identify, and ensure proactive management, reporting and where necessary escalation of compliance risks.
- Perform compliance reviews/audits in accordance with the relevant methodology, identifying compliance weaknesses and risks. Make recommendations for mitigating such risks and report their findings as appropriate and follow up timely implementation of mitigating actions.
- Provide annual assurance to the CEO as to the effectiveness of compliance policies, procedures and monitoring activities highlighting any significant compliance issues and risks.

#### **C. Compliance culture - raising awareness and advisory services**

- Promote and facilitate a corporate culture of compliance, integrity and ethical values within the institution based on full understanding of regulations, national and international standards and best practices available, the compliance risks faced and how these risks are managed in line with corporate values, code of ethics and code of conduct.
- Raise awareness and ensure compliance culture is appropriately disseminated at all hierarchical levels by developing policies, examples, communication and training for all staff regarding the need for compliance and their responsibilities relevant to compliance.
- Assist, support and advise the Board of Directors and/or its Committees, the Senior Management and other relevant staff in fulfilling their responsibilities to manage compliance risks by using a risk-based approach to align business objectives with the Organisation's risks appetite.
- Provide guidance to all staff upon receiving orally or in writing compliance queries.
- Participate in an advisory capacity, providing feedback on compliance obligations, risks and controls in establishing new products, services and procedures as well as for the development of new markets and significant changes to existing ones. Compliance input includes a full and objective assessment of risks arising from new activities under a variety of scenarios, of any potential shortcomings in the institution's risk management and internal control frameworks, and of the ability of the institution to manage any new risks effectively.

#### **D. Compliance Reporting**

Compliance Division submits periodic as well as ad hoc reports to the Audit Committee on matters relating to its purpose, authority, responsibility, and performance in relation to the Compliance Programme as this is reflected in its annual action plan. Such reporting includes information on compliance regulatory or internal developments, significant

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compliance risks or control issues or breaches and incidents identified during compliance reviews/audits etc and recommendations on how to mitigate such risks.

## 2.1 Compliance areas

The specific areas covered by the Compliance identification process are presented in the Compliance Governance Policy. However, for the purpose of this document the following areas are noted.

### 2.1.1 Compliance Division role in Prevention of Money Laundering Activities

The Compliance Function is responsible to ensure compliance with the Prevention and Suppression of Money Laundering Activities Law and the Central Bank of Cyprus directives and circulars for the prevention of money laundering and terrorist financing, as these are amended from time to time. The Manager Financial Crime Compliance Department, reporting to the Compliance Director, is the appointed Money Laundering Compliance Officer of the Bank, a role provided in the relevant legislation.

### 2.1.2 Compliance Division role in Investment Services and Activities

Compliance Function is involved in the development of policies and procedures relating to the provision of investment services and ancillary services in accordance with the investment Services and Activities and Regulated Markets Law as this is amended from time to time.

### 2.1.3 Compliance Division role in General Data Privacy

The Compliance Function is responsible to ensure compliance with the General Data Privacy Regulation and relevant European and local directives and guidelines issued from time to time. The Manager Regulatory and Privacy Compliance Department reporting to the Compliance Director, is the appointed Data Privacy Officer of the Bank, a role provided in the relevant legislation. The description of relevant responsibilities is described in the Data Privacy Compliance Policy.

### 2.1.4 Compliance with the Corporate Governance

The Director Compliance Division is also appointed as the Company's Corporate Governance Officer (a role provided in the Cyprus Stock Exchange Code) and for this role he reports directly to the Nominations and Corporate Governance Committee. The relevant responsibilities are described in the Corporate Governance Policy.

## 2.2 Local Compliance Officers (LCOs)

- There are cases that compliance responsibilities are carried out by staff in different Divisions of the Bank that may have other responsibilities as well, and who have been appointed as Local Compliance Officers.
- They are responsible to support their management for compliance with regulatory changes, addressing compliance issues and implementing controls in adherence to compliance principles. Furthermore, they are responsible for further identifying, measuring,

monitoring, and reporting risks and ensuring compliance with internal and external requirements within their department. The LCOs report regularly to Compliance Division

- As LCO's they have a formal status within their department and are entitled to have access to the information and personnel necessary to carry out their responsibilities.
- KPIs are in place in each LCO's performance assessment, to fully reflect and recognise the importance of the role and the time needed to effectively perform LCO duties.
- In their capacity as LCOs these employees have dual reporting; to their local Management and to Compliance Division. This is reflected in the performance appraisal system since Compliance contributes in their annual appraisal as well as in the LCO appointment process, whereby the approval for the assignment of each LCO is given by Compliance.
- Compliance Division is responsible to provide relevant training to the LCOs and ongoing support to carry out their LCO duties.

