



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

**November 2021**

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## List of Abbreviations

Abbreviation	Explanation
AC	Audit Committee
CBC	Central Bank of Cyprus
CEO	Chief Executive Officer
ECCC	Ethics, Conduct and Culture Committee
Group	Company and all of its subsidiaries (including the Bank)
HRD	Human Resources Division
HRRC	Human Resources & Remuneration Committee
NCGC	Nominations & Corporate Governance Committee
RC	Risk Committee
TC	Technology Committee

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## A. AUTHORITY

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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 terms of reference calling on whatever resources (including external professional or legal services) and to obtain such information as it may require from any director, officer or employee of the Group. It shall have access to adequate funding to enable it to discharge its duties.
5. 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.

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## B. ROLE OF THE COMMITTEE

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The role of the Committee is:

1. To oversee that the **the Group** is equipped with the Human Capital at the right size and with the right skill mix necessary for the achievement of its strategic goals, whose rewards will be based on personal performance and Group results.
2. To oversee that the Group is equipped with the Organisational Capital (Values, Engagement, Alignment, Leadership) to be able to effect continuous improvement and elicit the right behaviour which would lead to the desired outcome.
3. To oversee 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 and sustainability for the future.
4. To regularly review, 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 review and set the remuneration arrangements of the executive directors of the Company, Senior Management and the Group Remuneration 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.

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## C. COMMITTEE COMPOSITION

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1. The Committee has a minimum of 3 members. The Committee must consist entirely of independent non-executive Directors. The members of the Committee should collectively possess appropriate knowledge, expertise and professional experience concerning remuneration policies and practices, risk management and control activities, namely with regard to the mechanism for aligning the remuneration structure to the Group's risk and capital profile. 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 Board appoints the members of the Committee annually on the recommendation of the NCGC in consultation with the Committee Chairperson.
3. The Board appoints a Chairperson of the Committee for a maximum period of six years whether consecutively or not. The Chairperson must have served on a Remuneration Committee for at least 12 months.
4. The Committee shall be provided with sufficient resources to effectively undertake its duties.
5. The induction programme shall cover, inter alia, the role of the Committee (including its terms of reference and expected time commitment of its members)

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## D. COMMITTEE MEETINGS

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1. The Committee holds at least six meetings 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, 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 and is proactive;
  - 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
4. 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. The Company Secretary or his/her nominee shall record and maintain detailed minutes of the meetings of the Committee. 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 for noting.
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.



- When determining executive director remuneration policy and practices, the remuneration committee should address the following:
  - clarity – remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce;
  - simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand;
  - risk – remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated;
  - predictability – the range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy; 15 UK Corporate Governance Code 2018
  - proportionality – the link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance; and
  - alignment to culture – incentive schemes should drive behaviours consistent with company purpose, values and strategy. 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.
- 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 the non-Executive Directors are not included in the beneficiaries of performance related remunerations.
- Seek to recognise and manage conflicts of interest when receiving views from executive Directors or senior management or consulting the CEO about its proposals.
- Seek to ensure that Executive Directors’ annual salary increases are justified in light of various aspects of the Group’s business and financial condition and not out of line with general increases across the Group.
- Ensure that malus and clawback provisions in the contract allow the Company to recover sums paid, or to withhold the payment of any sum, and specify the circumstances under which it is appropriate to do so.
- Ensure the proper involvement of the internal control functions within the respective areas of expertise.
- 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.
- Ensure that the remuneration policy and practices are subject to a central review of compliance with the regulation, procedures by the internal audit at least annually.

- Ensure the adequacy of the information provided to shareholders on remuneration policies and practices in particular on a proposed higher maximum level of the ratio between fixed and variable remuneration.
- 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 the criteria used for determining the award and the ex-ante risk adjustment based on the actual risk outcomes.
- Review the appointment of external remuneration consultants engaged for advice or support and ensure that this consultant is not also giving advice to the HRD or the Executive Directors of the Company.
- Propose fees payable to the Chairperson and Vice Chairperson to the Board for approval.
- Be responsible for the preparation of decisions on remuneration to be taken by the Board, in particular regarding the remuneration of the Senior management and other identified staff.

