

RISK MANAGEMENT AND OWN RISK ASSESSMENT (ORA) POLICY

CYTA Pension Fund

Version 1.0

Effective from 23 November 2021

I. Introduction

The Cyprus Law regarding the supervision of the Institutions for Occupational Retirement Provision (IORP), as modified by the Law 10 (I) 2020, provides detailed regulations on the governance of IORPs. An IORP is required to set up an adequate risk management system. In execution of this requirement, the CYTA Pension Fund (hereafter referred to as the “Fund”) has established a Risk Management and Own Risk Assessment (ORA) Policy, containing the written guidelines for the implementation of the risk management system.

The following areas will be discussed further in this Risk Management and ORA Policy:

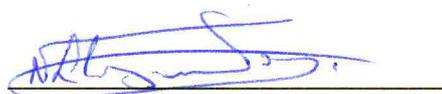
- Chapter II. Risk appetite framework, Purpose of the Risk Management and ORA
- Chapter III. Risk Management Organisation including Roles and responsibilities
- Chapter IV. Risk Taxonomy
- Chapter V. Own Risk Assessment (ORA) and Methodology
- Chapter VI. Risk Register

This version of the Risk Management and ORA Policy has been approved by the Management Committee of the Fund on 23 November 2021. The Risk Management and ORA Policy is updated when a change to the risk profile of the Fund occurs but at least on a triannual basis. Any changes to the Risk Management and ORA Policy will be communicated to the Registrar within one month.



Theocharis Millas

Chairman of the Management Committee



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Member of the Management Committee

II. Risk appetite framework, Purpose of the Risk Management and ORA

1. Risk appetite framework

Risk appetite reflects the amount of risk taking that is acceptable to the Fund. As a result, risk appetite refers to the Fund's attitude towards risk taking and whether it is willing to tolerate levels of exposure to specific risks or risk groups. The Risk Appetite assists the Fund to express the maximum level of risk it is prepared to accept in order to deliver its investment objectives to its members as articulated in the Fund's Statement of Investment Policy.

The Fund has established a Risk Appetite Framework ("RAF") which serves as a tool for the Management Committee to establish boundaries around risk taking in order to achieve the Fund's objectives. As a key element of a wider system of governance, the RAF has both strategic and operational dimensions.

The three main driving concepts which influence risk appetite framework include:

- Risk culture**, and especially the tone at the top drives the risk appetite; in addition, the risk appetite will provide input to the risk culture, especially on accountability, informed risk decision making, and transparency.
- Risk capacity** is the maximum level of risk the Fund can assume before it breaches regulatory constraints (e.g. breach of investment exposure limits) or other stakeholders' constraints.
- The strategy & objectives** of the Fund affect the risk appetite in two ways: the long-term strategy may indicate a specific risk appetite that will support the expected outcomes, and the risk appetite should be used during business planning to ensure that the expected performance aligns with the appetite statements.

The two key areas where risk appetite is applied include:

- Evaluating **risk exposures**, where the Risk Management Reports are used to measure risks and identify deviations from risk appetite and tolerances.
- During **decision making** (a key component of the risk culture); a risk informed decision leads to an enhanced risk culture, making sure that the decision process considers risks and the risk appetite in every step. Cascading down the risk appetite to pillars and units and monitor them accordingly (e.g. through Key Risk Indicators (KRIs)) is a strong factor to support risk informed decision making.

The three most common methods for implementing risk appetite include:

- Policies and Procedures** are the core tool to describe management intention and ensure that all parties involved with the Fund apply the risk appetite as needed.
- Establishment of **controls** (or risk responses) that will manage risks and reduce them to an acceptable level (residual risks), in accordance with the risk appetite.
- Risk tolerances** will be set for every risk appetite statement, and will be used also within Risk Management reports for monitoring.

Fund Risk Appetite Statement

The Fund's approach to risk management strategy stems from its objectives, which are also aligned with the interest of the Fund's key stakeholders i.e. its members.

The Fund's primary investment objective is "To invest prudently so that all benefit promises can be met at an acceptable level of risk."

The Fund takes and manages risks to achieve its objectives, and adopts a Risk Appetite Statement that broadly describes the types and amounts of risk the Fund is willing to take in pursuit of these objectives (please refer to separate Risk Appetite Statement).

