

# **GROUP BOARD AUDIT COMMITTEE TERMS OF REFERENCE**

**March 2023**

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Abbreviation	Explanation
AC	Audit Committee
AML&TF	Anti-Money Laundering & Terrorist Financing
CBC	Central Bank of Cyprus
CEO	Chief Executive Officer
CySEC	Cyprus Securities and Exchange Commission
CET1	Common Equity Tier 1
CD	Compliance Division
ECCC	Ethics, Conduct and Culture Committee
IA	Internal Audit
Group	Bank and all of its subsidiaries
HRRC	Human Resources & Remuneration Committee
NAS	Non-Audit Services
Observer by invitation	A person who is not a committee member and does not have voting rights. He/she attends a meeting because he/she has some contribution to make to the meeting. For example, he/she may submit a report or make a presentation. The person may be a regular (“standing”) invitee or simply an invitee for particular item/s.
Observer in attendance	A person who is not a committee member, does not have voting rights and does not normally have speaking rights. He/she attends a meeting because of the position he/she holds, normally to be kept informed and/or to provide information and he/she may be invited by the Chair to speak in appropriate circumstances.
Observer-Visitor External	A person outside the organisation(external) who attends a Committee for a specific topic following invitation by the Chair



RC	Risk Committee
TC	Technology Committee

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## A. AUTHORITY

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1. The Group Board Audit Committee (“**the Committee**”) is a Committee of the Board of Directors (“**the Board**”) of the Bank of Cyprus Pcl (“**the Group**”) 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 Bank, its business units and subsidiaries (the Bank 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 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. For expenditure within the approved budget, regarding goods or services (confidential or non-confidential), IA or CD 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.
7. For expenditure requests by IA or CD that exceed the approved budget of the Division, the Chairperson is authorised to provide approval for budget extension up to €250.000 p.a., 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.
8. The Committee reviews annually the Terms of Reference and recommends necessary changes to the Board.
9. 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 Group’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 Group.

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

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The role of the Committee is to be responsible for:

- The appropriateness and completeness of the Group's system of internal controls and information systems;
- Ensuring that the system of internal controls is adequately resourced;
- Monitoring the integrity of the Group's financial statements and related announcements (including significant financial reporting judgements contained in them) and the financial reporting process;
- Advising the Board on the accuracy and fairness of the annual reports and accounts;
- Monitoring the effectiveness and operations of the internal audit function and the compliance function;
- Overseeing all matters relating to the relationship between the Group and the external auditors;
- Monitoring the effectiveness of the Group's whistleblowing procedures.
- Assessing the soundness of the methodologies and policies management the Group uses to develop ESG including climate related and environmental metrics and other disclosures and to assess the key vendors' plans about sustainability.

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## **C. COMMITTEE COMPOSITION**

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1. The Committee has a minimum of 3 members all of whom independent non-executive Directors.
2. The Committee should collectively have:
  - Recent and relevant financial experience and competence
  - Knowledge of the broader sector in which the Group operates, including internal controls, information technology, business and risk management, both financial and non-financial.
0. The Chair of the Risk Committee will be a member of the Committee but should not be the Chair. The Chair of the AC should be a member of the RC.
3. The Chairperson of the Board of Directors cannot be a member of the Committee.
4. 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, in matters of accounting, auditing and risk management, both financial and non-financial.
5. The Board appoints the members of the Committee annually on the recommendation of the NCGC in consultation with the Committee Chairperson.
6. The Board appoints a Chairperson of the Committee for a maximum period of six years whether consecutive or not.

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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 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.
4. The quorum for a meeting is 2 members or 50% rounded up, whichever is the highest.
5. 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.
6. 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.
7. The Director of Internal Audit and the Director of Compliance are observers by invitation.
8. No person other than a Committee member is entitled to attend meetings of the Committee, although others may attend as observers by invitation. 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.
9. The AC 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.
10. The Committee shall annually establish a schedule of major topics to be discussed during the year.
11. Decisions beyond this Committee's authority and matters which any member of the Committee deems necessary for escalation will be escalated by the Chair to the Board as appropriate.

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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 effectiveness of the Group's internal quality control and risk management systems (being the systems established to identify, assess, manage and monitor financial risk) with regard to the financial reporting, based on data and information produced by the IA 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 IA prior to submission to the Board of Directors. IA 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 (other than the statutory 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.
- Review the findings of the above assessment and propose corrective measures to the Board.
- Review the Group's whistleblowing policies and procedures, assess their effectiveness and ensure that there are adequate, reliable and secure internal whistleblowing 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.
- Identify, assess and monitor any tax risk that the Group might face.
- Oversee the implementation of the AML&TF Law and relevant directives. The Chairperson of the Committee is the designate Board member responsible for such oversight.
- Ensure the ESG frameworks/standards used are proper and relevant climate-related financial disclosures are investor grade.
- Ensure there are processes and controls in place to ensure accurate, comparable and consistent climate-related financial disclosures.
- Consider materiality in terms of how ESG, including climate related and environmental issues impact the Company's financial performance and ability to create long-term value (Financial materiality) and how the Company's actions impact people and the planet (Social materiality).

### **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 (having regard to matters communicated to it by the auditor).