### **2.3 Oversight framework with Subsidiaries**

Each Subsidiary appoints their own Compliance Officer. These Compliance Officers report on a regular basis to Compliance Division, on their compliance action plans and activities, risks and findings. The Compliance Division carries out on a periodic basis off-site and on-site compliance reviews of these entities in Cyprus and abroad for assessing their compliance with compliance policies and procedures applied at Group level.

The LCO appointment and appraisal procedures described above are also applied to the Compliance Officers of the Subsidiaries.

## **3. Standing of Compliance Division within the Organisation**

The Bank of Cyprus applies the three lines of defense model as a framework for effective risk management and aims at supporting the management in the delivery of its business and strategic objectives and ensuring that compliance culture is appropriately disseminated at all hierarchical levels.

In this model, it is the first line of defence that is responsible for managing compliance risks. They manage risk on a daily basis and bear the consequences. Local Compliance Officers are part of the first line of defence. Their duties incorporate the support to management in the implementation of regulatory changes, compliance controls and adherence to Group Compliance principles.

The second line of defence comprises of the Risk Management function, the Information Security function, which is part of the Risk Management function, and the Compliance Function. Risk Management function is responsible for developing and maintaining an effective risk management framework ensuring that all material risks are identified measured and properly reported, including all Information Security risks. Compliance Function is responsible for the

development of a compliance framework for the prompt and ongoing compliance and the effective management of risks of non-compliance with any obligations. That is to identify the regulatory provisions (laws, regulations and standards) and translate them to compliance obligations and assist management to identify compliance risks, identify mitigating actions based on the Risk Appetite set by the Board of Directors. LCOs, are also part of the second line of defense when they provide oversight of compliance risks in the relevant business units and pursue monitoring and assess responsibilities.

Internal Audit is the third line of defence; it provides independent assurance over the effectiveness of the system of internal controls, corporate governance and risk management processes. The Board of Directors, its Committees and especially the Audit Committee that have explicit responsibility for the Compliance Function are also in the third line of defense.

#### **4. Independence and Reporting Lines**

The compliance function's independent status is formalised and communicated through this Compliance Charter.

Compliance Division is independent from the business activities and support units it monitors and controls as well as from the other control functions. Compliance staff does not perform any tasks that fall within the scope of the activities that compliance function is intended to monitor and control or create potential conflicts of responsibilities. The remuneration of Compliance staff is not linked to the performance of the activities monitored/controlled by Compliance Division.

The Compliance Division is headed/led by the Director Compliance Division who is appointed by the Board of Directors subject to the prior written approval of the Central Bank of Cyprus. The Director Compliance Division functionally reports directly to the Audit Committee of the Board of Directors and solely for matters of administration, he has a line of reporting/communication with the 1<sup>st</sup> Deputy CEO.

This second (administrative) line of reporting does not relate to any form of overseeing of the compliance function, thus potentially compromising its independence and the role of the Audit Committee. It is rather set to facilitate the smooth operation of the Division's administrative operations and the alignment of the Bank's strategy and priorities with the compliance program.

Compliance budget is approved by the Audit Committee who ensures that they are sufficiently flexible to adapt to variation in response to developments.

Compliance Division reports their findings and assessments directly to the Board of Directors and its Committees independent from senior management.

The Director Compliance Division has direct access to the Board of Directors through the Audit Committee and the Nominations and Corporate Governance Committee. He/she attends on a regular basis and at least quarterly, Audit Committee meetings to present compliance and data privacy matters and the Nominations and Corporate Governance Committee for corporate governance matters, without the presence of executive members of the Board. He also attends on invitation the Ethics, Conduct and Culture Committee to provide input on ethics and culture matters. Relevant papers are submitted directly to these Committees and where appropriate they are copied to the CEO, 1<sup>st</sup> Deputy CEO, or the Executive Committee.

The performance appraisal of the Compliance Director is performed by the Chairman of the Audit Committee and it is subsequently submitted to the management body. The Chairman of the Audit Committee in concluding his appraisal of the Compliance Director, may also seek some comments from the 1<sup>st</sup> Deputy CEO further to the daily administrative relationship that exists and is described above.

The annual compliance program is reviewed and approved by the Audit Committee.

The Audit Committee annually reviews and assesses the independence, adequacy and effectiveness of the compliance function.

Whenever practicable and without jeopardising the competence and expertise of the Compliance Division, staff are periodically rotated within the Division or from other areas of the Bank to ensure that an individual's capacity and critical judgment is not called into question because of possible loss of objectivity from continuously performing similar tasks or routine tasks. Staff rotations are governed and are conducted in accordance with the relevant policy set by the Bank's Human Resources Division which, among others, takes into account the avoidance of conflict of interest and minimum disruption of the operations of the Compliance Function.

For matters of corporate governance, the Director Compliance Division reports directly to the Nominations and Corporate Governance Committee of the Board.