**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. Given that the NCGC runs the CEO and key function holders' search process, while the HRRC is responsible for the contract & remuneration terms, joint NCGC and HRRC meetings should be scheduled so that any decision taken is agreed by both Committees.

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 (including senior managers of Risk, InfoSec, 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 HRD).
- Approve the Bank's reviewed Grading structure for Senior management jointly with the NCGC and be informed of the Bank's Pay structure.
- Approve major changes in the main company pension schemes and any changes in trustees.
- Review any voluntary retirement / separation schemes for material subsidiaries in cooperation with the HR Division (through CEO) and forward to BoD for approval.
- 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 compliance with the Group Remuneration Policy.

## **2. Training**

- Review the annual training plan, as presented by HRD and approved by 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:
  - Commercially minded Salesmanship
  - Customer Service & Loyalty
  - Profitable deposit gathering/Retention
  - Quality of Advances and Debt Collection
  - Risk Management
  - Compliance Culture and responsibilities/obligations
  - Best HR Management Practices and
  - Continuous Reskilling Program.

## **3. Performance Appraisal, Development and Succession**

- Review the annual performance appraisals of Senior Management (except Heads of Internal Control Functions), performed by the CEO.
- Review succession planning for Senior Management on an annual basis jointly with the NCGC, as presented by the CEO (April each year) and approve the organisational structure of the Bank annually or whenever there are changes.
- Review the Bank's annual performance appraisal results and main findings on an annual basis (April each year), as presented by HRD.

## **4. Employee Engagement:**

Oversees those HR initiatives that foster employee engagement:

- The implementation of an Employee Wellbeing / Care Programme ranging across all areas of employee health (Physical, Mental, Financial and Social) as well as the application of a healthy work & life balance.

## **5. HR Best Practices**

- Ensure the application and systematic reporting of the Bank's KPIs in relation to strategic goals.
- Review the results of the annual Staff Engagement Survey, Management Practices Survey, 360, HR Quarterly Report, Annual Internal Communication Calendar and Quarterly Progress Reports, the annual HVE Report, the quarterly Underperformers report and other HR initiatives, as presented by HRD.
- Monitor the resources, qualifications, scope and effectiveness of the HRD, and make appropriate recommendations to the Board.

## **6. 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 occasionally, jointly with NCGC, the External Recruitment Policy, the Internal Transfers Policy and the Employee Recognition Policy and make appropriate recommendations to the Board.

### **7. *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.

### **8. *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.

There should be a description of the work of the remuneration committee in the annual report, including:

- an explanation of the strategic rationale for executive directors' remuneration policies, structures and any performance metrics;
  - reasons why the remuneration is appropriate using internal and external measures, including pay ratios and pay gaps;
  - a description, with examples, of how the remuneration committee has addressed the relevant factors (E1 2<sup>nd</sup> bullet);
  - whether the remuneration policy operated as intended in terms of company performance and quantum, and, if not, what changes are necessary;
  - what engagement has taken place with shareholders and the impact this has had on remuneration policy and outcomes;
  - what engagement with the workforce has taken place to explain how executive remuneration aligns with wider company pay policy; and
  - to what extent discretion has been applied to remuneration outcomes and the reasons why
- 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.

- Ensure there is proactive consultation with major shareholders in relation to pay policies and practices.
- Ensure that the Committee's terms of reference are available on the Company's official website.

## 9. Regulatory Framework

As per *Section R of the Board Manual*

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

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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.

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

**Board Executive members** are appointed to the Board and include the CEO and any other Management Executive Director so appointed.

**Management Executive Directors:** Members of Senior Management comprising the Executive Committee and reporting directly to the CEO

**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, Genikes Insurance)

**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
- Caring for others
- Accountability
- Fairness
- Self-confidence to people
- Sense of urgency
- Simplicity
- Courtesy and Service
- Adaptiveness
- Pleasure of working and achieving
- Solidarity