



GROUP RISK COMMITTEE
TERMS OF REFERENCE

Nicosia, February 2016

A. Authority

1. The Group Risk Committee (“the Committee”) is a Committee of the Board of Directors (“the Board”) of the Bank of Cyprus Public Company Ltd (“the Group”) from which it obtains its authority and to which it regularly reports
2. The Committee has delegated authority of the Board in respect of the functions and powers in these Terms of Reference.
3. The Committee is concerned with the business of the whole Group and accordingly its authority extends to all relevant matters relating to the Group.
4. The Committee has authority to investigate any matters within its responsibilities and to obtain such information as it may require from any director, officer or employee of the Group
5. The Committee has authority to obtain independent advice and information from external parties, as long as the commitment and obligations it incurs on behalf of the Group are reasonable and within the Terms of Reference of the Committee. The Chairman’s limit though to this respect, is limited to approval of capital or revenue expenditure up to a maximum of EUR20.000 and he is obliged to inform the Committee at the next meeting.
6. The Committee reviews annually the Terms of Reference and recommends necessary changes to the Board.

B. Role of the Committee

The main purpose of the Committee is to review, on behalf of the Board, the aggregate Risk Profile of the Group, including performance against Risk Appetite for all risk types and ensure both Risk Profile and Risk Appetite remain appropriate. Specifically it will:

- Consider and recommend to the Board the Group’s overall Risk appetite
- Review on behalf of the Board the aggregated Risk Profile for the Group and performance against Risk Appetite
- Identify the potential impact of key issues and themes that may impact the Risk Profile of the Group
- Ensure that the Group’s overall Risk Profile and Risk Appetite remain appropriate given the external environment, any key issues and themes impacting the Group and the internal control environment
- Seek to identify and assess future potential risks which, by virtue of their uncertainty, of low probability and unfamiliarity may not have been factored adequately into review by other Board Committees.

C. Composition

1. The Committee has a minimum of 3 and a maximum of 9 members. The Committee must consist entirely of non-executive Directors of whom at least the majority must be independent Directors.
2. The Chairman of the Committee cannot chair any other Committee of the Board.
3. The Committee should consist of Directors who possess adequate knowledge, skills and expertise to fully understand and monitor the risk strategy and the risk appetite of the Group.
4. 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.
5. The Board appoints the members of the Committee annually.
6. The Board appoints a Chairman of the Committee.
7. The Company Secretary or his nominee acts as secretary to the Committee.

D. Meetings

1. The Committee holds regular meetings, at least 4 per year and additionally, ad hoc meetings whenever called by the Chairman 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 to attend no later than 4 working days before the date of the meeting.
3. The Chairman of the Committee ensures that:
 - a) the Agenda appropriately addresses the issues that require the Committee's attention and keeps the Committee focused on its primary oversight responsibilities and
 - b) the Committee is proactive in setting their agendas.
4. The Company Secretary or his nominee shall record and maintain detailed minutes of the meetings of the Committee. The minutes of all Committee meetings must be finalised no later than fifteen (15) business days following the meeting, formally approved at the next meeting, automatically 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 Chairman shall have a second or casting vote

7. The Board's directions for minimum annual attendance requirements for Committees of the Board provide for participation in at least $\frac{3}{4}$ of all meetings (regular and extraordinary) and any continuous absences to not exceed 2 in number.
8. Attendees:
 - a) Regular Attendee of the Committee is the Group Chief Risk Officer. Based on the nature of their duties as Heads of Internal Control Functions, the other two Heads of Group Compliance and Internal Audit are also considered as regular attendees but shall attend only if a topic related to their function is discussed and they have been invited by the Committee's Chairman
 - b) By invitation of the Committee Any Director, officer or employee of the Group and external auditors
9. The Chairman of the Committee is entitled to invite other Directors that are not members of the Committee, members of the management of the Group or external parties to participate in a meeting, in order to advise or inform the Committee on the issues discussed at the meeting. Any such persons are present only during the discussion of the specific items and leave the meeting room immediately after, without any participations in the decision making processes.
10. The Risk Committee should meet periodically with the Audit and 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. The Secretary of the Committee is responsible to create and maintain a Conflict 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.

