



Compliance with Articles 88 to 96 of CRD IV for the year ended 31 December 2017

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 Body¹ 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.

Information on the members of the Board, including a short CV, 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, with its majority of members 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.

¹For the purposes of these Articles, the Board or Board of Directors has the same meaning as the Management Body in the Governance and Management Arrangements Directive of 2014.

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 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

	31/12/2017 Amounts in EUR000		
	RCB Bank Ltd Cyprus	RCB Bank Ltd, Luxembourg Branch Luxembourg	Total
Geographical location	Cyprus	Luxembourg	-
Turnover (gross interest and commission income)	487.765	13.528	501.293
Number of employees on a FTE basis	382	11	393
Profit before tax	110.543	3.072	113.615
Tax on profit	(15.781)	(651)	(16.432)
Public subsidies received	-	-	-
Return on assets (Net profit divided by year-end total assets)			1,0%

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.

- During the year 2017, each member of the Board had:
 - at all times sufficiently good reputation 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” approved by the Nominations Committee and signed by the Chairman of the Board, Mr Panayiotis Loizides. The report was discussed and approved at the Nominations Committee meeting on March 22, 2018 and was further approved by the Board on April 26, 2018. Furthermore, each Committee undertook a self-assessment for the year 2017 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 the 26th April 2018.

The members of the Board also attended seminars on regulatory compliance, including workshop related to directors’ responsibilities.

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 Secretary of the Board on an annual basis declarations through which they notify any changes as regards their participation in other entities. The declarations received for the year 2017, did not create any conflicts of interest.

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

Compliance with Articles 92 - 95 of the CRD IV

The Remuneration Policy (hereinafter the “Remuneration Policy”) of the Bank applies to Employees at all levels of the Bank but with a particular emphasis on Employees who are regarded as material risk takers (“MRTs”), for example, members of the Management Body (the “Management Body”) and Senior Executive Management. As a matter of principle, the Bank supports levels of remuneration and compensation necessary to attract, retain and motivate the high quality workforce required to lead, manage and serve the Bank in a competitive environment. As such, the Bank considers appropriate levels of remuneration and compensation as essential to the enhancement of the long-term interests of the Bank’s stakeholders (including its shareholders). The Remuneration Policy therefore takes account of the competitiveness of the market in which it operates and the strategic targets of the business but it also seeks to reward its Employees who promote the Bank’s corporate values and who support long-term generation of value.

Responsibility for oversight of the implementation and supervision of the Bank’s remuneration strategy rests with the Management Body through the Remuneration Committee. Thus the Management Body is ultimately responsible for the Bank’s compliance with applicable laws, rules, regulations and regulatory guidance. Furthermore, the Management Body is responsible for ensuring that the shareholders of the Bank have adequate information about the Remuneration Policy including the main components of remuneration and the main characteristics and objectives of the Bank’s remuneration package. Although the Management Body has ultimate responsibility for the implementation and supervision of the Bank’s remuneration strategy, it also takes into account advice, views

and material information received from the Bank's Control Functions, the Legal Department, Human Resources Department and, where appropriate, its shareholders.

The Management Body has established a remuneration committee (the "Remuneration Committee"). The Remuneration Committee is comprised of at least four (4) members. The majority (including the chairman) of the Remuneration Committee are independent directors. The Remuneration Committee is guided by terms of reference set out in the Bank's "Terms of Reference of the Remuneration Committee", and collaborates with other committees to the extent that those committees have impact on the design and functioning of the Remuneration Policy. During 2017, the RC held 5 meetings.

The key duties and responsibilities of the RC are as follows:

- Providing its support and advice to the MB on the design of the Bank's Remuneration Policy;
- Supporting the MB in overseeing the remuneration policies, practices and processes, and the compliance with the Remuneration Policy;
- Formulating proposals for approval by the MB, as regards to the Remuneration Policy, and always ensure that those are in line with all the regulatory requirements;
- Ensuring that internal control functions are involved in the design, review and implementation of the Remuneration Policy;
- Collaborating with other Committees of the MB, whose activities may have an impact on the design and proper functioning of the remuneration policies and practices, and provide adequate information to the MB, and where appropriate, to the shareholders' meeting about the activities performed;
- Ensuring that those personnel members who are involved in the design, review and implementation of the remuneration policies and practices have relevant expertise and are capable of forming independent judgment, including suitability for risk management;
- In cooperation with the internal control functions, as well as other Committees (e.g. Audit & Risk), ensuring on a regular basis that changes in the objectives of the Bank's business and risk strategy, long-term interests, corporate culture and values are adequately identified and accordingly embedded in the Remuneration Policy;
- