



## Compliance with Articles 88 to 96 of CRD IV for the year ended 31 December 2015

Article 96 of the Fourth Capital Requirements Directive (“Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC”) (the “**CRD IV**”) requires institutions to explain on their website how they comply with the requirements of Articles 88 to 95 of the CRD IV.

### **Governance arrangements (Article 88 of the CRD IV)**

Article 88 of the CRD IV has been transposed into Cyprus law by the provisions of the “Directive to Credit Institutions on Governance and Management Arrangements in Credit Institutions”, issued by the Central Bank of Cyprus in 2014 (the “**Corporate Governance Directive**”), with which the Bank is in full compliance.

#### *Compliance with Article 88(1) of the CRD IV*

The management body of the Bank, as referred to in Article 88(1) of the CRD IV, is the Bank’s board of directors (the “**Board**”). Specifically:

- The majority of the members of the Board are independent.
- Two members of the Board are executive members, one of which is the Chief Executive Officer of the Bank.
- An independent member of the Board holds the position of the chairperson of the Board, so that there is a clear division of responsibility between the position of the chairperson of the Board who presides over the Board meetings, and the position of the Chief Executive Officer who is responsible for the implementation of the Board’s policy and financial strategy.
- A non-executive member of the Board holds the position of the vice chairperson of the Board.

The members of the Board, together with their short CVs, can be accessed [here](#).

The key roles and responsibilities of the Board are set out in detail in the “Regulations of the Management Body” (the “**Regulations**”), which have been approved by the Board.

According to the Regulations, the Board has the primary responsibility for internal governance at all times, and defines, oversees and is accountable for the implementation of governance arrangements that ensure effective and prudent management of the Bank, including the segregation of duties and the prevention of conflicts of interest. Specifically, the Board is, among others, responsible for:

- Setting, periodically reviewing and overseeing the implementation of the Bank’s business objectives and strategies for achieving those objectives, including its risk strategy and internal capital plans, taking into account the Bank’s long-term financial interests and solvency as well as the interests of depositors, shareholders and other relevant stakeholders;
- Ensuring the integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with the applicable laws and relevant standards;
- Overseeing the process of disclosure and communications; and
- Providing effective oversight of senior management.

#### *Compliance with Article 88(2) of the CRD IV*

In accordance with the provisions of the Corporate Governance Directive, the Board has established, among others, a Nominations Committee all the members of which are independent directors who do not perform any executive functions in the Bank. The members of the Nominations Committee can be accessed [here](#).

The duties and responsibilities, as well as the rights and powers, of the Nominations Committee are set out in detail in the “Terms of Reference of the Nominations Committee” (the “**Terms of Reference**”), which have been approved by the Board.

Pursuant to the Terms of Reference, the duties and responsibilities of the Nominations Committee include, among others, the following:

- Identifying and recommending, for the approval of the Board or for the approval of the general meeting of the shareholders of the Bank, as the case may be, candidates to fill the Board vacancies;

- Evaluating the balance of knowledge, skills, diversity and experience of the Board and preparing a description of the roles and capabilities for a particular appointment and assessing the time commitment expected;
- Assessing periodically, and at least annually, the structure, size, composition and performance of the Board and making recommendations to the Board with regard to any changes;
- Assessing periodically, and at least annually, the knowledge, skills and experience of individual members of the Board and of the Board collectively, and reporting to the Board accordingly;
- Reviewing periodically, and at least annually, the policy of the Board for selection, development, appointment and replacement of senior executive managers and heads of internal control functions and making recommendations to the Board.

Furthermore, and pursuant to the Terms of Reference, the Nominations Committee is responsible for deciding on a target for the representation of the underrepresented gender on the Board and for preparing a policy on how to increase the number of the underrepresented gender on the Board in order to meet that target. The target and policy are incorporated in the Bank's Diversity Policy, which can be accessed [here](#). The current composition of the Board of the Bank is in line with such target.

The Nominations Committee is authorized, by the Terms of Reference, to use any form of resources that it considers to be appropriate, including external expert advice, and to receive appropriate funding to that effect.

