



# **BOARD AUDIT COMMITTEE TERMS OF REFERENCE**

**November-2020**

## TABLE OF CONTENTS

<b>A.</b>	<b>AUTHORITY</b> .....	<b>3</b>
<b>B.</b>	<b>ROLE OF THE COMMITTEE</b> .....	<b>4</b>
<b>C.</b>	<b>COMMITTEE COMPOSITION</b> .....	<b>4</b>
<b>D.</b>	<b>COMMITTEE MEETINGS</b> .....	<b>5</b>
<b>E.</b>	<b>RESPONSIBILITIES</b> .....	<b>6</b>
1.	<i>Internal controls</i> .....	7
2.	<i>Financial Statements and Published Financial Information</i> .....	8
3.	<i>Internal Audit</i> .....	9
4.	<i>Compliance Function</i> .....	91
5.	<i>External Audit</i> .....	102
6.	<i>Communication and Reporting</i> .....	13
7.	<i>Regulatory Framework</i> .....	125
<b>F.</b>	<b>DELEGATION OF AUTHORITIES BY THE MAIN BODY OF THE BOARD OF DIRECTORS</b> .....	<b>135</b>

Abbreviation	Explanation
AC	Audit Committee
CBC	Central Bank of Cyprus
CEO	Chief Executive Officer
CySEC	Cyprus Securities and Exchange Commission
CET1	Common Equity Tier 1
DGCD	Director of Group Compliance Division
ECCC	Ethics, Conduct and Culture Committee
GIA	Group Internal Audit
Group	Company and all of its subsidiaries (including the Bank)
HRRC	Human Resources & Remuneration Committee
RC	Risk Committee
TC	Technology Committee

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## A. AUTHORITY

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1. The Board Audit 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 this lies within the Terms of Reference of the Committee. The Chairperson is authorised to provide to this respect approval of expenditure up to a maximum of €20.000 and he/she is required to inform the Committee at the next meeting.
6. The Chairperson can exceptionally approve any audit related fee by the external audit firm of expenditure up to a maximum of €25.000 and he/she is required to inform the Committee at the next meeting.
7. For expenditure within the approved budget, regarding goods or services (confidential or non-confidential), Internal Audit Division or Compliance Division requests the approval of the AC provided that the Bank’s applicable procurement guidelines have been followed. The Chairperson is authorised to provide approval up to €500.000, with the requirement that all AC members are notified (through an e-mail) and the majority provides their positive confirmation.
8. For expenditure requests by Internal Audit Division or Compliance Division that exceed the approved budget of the Division, the Chairperson is authorised to provide approval for budget extension up to €250.000 p.a cumulatively, with the requirement that all Committee members are notified (through an e-mail) and the majority provides their positive confirmation. For higher budget extension requests, the AC recommends these to the Board for approval. Following the approval for budget extension, the procedure described in paragraph 7 is followed as regards the expenditure.
9. The Committee reviews annually the Terms of Reference and recommends necessary changes to the Board.

10. The Board has delegated authority to the Committee as referred to above (including matters that may be considered and reviewed independently from the executive directors). However, the Board as a whole retains ultimate responsibility for the Company's approach to internal financial control and nothing in these Terms of Reference adjusts or limits such responsibility or should be interpreted as a departure from the principle of a unitary Board. Moreover, it should be clarified that it is the function of management to prepare the financial statements and of the external auditors to plan and conduct the statutory audit of the Company.

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## **B. ROLE OF THE COMMITTEE**

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The role of the Committee is to review and monitor among other things:

- The Group's system of internal controls and information systems
- The integrity of the Group's financial statements and related announcements (including significant financial reporting judgements contained in them)
- The accuracy and fairness of the annual reports and accounts
- The effectiveness of the internal audit function and the external audit process
- The Group's relationship with the external auditors
- The effectiveness of the Group's whistleblowing procedures
- The effectiveness of the Group's compliance function

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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.
2. The Chairperson of the Board of Directors cannot be a member of the Committee.
3. The Chairperson of the Committee must be an independent non-executive Director. He/she must have specialised knowledge and experience in the application of internal control procedures and accounting issues relevant to the Committee and must have significant, recent and relevant financial experience.
4. The Committee, as a whole, should possess recent and relevant practical experience in the area of financial markets or professional experience directly linked to financial markets activity, and appropriate knowledge, including knowledge of the Bank's broader business environment, information systems and technology.
5. 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.
6. The Board appoints the members of the Committee annually on the recommendation of the Nomination & Corporate Governance Committee in consultation with the Committee Chairperson.
7. The Board appoints a Chairperson of the Committee.