E Responsibilities

1. Risk Appetite and Strategy

- Review management proposals on the desired risk strategy both at individual company as well as at Group level, i.e., the risk appetite/exposure, in each area of risk (market, liquidity, credit, equity, regulatory, information security, operational and capital resources) and make appropriate recommendations to the Board.
- Evaluate and report to the Board on the Group's overall current and future risk appetite and strategy, taking into account the financial and risk profile of the institution and the capacity of the Group to manage and control risk.

- Approve metrics or a process to satisfy the Committee that the risk reports and information the Committee receive are accurate, comprehensive and depicts an appropriate view of the institution's risk profile.
- Ensure that risk parameters and risk models developed and used to quantify them are subject to periodic independent validation.
- Evaluate the Group's governance, risk and control framework and oversee its integration with the bank's decision making process, covering the whole spectrum of the bank's activities and units as well as subsidiaries.
- Submit to the Board proposals and recommendations for corrective action, whenever weaknesses are identified in implementing the risk strategy.
- Review and propose to the Board approval limits in each risk area that comply with the overall risk strategy of the Group.
- Regularly monitor and ensure compliance of the Group with defined risk strategy by reviewing reports prepared by the Group Risk Management Division, and any other information it considers necessary and make recommendations and inform the Board on the significant risks to which the Bank is exposed.
- Determine the nature, the amount, the format, and the frequency of the information on risk which it is to receive on the risk situation of the Group and of each type of risk and business unit.
- Examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings without prejudice to the tasks of the Remuneration Committee.
- Examine management reports concerning changes anticipated in the economic and business environment, or major internal changes, or new and emerging risks (in markets in which the Group operates), and the extent to which they affect the Group's risk profile and appetite, and make appropriate recommendations to the Board.
- Examine high-risk transactions and make recommendations to the Board.
- Examine the adequacy and effectiveness of the contingency and insurance strategy of the Group, and make appropriate recommendations to the Board.
- Review the composition, authorities, duties and responsibilities and effectiveness of other Risk Committees, where such Committees are appointed, that function within the Group and make recommendations to the respective Country Board for rectification.
- Assist the Board in overseeing the effective implementation of the risk strategy by senior management including the development of mechanisms to ensure material

exposures that are close to, or exceed approved risk limits are managed and where necessary, mitigated in an effective and timely manner and the identification and escalation of breaches in risk limits and of material risk exposures in a timely manner.

- Review whether prices of liabilities and assets offered to clients take fully into account the Group's business model and risk strategy. Where prices do not properly reflect risks in accordance with the business model and risk strategy, the Risk Committee shall present a remedy plan to the Board.
- Assess and monitor the independence, adequacy and effectiveness of the Group Risk Management Division and the Information Security function.
- Review and approve the Annual Risk Report.
- Review and approve the Annual Information Security Risk Report.
- Advise the Board, drawing on the work of the Audit Committee, Group Risk Management, Information Security function and external auditors, on the adequacy and effectiveness of the Risk Management and information security framework.
- Advise the Board, drawing on the work of the Audit Committee, Group Risk Management Division, Information Security function and external auditors, on the adequacy and robustness of information and communication systems to enable identification, measurement, assessment and reporting of risk in a timely and accurate manner and ensure the adequate protection of the institution's confidential and proprietary information.
- Review and approve the Group's social responsibility strategy and associated policies, including policies on charitable donations, citizenship and environment.
- The Committee is responsible for the oversight of the whole Group but may delegate tasks to local Committees to avoid duplication.

2. Risk Policies and Systems

- Determine the principles which should govern the management of risks, through the establishment of appropriate Risk Policies. Approve all such policies.
- Advise the Board drawing on the work of the Audit Committee, Group Chief Risk Officer and external auditors, the adequacy and effectiveness of risk management policies, processes, systems and controls of the Group, including the appropriateness of limits, the adequacy of provisions and in general, the adequacy of capital resources in relation to the level of undertaken risks with respect to maintaining on an ongoing basis, amounts, types and distribution of both the internal capital and own funds adequate to cover the risks of the institution.
- Monitor and ensure compliance of the Group with risk management policies, and regulatory requirements and make appropriate recommendations to the Board.