- Review related information presented with the financial information, including the strategic report and the corporate governance statements relating to the audit.
- Where requested by the Board, advise the Board on whether the annual report and accounts taken as a whole is fair, balanced and understandable (including assessing whether information in the annual report other than the financial statements is consistent with the financial statements) and provides 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 and review significant financial reporting judgements contained in them. 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 in the financial statements in relation to internal control and the viability statement and generally provide advice to the Board on these announcements.
- Jointly with RC review provisions proposals of management and other topics of common/shared responsibility and make appropriate recommendations to the Board in relation to the adequacy of these provisions and the methodology adopted.
- Supervise the process of the Finance Director's selection of the proper financial and GHG emissions accounting policies and recommend any significant changes in accounting policies and/or practices to the Board for approval and oversee the establishment of these accounting policies.
- Ensure the ESG-related disclosures to be included in the Group's periodic reports.
- Review other material public disclosures with respect to ESG, including climate related and environmental matters and discuss with management the Company's engagement with stakeholders on key ESG including climate related and environmental matters, including in response to any proposals or other concerns that have been submitted to the Group or the Board.

### 3. *Internal Audit*

- Approve the internal audit charter to ensure it is appropriate to the Group's needs, approve the annual internal audit plan and ensure it is aligned to the key risks of the business and monitor and review the effectiveness of its work. Review and approve budget of the IA and ensure it is sufficiently flexible to adapt in response to developments;
- Assess and monitor the independence, adequacy, role and effectiveness of the IA (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;
- 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 IA and monitor the prompt and effective implementation by management of agreed recommendations through the internal audit reports;
- Oversee the coordination of internal and external audit activities;
- Ensure that there is open communication between the different functions and that the internal audit function evaluates the effectiveness of the risk, compliance and finance functions as part of its internal audit plan.
- Ensure that IA incorporates ESG including climate related and environmental risks in its Risk and Audit Universe.



- Ensure that the IA has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with the International Internal Auditing Standards;
- Assess the effectiveness of the internal audit function by:
  - Meeting with the Director of IA at least once a year, without management being present, to discuss any issues arising from the internal audits carried out;
  - Reviewing and assessing the annual internal audit work plan
  - Receiving a report on the results of the internal auditor's work
  - Confirming the appropriateness of the qualifications, experience and expertise of the internal audit for the business.
- Ensure that the Director of IA has direct access to the Chairperson of the Board and to the Committee and is accountable to the Committee.

#### 4. *Compliance Function*

- Advise the Board based on data and information produced by the regulatory compliance function on the adequacy and effectiveness of the business conduct framework.
- Advise the Board based on data and information produced by regulatory compliance function and external auditors on the adequacy and effectiveness of the compliance framework of the Group.
- Monitor the resources, access to information and quality of work performed by the CD, review the compliance program, and make appropriate recommendations to the Board.
- Approve the compliance charter to ensure it is appropriate to the Group's needs and approve the annual compliance program. Review and approve its budget, ensuring it is sufficiently flexible to adapt in response to developments.
- Evaluate the Director of CD 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 CD as per **Section F**.
- Receive and consider regular reports as well as ad-hoc ones issued by the CD and monitor the prompt and effective implementation by management of agreed recommendations through these reports and other guidelines issued by CD.

#### 5. *External Audit*

- Consider and monitor the independence and objectivity of external auditors of the Group. Matters affecting the auditors' independence must be examined and appropriate recommendations should be made to the Board.
- Review the effectiveness of the external audit process (taking into consideration relevant UK professional and regulatory requirements such as Section 290 of the ICAEW's code of ethics) through the use of Audit Quality Indicators (AQIs).
- Assess annually and report to the Board on the qualification, expertise, resources and independence of the external auditor.

- Review and consider the statements prepared by the statutory auditors on their independence and ensure they are in line with the relevant annual CD report.
- Conduct the tender process as often as required by applicable law, rules, regulations and best practice and make recommendations to the Board on the appointment, re-appointment, dismissal, remuneration and terms of engagement of the auditors.
- Receive and consider audit reports, management letters and other written assessments completed by external auditors, 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 International Financial Reporting Standards as approved by the European Union.
- Develop, approve and implement a policy on the engagement of the external auditors to supply non-audit services ensuring there is prior approval of non-audit services, considering the impact this may have on independence or objectivity, taking into account relevant regulations and ethical guidance and report to the Board, on any action or improvement is required; and
- Report to the Board on how the Committee has discharged its responsibilities.
- Discuss with the external auditors, before the audit commences, the nature, scope and frequency of the audit of the annual or consolidated financial statements, the auditor's quality control procedures and steps taken by the auditor in response to changes in regulatory and other requirements.
- 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.
- Approve all non-prohibited NAS for the Holdings Company, the Bank and its subsidiaries.
- Meet with external auditor at least once a year without management present, to discuss issues arising from the audit and the Audit Report on the assessment of the adequacy of the company's internal control systems.

## **6. *Communication and Reporting***

- Ensure adequate coordination / communication between the Board, management, the IA and the external auditors of the Group on audit issues.
- Ensure adequate coordination / communication between the Board, management and the CD on compliance issues.
- Review quarterly report received from the statutory auditor, confirming non-audit services provided during that period.
- Formulate the annual AC Report included in the Annual Corporate Governance Report of the Group which should include, amongst other things, all items in Appendix A:
- Review and approve the Report on Corporate Governance which will be included in the Group'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 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, and control functions.
- Carry out an annual self-assessment (including in relation to the AC's terms of reference) and report the conclusions and recommendations for improvements and changes to the Board
- Ensure that the Committees' terms of reference are available on the Group'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 of Inside Information Policy
- Approval of Group MiFID Policy
- Approval of Group Competition Law Compliance Policy
- Approval of 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 Governance Policy
- Approval of Financial/Tax Exchange of Information Group Policy
- Approval of Sourcing Procurement & Vendor Management Policy
- Approval of Compliance charter

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.

## Appendix A

- Annual Corporate Governance Report of the Group which should include, amongst other things:
  - A summary of the AC'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 Group'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 appointment, and 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).