8. The Company Secretary or his/her nominee acts as secretary to the Committee.
9. The Committee shall be provided with sufficient resources to effectively undertake its duties.
10. The Board shall make funds available to the Committee to enable it to obtain independent legal, accounting or other advice as reasonably considered necessary by the Committee.

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#### **D. COMMITTEE MEETINGS**

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1. The Committee holds regular meetings, at least 4 per year and where appropriate the meetings coincide with key dates in the Bank's financial reporting and audit cycle, 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 such 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 Attendees of the Committee are the Director of Group Internal Audit, the Director of Group Compliance and the Director of Finance. Based on the nature of his/her duties as Head of an Internal Control Function, the Chief Risk Officer is also considered as regular attendee but shall attend only if a topic related to his/her function is discussed and he/she has been invited by the Committee's Chairperson.
  - (b) By invitation of the Committee                      Any Director, officer or employee of the Group and external auditors

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

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. 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.
10. The Audit Committee should meet periodically with the Risk 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 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 ongoing and timely basis, including an understanding of the principles of, and developments in, financial reporting and related company law. 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.

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## E. RESPONSIBILITIES

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The Committee should discuss what information and assurances it requires in order to properly carry out its duties, to review, monitor and provide assurance or recommendations to the Board on issues of its responsibility and, when there are gaps, how they are to be addressed. The Committee should assure itself that the basis of this assurance and information is sufficient and objective.

The Committee will undertake the following tasks/functions for the Group as a whole:

### 1. *Internal controls*

- Annually review the adequacy and effectiveness of the system of internal controls and information systems of the Group (being the systems established to identify, assess, manage and monitor financial risk), based on data and information produced by the Internal Audit Division, the observations and comments of the Bank's external auditors and the competent supervisory authorities as well as the assurance provided by the CEO, and make appropriate recommendations to the Board.
- Review and approve the yearly assessment of Internal Controls report prepared by the Internal Audit Division (IAD) prior to submission to the Board of Directors. IAD should provide an audit opinion in the report on the overall effectiveness of the Internal Control Framework (ICF) of the Group.
- Initiate special investigations of suspected fraud, collusions or other illegal acts; and examine any verified fraud, collusions, or other illegal acts with internal and/or external auditors.
- Ensure that external specialist consultants (preferably not the official external auditors of the Bank) evaluate the effectiveness of the system of internal controls of the Group every three years both on a consolidated and an individual basis and ensure their rotation after two (2) consecutive assessments.
- Specify the units and subsidiaries to be included in the scope of the assessment of the adequacy of the system of internal controls prepared by external auditors, based on the principle of proportionality as well as on other qualitative criteria.
- Submit, in advance, to the Central Bank of Cyprus the scope of the assessment of the adequacy of the internal control framework.
- Review external auditors' report on their assessment of the adequacy of the system of Internal Controls, including in particular their observations on the weaknesses identified and their recommendations for corrective actions.
- Review the Group's whistleblowing policies and procedures, assess their effectiveness and ensure that there are adequate, reliable and secure internal whistleblowing procedures arrangements for staff and contractors to raise concerns (including about possible improprieties in matters of financial reporting) in confidence and that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action. The Chairperson of the Committee acts as the whistleblower's Champion.
- Oversee the implementation of the AML Law and relevant directives. The Chairperson of the Committee is the designate Board member responsible for such oversight.

- Carry out an annual self-assessment (including in relation to the Audit Committee's terms of reference) and report the conclusions and recommendations for improvements and changes to the Board.

## 2. *Financial Statements and Published Financial Information*

- Review all publications of financial statements and related information of the Group, including both interim and annual reports (in a way consistent with all requirements for prompt disclosure under the UKLA Listing Rules, the Disclosure and Transparency Rules and equivalent legislation as regulated in Cyprus) and report to the Board on the significant financial reporting issues and estimates and judgments made therein.
- Review related information presented with the financial information, including the strategic report and the corporate governance statements related to the audit.
- Where requested by the Board, advise the Board on whether the annual report and accounts taken as a whole are fair, balanced and understandable (including assessing whether information in the annual report other than the financial statements is consistent with the financial statements) and that they provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.
- Monitor the integrity of the Group's financial statements, interim management statements, preliminary announcements and other formal announcements related to the Group's financial performance. In particular, review and challenge where necessary (including reporting to the Board where the Committee is not satisfied) the clarity, completeness and appropriateness of:
  - Disclosures of complex and / or unusual transactions, and areas requiring significant judgment in the statements;
  - Disclosures of related party transactions in the statements, and assurances that these are made at arm's length;
  - The application of IFRS, and other accounting and financial reporting policies, and any changes in them;
  - Off -Balance Sheet items;
  - The adequacy and completeness of disclosures;
  - The 'going concern' requirements (including, if applicable, identifying any material uncertainties) and ascertain that the statement has been prepared in accordance with Financial Reporting Council guidance (Going Concern and Liquidity Risk: guidance for directors of UK Companies 2009);
  - The extent to which the financial statements are affected by any unusual transactions where different approaches are possible;
  - Compliance with applicable CySEC, stock exchange and other legal and regulatory requirements; and
  - Legal matters and the proposed litigation statement for inclusion in the Annual Accounts that would significantly impact the financial statements.
- Jointly with RC review provisions proposals of management and make appropriate recommendations to the Board in relation to the adequacy of these provisions and the methodology adopted.