### Disclosures pursuant to Articles 89 - 90 of the CRD IV

*Country - by country reporting - Public disclosure of return on assets*

	31/12/2015		
	RCB Bank Ltd, Luxembourg Branch		Total
	RCB Bank Ltd Cyprus	Luxembourg	
Turnover (gross interest and commission income)	577.930	11.953	589.883
Number of employees on a FTE basis	294	7	301
Profit before tax	169.283	2.575	171.858
Tax on profit	26.125	784	26.909
Public subsidies received	-	-	-
Return on assets (Net profit divided by year-end total assets)			1,1%

### Management Body (Article 91 of the CRD IV)

Article 91 of the CRD IV has been transposed into Cyprus law by the provisions of the Corporate Governance Directive as well as the provisions of the "Directive to Authorised Credit Institutions on the Assessment of the Fitness and Probity of the Members of the Management Body and Managers of Authorised Credit Institutions", issued by the Central Bank of Cyprus in 2014. The relevant requirements have been incorporated in the Regulations as well as in the Bank's "Policy for Assessment of the Fitness and Probity of Members of the Management Body and Managers" (the "Policy"), which describes how the fitness and probity of the members of the Board (and managers) of the Bank is assessed by the Nominations Committee.

In particular, according to the Regulations and/or the Policy:

- The Board shall:
  - Possess adequate collective knowledge, skills and experience to be able to understand the Bank's activities, including the main risks; and
  - Be sufficiently diverse as regards age, gender and educational and professional background to reflect an adequately broad range of experiences and facilitate a variety of independent opinions and critical challenge.

As set out above, the Bank has established a Diversity Policy, in order to promote diversity on the Board and ensure that the Nominations Committee engages a broad set of qualities and competences when recruiting Board members. In line with the Diversity Policy of the Bank, the members of the Board have a broad knowledge and expertise in the areas of banking, financial services, law, accounting and international relations. Further, the Board and its Committees have the appropriate level of skills, experience, independence and knowledge to enable them to discharge their respective duties and responsibilities effectively. Further details as regards the members of the Board knowledge and expertise can be accessed [here](#).

- During the year 2015, each member of the Board had:
  - At all times sufficiently good repute and possessed sufficient knowledge, skills and experience to perform his/her duties;
  - Acted with honesty, integrity and independence of mind to effectively assess and challenge the decisions of the senior management where necessary and to effectively oversee and monitor management decision-making; and
  - Committed sufficient time to perform his/her functions in the Bank including the preparation for Board meetings.

The above have been confirmed in the “Evaluation Report on the Performance of the Management Body as a whole, its committees and individual members” prepared by the Chairman of the Board, Mr Panayiotis Loizides. The report was discussed and approved at the Nominations Committee meeting on March 10, 2016 and was further approved by the Board on March 31, 2016. Furthermore, each Committee undertook a self-assessment for the year 2015 and reported its conclusions and recommendations for improvements and changes to the Board. The Self-Assessment Questionnaires of the Board Committees also confirmed the above requirements. The Questionnaires have been discussed at the Committees’ meetings and finally were approved by the Board on March 31, 2016.

The Bank devoted adequate human and financial resources to the induction and training of the Board members since all the new members of the Board appointed during the year 2015, have attended induction trainings by the heads of Internal Control Functions. The members of the Board also attended seminars on regulatory compliance and AML as well as on their responsibilities arising from CRD IV.

The Policy further provides that, in the case where the person proposed by the Bank as a member of the Board is also a member of the board or manager of one or more entities, the Bank shall ensure that the proposed appointment is not incompatible with other positions held by the said person and does not create conflicts of interest. In particular, the members of the Board shall not hold more than one of the following combinations of directorships at the same time:

- i. One executive directorship and two non-executive directorships; or
- ii. Four non-executive directorships.