The Risk Management and ORA consists of the following items:

2. Risk Management and ORA Documentation

The Risk Management and ORA Policy documents the effective risk management system comprising strategies, processes and reporting procedures necessary to identify, quantify, manage, monitor and report, on a regular basis the risks, at an individual and at an aggregated level, to which the Fund is or could be exposed.

3. Risk Profile of the Fund

Assessment of the risks to which the Fund is exposed determines the risk profile of the Fund. The risk profile of the Fund, as a result of Risk Management and the ORA, should be in line with a predefined risk appetite by the Management Committee.

4. Embedding Risk Management and ORA in the management of the Fund

Risk Management and ORA should give more insight to how risks can influence the operations of the Fund and the execution of contractual obligations.

The Management Committee defines the risk management policy and strategy of the Fund and is responsible for the correct execution of the Risk Management and ORA Policy.

This Risk Management and ORA policy should be read together with other policies established by the Management Committee, impacting the risk management within the Fund.

The operational structure of the Fund is strengthened by the addition of a Risk Manager (key function) who reports (at least once per year) his conclusions to the Management Committee according to the Risk Management Policy.

The ORA exercise will identify and analyse (quantify) the risks to which the Fund is exposed based on the ORA Policy. The ORA report describes the outcome of the ORA exercise with appropriate action points and (remediation) measures to be used in the future decision-making process and management of the Fund if appropriate.

5. Describing Methods and Procedures used in the Risk Management and ORA

Methods and procedures will be defined in the following sections.

The Management Committee can rely on existing tests, controls (e.g. by key functions) and protection mechanisms for the execution of the ORA exercise but may request additional tests where appropriate. Additional tests will be documented with the purpose and a description of the outcome.

6. Reporting Procedures

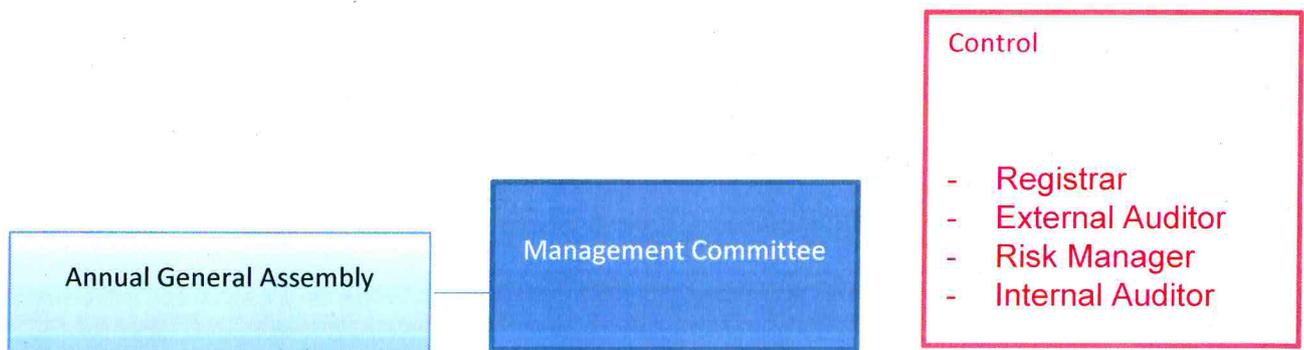
The Management Committee should adequately document its actions and decisions on all aspects of risk management in its reports and in the minutes of the meetings, allowing to establish how a decision was reached by referring to the discussion of possible risks and the measures taken to manage those risks. The Management Committee should document in particular how information coming from the risk management system was included in the decision making.

The Management Committee should provide for adequate reporting systems between the Management Committee of the Fund and external providers to ensure accurate and timely communication on the risks to which the Fund is exposed, and the remediation measures. The communication procedures should in particular provide for the requirement for all internal and external bodies involved in the management of the Fund, to inform the key functions on all relevant facts regarding any risk issue arising in their area of expertise.

A risk management report from the Management Committee to the Registrar contains at least the ORA report and conclusions, and the minutes of the Management Committee's meeting where the ORA report was approved.

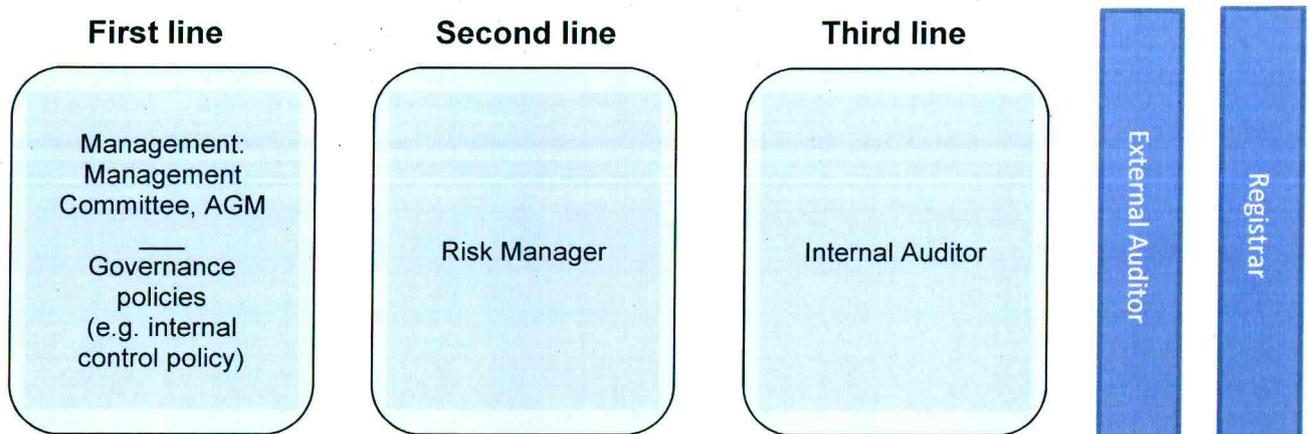
III. Risk Management Organisation

The Fund is organised as follows:



Outsourced activities				
Investment Services for Specific Matters and Custody	Investment Services for General Matters	Member Administration, Accounting and regulatory reporting	Risk Management Services	Actuarial Services

In the organisation, the Fund has implemented the 'three lines of defence' model as follows:



Roles and Responsibilities

First Line of Defence

The Management Committee is ultimately responsible for the effectiveness of the Fund's internal control and risk system. However, they can assign specific responsibilities regarding risk management to other parties, without reducing its general authority and responsibility with regard to supervision. Delegated risk management tasks are specified in the internal rules of the relevant activity.

The Management Committee defines the risk management strategy and takes it into account in all strategic decisions of the Fund.

The Management Committee follows up on the evolution of the risks to which the Fund is exposed and makes adjustments where necessary. To this purpose, adequate control processes and reporting procedures are put in place to recognize, measure, manage and monitor risks at all times.

The Management Committee decides on the necessary controls and takes actions needed to ensure that the Fund has an adequate internal control and risk management system. The Management Committee ensures that these systems are integrated into the organisational structure of the Fund and its decision-making process.

Therefore, the Management Committee performs the following actions:

- Prepare a risk inventory which is updated on a regular basis and the outcome of which is reflected in the risk register.
- Determine the probability of the identified risks to occur and the impact of these.
- Check which control measures have been taken or are still pending.
- Determine risk appetite.
- Stay informed about the current state of risk management.
- Evaluate whether risk management at third party providers is adequately carried out.
- Periodically evaluate and determine the ORA and Risk Policy (in line with other policies such as the Statement of Investment Principles, outsourcing policy, etc.).
- Evaluate the risk management system at least once every three years on occasion of the ORA exercise.

The Management Committee is assisted with the actions described above by the operational bodies of the first line of defence.

Second Line of Defence

Second line of defence is implemented through the risk management function.

The Risk Manager is responsible for the monitoring of risks and reporting to the Management Committee. The Risk Manager provides information to the Management Committee about the effectiveness of risk management carried out by the first line and makes recommendations to mitigate risks.

The Risk Manager will work closely together with the other key functions (Internal Auditor, External Auditor) and service providers to gather information on the risk management measures taken by them. Reports prepared by the key functions might be used for the risk management reporting prepared by the Risk Manager.

Third Line of Defence

The third line of defence – performed by the Internal Auditor – independently assesses the design and effectiveness of the risk management and internal control system of the Fund and reports to the Management Committee at least annually.

IV. Risk Taxonomy

The Fund identifies and measures the risks taking into account its organisation and its activities in particular to the extent activities are outsourced and according to the complexity of the areas managed by the Fund.

Based on the analysis of the risks to which the Fund is exposed, the Management Committee has identified at the highest level the following four risk categories:

1. **Operational Risk:** Potential loss arising from inadequate or failed procedures, systems or policies, human action errors, fraud or other criminal activity and any external event that disrupts business processes.
2. **Compliance Risk:** Exposure to legal penalties, financial and material loss that a Fund faces when it fails to act in accordance with laws and regulations or internal policies.
3. **Investment Risk:** The probability of occurring losses in relation to adverse changes in the financial situation resulting – directly or indirectly – from fluctuations in the level and in the volatility of market prices of assets.
4. **Actuarial and Financial Risk:** Risk of assets not providing sufficient cover for benefit payments, (re)insurance premiums, assumptions and indexation.

Each risk category covers several relevant (to which the Fund is exposed) sub-risks that are identified by the Management Committee assisted by the Risk Manager and mentioned in the Risk Register (please refer to separate document). In the risk identification exercise, the Management Committee identified – further to the four risk categories above – also “reputation risk”. The Management Committee has not listed it as a separate category but has included the reputational impact of a risk event in the total impact assessment of the (sub-) risk event or category.

V. Own Risk Assessment (ORA) and Methodology

Timing of the ORA

The Fund shall perform an Own Risk Assessment (ORA) at least every three years or without delay following any significant change in the risk profile of the Fund.

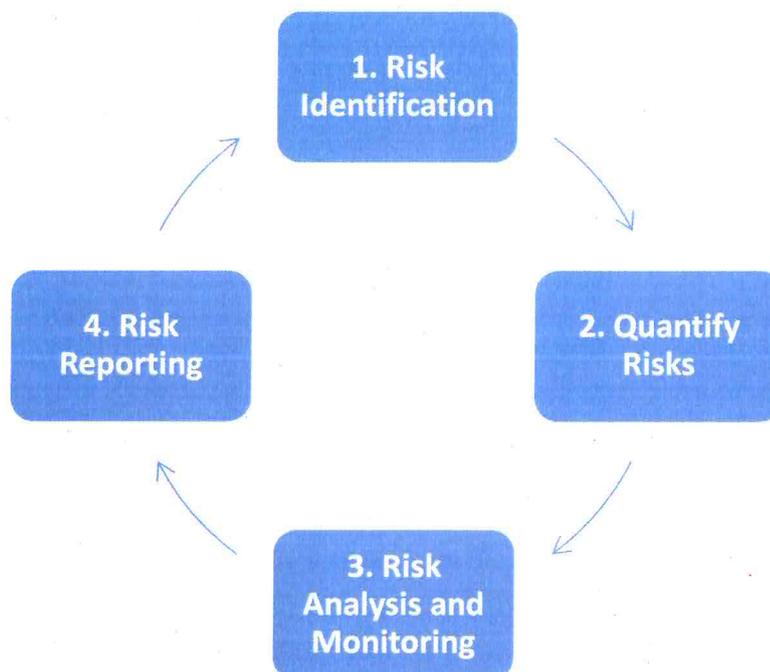
The Fund will perform an ORA in the following situations in case this triggers a significant change of the Fund's risk profile:

- Cross-border activity
- Significant modification of a benefit plan or a new plan
- Significant modification of the SIP and/or the Financing Plan
- Change of reinsurance contract
- Collective transfer of assets
- Significant change of legislation or in the financial market
- Change of service providers
- Event within the sponsoring company

Risk Management Process

The risk management process is a continuous approach which systematically considers risks surrounding the Fund's activities in the current, future and potential stress situations.

The main steps of the process involved in risk management are identified in the figure below and are detailed in the following sections.



1. Risk Identification

The Management Committee identifies the (sub)risks according to the Risk Taxonomy. A (sub)risk might be considered on different levels (e.g. Fund, country, pension scheme) if relevant.

Each risk is described in the Risk Register (please refer to separate document).

2. Risk Analysis

Probability and Impact

The probability that the risk will occur and the impact the risk will have on the most important stakeholders of the Fund need to be assessed for each (sub)risk. The risk is measured on the level of the Fund and separately on the level of the employee (affiliates and/or beneficiaries of the Fund). Both impacts might result in different ratings.

1. **Probability** (taking into account the existing control measures)
 - 1 = Low
 - 2 = Medium
 - 3 = High
2. **Impact** (in case the existing control measures fail and the risk would occur)
 - 1 = Low
 - 2 = Medium
 - 3 = High

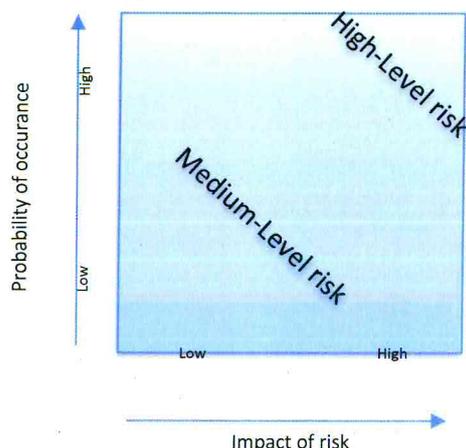
The Management Committee, assisted by the Risk Manager, will assess the impact of the risk based on past experience and/or considerations in case different events occur (current, future and potential stress situations).

The assessment of the probability can be linked to a well-defined timeframe in which the (sub)risk might occur (e.g. coming 12 months = High, coming 3 years = Medium, coming 10 years = Low).

Risk Indicator

The **Risk Indicator** is defined as the Probability multiplied by the Impact for each (sub)risk. If different ratings appear for the impacts (Fund and employee) of a particular (sub)risk, the maximum of the two will be taken for the calculation of the Risk Indicator for that particular (sub)risk.

The chart below illustrates several Risk Indicator levels based on varying degrees of Impact and Probability scores:



Risk Indicator	Classification
6, 9	High (Critical) Risk
3, 4	Important (Medium-Level) Risk
1, 2	Acceptable (Low- Level) Risk

The Risk Indicator allows the Management Committee of the Fund to classify the risks to which the Fund is exposed.

Risk Appetite

The Management Committee will define the **Risk Appetite** of the Fund for each (sub)risk rated, per default, at Low, Medium or High. The Risk Appetite can be defined as the risk tolerance of the risk level – from an overall perspective – that the Management Committee is prepared to pursue, retain or take. A risk exposure below the Risk Appetite is considered to not automatically require appropriate action points and (remediation) measures from the Management Committee.

3. Risk Analysis and Monitoring

The Management Committee will review and analyse the existing control measures and assess whether internal key controls and procedures are in place to reduce the risk exposure. The Management Committee can rely on existing tests, reports, control (e.g. by key functions) and protection mechanisms for the execution of the ORA exercise but might request additional tests where appropriate. Additional tests will be documented with the purpose and a description of the outcome.

The review and analysis of the Management Committee, assisted by the Risk Manager, will lead to the **Actual Risk** for each (sub)risk rated, per default, at Low, Medium or High. The Actual Risk is considered as the residual risk to which the Fund is exposed taking into account the existing controls and measures.

If the Actual Risk exceeds the Risk Appetite for a particular (sub)risk, additional measures need to be taken and action points need to be defined by the Management Committee based on recommendations provided by the key functions and in particular the Risk Manager.

4. Risk Reporting

Various reports are prepared to manage the risks to which the Fund is exposed.

Report of the Risk Manager

The Risk Manager prepares a report to the Management Committee on a regular basis according to this policy at least annually. The report includes the recommendations of the Risk Manager to mitigate residual risk where needed.

ORA report

The ORA report contains the assessment of risks identified in the Risk Management and ORA Policy, the evaluation of the effectiveness of the risk management system and required actions. The ORA report of the Management Committee should focus on future risk mitigation based on the outcome of the ORA exercise to be used in the management and decision-making process of the Fund.

Reports from External Providers

Reports from third party providers of the Fund are prepared for the Management Committee to monitor implementation of risk measures and assess compliance with roles and responsibilities agreed with the provider in the service level agreement. KRIs are part of the analysis that can include traffic light reporting in which the implementation is monitored against pre-defined risk limits. The forms of reporting are agreed in the Service Agreements with the service providers.

Reports from Key Functions

Reports from key functions (besides the Risk Manager) with their recommendations or conclusions in relation to the ORA.

VI. Risk Register

The Risk Register details all the material qualitative and quantitative risks that the Fund faces and possible causes of these risks. The Management Committee provides input to the Risk Register by performing the ORA.

The Risk Register is kept up-to-date by the Risk Manager.

The following information is recorded in the Risk Register (please refer to separate document):

- Risk Category and sub-category
- Risk
- Description of the Risk
- Probability of the Risk
- Impact of the Risk (Employee and/or Employer)
- Risk Indicator
- Risk Appetite

The Management Committee, assisted by the Risk Manager, will add the following to the Risk Register following each ORA exercise:

- Existing mechanisms, policies and measures to control/mitigate the Risk
- Actual Risk (input from Risk Manager)