- Review and approve the Head Office cost allocation.
- Supervise the process of the Finance Director's selection of the proper accounting policies and recommend any significant changes in accounting policies and/or practices to the Board for approval and ensure that there is a mechanism verifying that the company's assets are protected, including prevention and detection of fraud.

### 3. *Internal Audit*

- Monitor the resources, qualifications, access to information, scope and quality of work performed by the Internal Audit Division, approve the annual internal audit plan, and make appropriate recommendations to the Board;
- Approve the budget of the Internal Audit Division and ensure it is sufficiently flexible to adapt in response to developments;
- Evaluate the Director of Internal Audit and recommend to the Board, as appropriate, his/her appointment, replacement, reassignment, or dismissal. Carry out an annual appraisal of his/her performance and submit to the Board;
- Receive and consider reports including the Annual Audit Report prepared by IAD and monitor the prompt and effective implementation by management of agreed recommendations through the internal audit reports; IAD should provide an audit opinion in the Annual Audit Report on the overall effectiveness of the Internal Control Framework (ICF) of the Group.
- Assess and monitor the independence, adequacy, role and effectiveness of the Internal Audit Division (including in the context of the Group's overall risk management system) and report the Committee's conclusions to the Board, explaining the methodology used to carry out the assessment;
- Oversee the coordination of internal and external audit activities;
- Ensure that the Internal Audit Division is working according to the International Internal Auditing Standards;
- Determine and examine the Internal Audit Division's charter as well as the process and procedures and obtain independent external assessment at least every five years;
- Meet with the Director of Internal Audit at least once a year, without management being present, to discuss any issues arising from the internal audits carried out; and
- Ensure that the Director of Internal Audit has direct access to the Chairperson of the Board and to the Committee and is accountable to the Committee.

### 4. *Compliance Function*

- Monitor the resources, access to information and quality of work performed by the Compliance Division, review the compliance programme, and make appropriate recommendations to the Board.
- Review and approve its budget, ensuring it is sufficiently flexible to adapt in response to developments.

- Evaluate the Director of Compliance Division and recommend to the Board, as appropriate, his/her appointment, replacement, reassignment or dismissal, carry out an annual appraisal of his/her performance and submit to the Board.
- Assess and monitor the independence, adequacy and effectiveness of the compliance function.
- Review and approve Group Policies issued by Compliance Division as per **Section F**
- Review the below Annual Reports issued by Group Compliance Division and recommend them to the Board for approval:
  - R&ECD Annual Report on Compliance
  - MLCO Annual Report
  - MLCO Annual Risk Report.
- Receive and consider regular reports issued by the Compliance Division as well as ad-hoc ones and monitor the prompt and effective implementation by management of agreed recommendations through these reports and other guidelines issued by Compliance Division.

## 5. *External Audit*

- Consider and monitor the independence and objectivity of external auditors of the Group and the effectiveness of the audit process (taking into consideration relevant UK professional and regulatory requirements such as Section 290 of the ICAEW's code of ethics). Matters such as:
  - Relationship / links of the external auditor with the Group (including the number of former employees of the auditor currently employed by the Group),
  - Audit and non-audit fees paid to external auditors,
  - Ensuring that key partners / representatives of the external auditors are rotated at appropriate intervals

and other requirements must be examined and appropriate recommendations should be made to the Board.

- Assess annually and report to the Board on the qualification, expertise, resources and independence of the external auditor and the effectiveness of the audit process through the use of Audit Quality Indicators (AQIs) and regular meetings with the statutory auditors.
- Review and consider the statements prepared by the statutory auditors on their independence and ensure they are in line with the relevant annual GCD report.
- Put the external audit contract out to tender as often as required by applicable law, rules, regulations and best practice and conduct the tender process and make recommendations to the Board on the appointment, re-appointment, dismissal of external auditors and continuously review the cost-effectiveness of the external audit and approve the remuneration and terms of engagement of the auditors.
- Receive and consider reports, management letters and other written assessments completed by external audit, as well as the management response to them, and ensure prompt and effective implementation of agreed recommendations.

- Discuss with external auditors and with management major issues that arose during the audit, the accounting principles, question the accounting policies and practices adopted in the preparation of the financial statements and the validity of management estimates, review key accounting and audit judgements and be assured that they comply with statutory requirements and generally accepted accounting standards.
- Develop, approve and implement a policy on the engagement of the external editors to supply non-audit services ensuring there is prior approval of non-audit services, considering the impact this may have on independence, taking into account relevant regulations and ethical guidance and report to the Board, on any action or improvement is required.
- Discuss with the external auditors, before the audit commences, the nature and scope of the audit, the auditor's quality control procedures and steps taken by the auditor in response to changes in regulatory and other requirements.
- Approve the letter of appointment and annual engagement letter of the external auditor (including ensuring that terms of engagement are updated to reflect any changes in circumstances since the previous year).
- Approve all non-prohibited NAS for the Holdings Company, the Bank and its subsidiaries.
- Discuss with external auditor the Audit Report on the assessment of the adequacy of the company's internal control systems.
- Discuss with the external auditors, before the audit commences, the nature and scope of the audit, the auditor's quality control procedures and steps taken by the auditor in response to changes in regulatory and other requirements.
- Meet the external auditor at least once a year, without management being present, to discuss issues arising from the audit.
- At the end of the audit cycle, assess the effectiveness of the audit process.

## 6. *Communication and Reporting*

- Ensure adequate coordination / communication between the Board, management, the Internal Audit Division and the external auditors of the Group on audit issues.
- Ensure adequate coordination / communication between the Board, management and the Group Compliance Division on compliance issues.
- Review quarterly report received from the statutory auditor, confirming non-audit services provided during that period.
- Formulate the annual Audit Committee Report included in the Annual Corporate Governance Report of the Group which should include, amongst other things:
  - A summary of the Audit Committee's role and work;
  - How the Committee composition requirements have been addressed and the names and qualifications of all audit committee members during the period;
  - The significant issues that the committee considered in relation to the financial statements and how these issues were addressed;
  - The number of Committee meetings;

- A report on the way the audit committee has discharged its responsibilities;
- An explanation as to how the Committee's performance evaluation has been conducted;
- An explanation of how the Committee assessed the effectiveness of the Company's internal audit function;
- An explanation of how it has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted and advance notice of any retendering plans;
- ⊖ An explanation of how auditor objectivity and independence are safeguarded, if the external auditor provides non-audit services;

In the case the Board does not accept the Committee's recommendation on the external auditor appointments. If the matter cannot be resolved, the Committee shall explain its recommendation and the reasons why the Board has taken a different position in its annual report to shareholders referred to above (this should also be supplied in any papers recommending appointment or reappointment).

- Review and approve the Report on Corporate Governance which will be included in the Company's Annual Report.
- Be prepared to meet investors and, in particular, respond (through the Chairperson of the Committee) to shareholder questions regarding audit issues of the Group at the Annual General Meeting.
- Report to the Board at least quarterly on how the Committee discharges its responsibilities and on the nature and content of discussion at Committee meetings, recommendations and action to take.
- Report to the Board on its annual assessment of the effectiveness of the overall audit process and of the outcome of the statutory audit and explain how the statutory audit contributed to the integrity of financial reporting and what the role of the AC was in this process.
- Report to the Board annually regarding the assignment of material consultancy duties and on the amount of audit and non-audit services remuneration paid by the Bank and its subsidiary companies to the external auditors and other external consultants of the Group.
- The Chairperson of the Committee or as a minimum, another member of the Committee, shall attend the Board meeting at which the accounts are approved.
- 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 audit committee performance of each major subsidiary and take appropriate action.
- Liaise with other Committees of the Board as appropriate, including with the HRRC in relation to the remuneration of persons within the Group's internal audit, financial and control functions.
- Ensure that the Committees' terms of reference are available on the Company's official website

## **7. 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 are delegated by the Main Body of the Board of Directors to the AC:

- Approval of Customer Acceptance Policy
- Approval of Policy Relating to Money Laundering & Terrorist Financing Prevention
- Approval of AML Risk Appetite Policy
- Approval of Group Sanctions Policy
- Approval of Market Abuse Policy
- Approval of Disclosure Policy
- Approval of Group MiFID Policy
- Approval of Group Competition Law Compliance Policy
- Group Customer Complaints Management Policy
- Approval of Personal Data Protection Compliance Policy
- Approval of Group Anti-Bribery Policy
- Approval of the Whistleblowing Policy
- Approval of Regulatory Development and Communication with Competent Authorities Policy
- Approval of Compliance Policy
- Approval of Financial/Tax Exchange of Information Group Policy

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