## **5. Authority**

For the compliance function to carry out its compliance responsibilities effectively, its staff has the right to

- Initiate communication with any staff member and obtain full and unconditional access to all records and files and any other information necessary in order to carry out their responsibilities. This also includes the right to obtain information and/or explanations from all staff members that the function reasonably believes are necessary to perform its duties.
- Require all members of Management and staff to supply such information and explanations required promptly.

All staff of the organisation shall assist the function by supplying the information requested.



The organisation must ensure that compliance staff has appropriate data systems and support at their disposal, with access to the internal and external information necessary to meet their responsibilities.

## **6. Relationship of Compliance with other Control Functions and Legal Services**

### **6.1 Relationship with other Control Functions**

As part of their efforts to ensure efficient and effective collaboration, Control Functions meet at regular intervals in order to assess and propose areas for further enhancement of their cooperation and communication, exchange knowledge on best practices and lessons learned as well as to exploit areas of potential synergies, alignment of methodologies and avoidance of duplication of work.

Compliance Division cooperates and exchanges information with the other internal control functions on compliance matters and promptly informs the other control functions of any findings relating to their area of responsibility and vice versa and such findings are used as feedback to the receiving control function in assessing their areas of responsibility and related internal control policies and procedures.

The compliance function provides input to the annual audit plan by indicating potential areas for review based on the compliance risk assessment. Compliance Division is recipient of internal audit reports and investigations relating to complaints on General Data Protection Regulation (GDPR) related matters.

Compliance activities and framework are subject to periodic review by Internal Audit.

Compliance Division works closely with Risk Management especially for the centralised reporting and analysis of compliance incidents and reporting of compliance risks identified through the Risk Control Self-Assessment process of the various units/subsidiaries of the Bank. Also, the risk assessment methodology of operational risk and compliance are aligned.

### **6.2 Cooperation with Legal**

In general, Compliance shall seek legal and interpretative advice on compliance related matters from Legal Services Department and should external legal consultation be required for specialised matters, external legal services should be sought by Legal Services Department.

Concerning expert legal advice on Money Laundering /Terrorist Financing matters i.e. sanctions, Compliance function has the right to select and appoint its own associates, through the established Bank procedures and obtain relevant consultation directly when needed.

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## **7. Communication with Regulators and Industry bodies**

Where possible, Compliance Function representatives should liaise with regulators and industry bodies and participate in industry meetings to improve compliance knowledge and understanding of the regulations and exchange views on compliance related matters.

Meetings with the Central Bank of Cyprus are held at least annually to discuss compliance work, risk analysis, findings and recommendations.

## **8. Standards**

As regards their responsibilities, Compliance staff shall keep abreast of sound compliance practises and relevant standards on compliance-related issues.

Compliance Division should have an adequate number of qualified staff both at parent and subsidiary level. All Compliance staff should be properly trained on an on-going basis.

## **9. Responsibility and Accountability of Director Compliance**

The Director Compliance Division has distinct responsibility for the Compliance Division. He shall not be removed without prior approval of the Board of Directors and he has direct access to the Board where necessary.

The Director Compliance is responsible for:

- (a) ensuring the objectivity and independence of the compliance function.
- (b) acquiring human resources with sufficient qualifications and skills to ensure the competence of the compliance function to carry out its tasks and responsibilities.
- (c) continually assessing and monitoring the skills necessary to carry out the function's duties to the required level.
- (d) ensuring the appropriate ongoing training of staff in order to carry out the increasing diversity of tasks as a result of the introduction of new products and processes, changes to regulations or professional standards and other developments in the financial sector.
- (e) promptly informing the heads of other internal control functions of any findings relating to them.
- (f) submitting reports to the Board and relevant committees and attending their meetings to present the said reports and provide additional information and/or clarification or assistance on managing the issues raised
- (g) preparing and delivering to newly appointed members of the Board, in coordination with the secretary of the management body, an induction seminar adequately covering the respective areas of responsibilities of the compliance function with references to the responsibilities of the Board and the requirements of the regulatory framework.



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- (h) expressing an opinion on the selection as well as the fitness of the persons in charge of the compliance functions of subsidiaries in Cyprus and abroad as well as foreign branches and the appointed LCOs as mentioned above.
  - (i) updating the Central Bank of any significant findings on, or developments that came to his/her attention that have material impact on, the institution's risk profile and of any significant changes in the structure and functions of the compliance function.
  - (j) holding meetings with the Central Bank at least once annually or at any other interval the Central Bank may require discussing the scope and coverage of the work of the internal control function, its risk analysis, findings and recommendations.



**DOCUMENT HISTORY**

Tracing Table

<b>Version</b>	<b>Approval Date</b>	<b>Initiator</b>	<b>Changes with Reference to Paragraphs</b>
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