The following shall count as a single directorship:

- a. Executive or non-executive directorships held within the same group;
- b. Executive or non-executive directorships held within:
  - i. Institutions which are members of the same institutional protection scheme provided that the conditions set out in Article 113(7) of Regulation (EU) No 575/2013 are fulfilled; or
  - ii. Undertakings (including non-financial entities) in which the institution holds a qualifying holding.

The members of the Board submit to the Board annually declarations through which they notify any changes as regards their participation in other entities. The declarations received for the year 2015, did not create any conflicts of interest.

The directorships of the members of the Board do not exceed the above allowable maximum number.

#### **Compliance with Articles 92 - 95 of the CRD IV**

The Remuneration Policy (hereinafter the “Remuneration Policy”) of the Bank includes all levels of the Bank and all categories of employees with special emphasis on the identified risk takers i.e. Executive Members, Senior Executive Management and other risk takers as defined in the Remuneration Policy. The application of the principles set out in the Remuneration Policy and thus the exact form of the Remuneration Policy takes account of the nature and scale of the Bank and the complexity of its activities.

The Remuneration Policy has been approved by the Board.

The Board has established a Remuneration Committee. The key duties and responsibilities of the Remuneration Committee are as follows:

- Formulating proposals for approval by the Board, as regards to the Remuneration Policy, and ensuring that those are in line with all regulatory requirements;
- Ensuring that internal control functions are involved in the design, review and implementation of the Remuneration Policy;
- Ensuring that staff members who are involved in the design, review and implementation of the Remuneration Policy have relevant expertise and are capable of forming independent judgment on the suitability of the Remuneration Policy, including their suitability for risk management;
- Reporting on its main activities and results to the Board on a regular basis, but not less frequently than once per quarter;
- Conducting an annual self-assessment, and reporting conclusions and recommendations for improvements of its practices and changes thereafter to the Board; and
- Circulating any minutes to the Board in advance of any Board meetings.

The Remuneration Committee held five meetings during the year. In general, the activities of the Committee were in line with its Terms of Reference.

The Remuneration Committee is constituted in such a way as to enable it to exercise competent and independent judgement on remuneration policies and practices and the incentives created for managing risk capital and liquidity.

The Remuneration Committee is responsible for the preparation of decisions regarding remuneration, including those which have implications for the risk and risk management of the Bank and which are to be taken by the Board. More specifically, the Remuneration Committee discussed various remuneration issues during the five meetings held during the year 2015.

The Chairperson and the members of the Remuneration Committee are members of the Board who do not perform any executive function in the Bank. The Committee takes into account the long-term interests of shareholders, investors and other stakeholders in the Bank and the public interest.

The implementation of the Remuneration Policy is subject to regular (at least annual) review by the Remuneration Committee for compliance with policies and procedures for remuneration with specific attention to preventive incentives for excessive risk taking and other adverse conduct. An independent, ad-hoc review was carried out by the Head of Internal Audit, with particular regard to the extent to which the Remuneration Policy is enforced. The findings of the Head of Internal Audit were submitted to the Board through the Audit Committee.

The most important design characteristics of the remuneration system include information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria.

The Remuneration Policy is in line with the Bank's business strategy and risk tolerance, objectives, values and long-term interests. The Policy also includes other values of the Bank such as compliance, culture, ethics, conduct towards customers, measures to mitigate conflicts of interest, etc. The Bank does not reward individuals for taking risks in excess of the Bank's risk tolerance and at all times gives due consideration to the longer term. The Remuneration Policy enables the Bank to achieve and maintain a sound capital base. The overall remuneration is included in the capital and liquidity planning of the Bank and contributes to safeguarding a sound capital base. The Bank's Remuneration Policy was revised and approved by the Remuneration Committee on July 1, 2015 and by the Board of Directors on September 29, 2015.

Staff engaged in control functions, i.e. Internal Audit, Risk Management, Compliance and Information Security are independent from the business units they oversee, have appropriate authority, and are remunerated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control. The organizational status, activities, purpose, authority and responsibility of each of the independent control functions are clearly defined in their respective charters which are approved by the Board of Directors. The remuneration of the heads of control functions is directly overseen by the Remuneration Committee. The involvement and oversight of the Remuneration Committee is evident by the minutes of its meetings held throughout the reporting year.