- Review, evaluate and make any relevant recommendations to the Board on the Internal Capital Adequacy Assessment Process report (ICAAP) which aims to assess all important risks undertaken by the Group and determine capital requirements of the Group. Ensure that the risk profile of the Group is in line with risk appetite, and capital planning defined by the Board.
- Ensure that stress tests and related procedures are carried out as appropriate on all major risks, at least on an annual basis and where necessary, challenge the appropriateness of limits and adequacy of capital and budgets.
- Review and approve the budgets of the Group Risk Management Division and Information Security function, ensuring that they are sufficiently flexible to adapt to variations in response to developments.
- Make recommendations to the Board regarding the appointment or removal of the Head of the Information Security function.
- Carry out the annual appraisal of the Group Chief Risk Officer and the Head of Information Security function and submit them to the Board.
- Make recommendations to the Board regarding the appointment, replacement or dismissal of the Group Chief Risk Officer.
- Express its opinion regarding the choice and the suitability of managers of divisional/country risk management units and assess the performance of these units.
- Obtain adequate assurance that:
 - a) the Senior Executive Management fully comprehends and applies the acceptable risk taking levels, as defined by the Board,
 - b) all affected employees comprehend and apply the risk taking and risk management policy and
 - c) excessive risk-taking is not encouraged.
- Ensure that communication by Group Risk Management Division, Group Compliance Division and Information Security Function is adequately documented.
- Review the Reputational Risk Policy and the processes put in place to implement it.
- Conduct a self assessment and report its conclusions and recommendations for improvements and changes to the Board.

3. Approval of loans and limits

The Board has delegated to the Committee the following authorization levels:

- **Facilities from €100 million up to €200 million** - to be discussed and approved by the Committee. Approval by simple majority of members is required and once this is

given, it is considered final. No need to escalate these cases to the Board. In case that the approval is by majority vote, then any member of the Risk Committee has the right to escalate the case to the full Board.

- **Facilities above €200 million** – the Committee should provide its opinion and escalate such cases to the Board for decision.
- Any other cases, which are below €100 million, but Management is in doubt as to whether they should be approved or not, can be submitted to the Committee for ratification.
- Urgent cases above €100 million approved by Credit Committee 3 can be submitted to the Risk Committee or the Board of Directors (according to limit amount) for ratification.
- Approval of ad-hoc limit requests for Treasury transactions, asset possession, and write-off limits with maximum deviation of 20% from Board approved limits - this is subject to an annual review of such limits that will need to be recommended to the Board for final approval.
- A summary of all material approvals (restructurings, large exposures etc) over €100 million is to be presented to the Board for their information.

4. Communication and Reporting

- Ensure adequate coordination/communication between the Board and the management on risk management issues.
- Formulate the Annual Risk Committee Report included in the Annual Corporate Governance Report of the Group, which includes the following:
 - The most important risks undertaken by the Group during the previous year.
 - The adequacy and effectiveness of the policy and processes regarding Risk Management.
 - The appropriateness of limits of risks and the adequacy of provisions and capital.
 - Its membership, the number of its meetings and attendance over the year and its main activities.
- Examine and approve the circumstances under which the Chairman of the Committee can communicate directly with the main shareholders.
- Inform the Board of its decisions by submitting to it copies of meeting minutes.
- Respond, through the Chairman of the Committee, to shareholder questions regarding Group risk management issues at the Annual General Meeting.
- Report to the Board regularly and at least quarterly.

- The Group Chief Risk Officer will meet regularly with the Chairman of the Committee and will have the right and responsibility to elevate issues to the Chairman where he/she considers it necessary in the furtherance of his/her responsibilities.

5. Regulatory framework

1. Directive on Governance and Management Arrangements of Credit Institutions 2014
2. CSE Code 4th Edition 2014
3. Directive for the calculation of the Capital Requirements and large exposures of Banks 2006 to 2013
4. Group Information Security Policy
5. Risk Appetite Statement Policy
6. Reputational Risk Policy
7. Code of Conduct
8. Anti-Bribery Policy
9. BOC Group Conflicts of Interest Policy
10. Corporate Governance Policy
11. Fitness & Probity Policy
12. Any other relevant legislation or external and internal regulation

in each case, as amended or updated from time to time.

F. Delegation of Authorities by the Main Body of the Board of Directors

The following matters are delegated by the Main Body of the Board of Directors to the RC:

- Approval of the Annual Risk Report
- Approval of the Annual Information Security Risk Report
- Approval of the policy governing charitable and political donations
- Approval of all Group Risk Management Policies (including information Security Policy).

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