The components of total remuneration are:

1. Fixed remuneration

The fixed remuneration component is reviewed at least annually and is the basis on which the variable salary is calculated.

2. Variable remuneration

Employees may have a variable component to their remuneration in addition to their fixed remuneration.

Where a variable remuneration is paid to the identified risk takers who have an impact on the risk profile of the Bank, it is not a pure up-front cash payment but it contains a flexible, deferred component which considers the risk horizon of the underlying performance. At least 40% of the variable remuneration component is deferred over a period of not less than three to five years and is aligned with the nature of the business, its risks and the activities of the identified risk takers in question.

The variable remuneration, including any deferred portion, is paid or vests only if it is sustainable based on the financial situation of the Bank and justified on the basis of the performance of the institution, the business unit and the individual concerned.

The total variable remuneration does not limit the ability of the Bank to strengthen its capital base.

The ratios between fixed and variable remuneration are set in accordance with Article 94(1)(g) of the CRD IV. Fixed and variable components of total remuneration are appropriately balanced and the fixed component represents a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable remuneration components, including the possibility to pay no variable remuneration component. The allocation of the variable remuneration components within the Bank takes also into account all types of current and future risks.

The relation between fixed and variable remuneration is of reasonable proportion. Employees should not have to rely on their variable remuneration. The variable component varies across the Bank's business areas and management levels and can range from 0% to 50% of the fixed annual compensation.

*Information on the performance criteria on which the entitlement to variable components of remuneration is based.*

The award of variable remuneration is clearly connected to the work and performance of the individual, established through a review of the employee appraisals and the individual and collective Key Performance Indicators ("KPIs") combined by the expert opinion and feedback of each employee's immediate supervisor, the performance of the department concerned and the overall performance of the Bank. The goals are based on factors that support the Bank's long-term strategy.

*The main parameters and rationale for any variable component scheme and any other non-cash benefits.*

The employee appraisals clearly indicate the competencies/qualitative criteria used in evaluating performance. These competencies might differ depending on the specific duties and responsibilities entailed in certain functions. Examples of such competencies include but are not limited to leadership and personnel management, professionalism, communication skills and interpersonal relationships, problem solving and decision making, reporting and administration, initiative, customer orientation, integrity and work ethic.

In addition to the non-financial criteria indicated in the employee appraisals, individual as well as collective performance could also be evaluated based on measurable performance criteria. Performance measurement using KPIs is a process that requires substantial planning and effort to achieve a successful outcome. KPIs are clearly linked to the strategic objectives of the Bank and therefore, help monitor the execution of the business strategy.

These KPIs differ depending on the business unit/profit center and reflect the targets/objectives of the specific area. Indicatively, adherence to the Bank's approved policies and procedures, compliance with the regulatory and legal framework, efficiency and effectiveness of the control functions, the cost of tied-up capital which is associated to risks undertaken and achievement of business targets are among the KPIs used for the measurement of performance.

All employees of the Bank are categorized by grades. The classification of employees and assignment of grade is based on their management and organizational role, hierarchy, existing reporting lines, qualifications and experience as well as annual remuneration package. Certain non-cash benefits such as type of medical insurance scheme, life insurance, limit of monthly telephone bill allowance, class of air tickets for business trips etc. apply to each grade.

The Bank does not benefit from exceptional government intervention and therefore Article 93 of the CRD IV is not applicable to the Bank.

The Bank does not have a policy in place for early termination of a contract and, should such an early termination occur, the applicable labour legislation is adhered to. Nonetheless, payments related to the early termination of a contract reflect performance achieved over time and are designed in a way that does not reward failure or misconduct.

The Bank does not allow to buyout from contracts in previous employment.

The pension policy is in line with the business strategy, objectives, values and long-term interests of the Bank.

Personal hedging strategies are not allowed by the employees of the Bank.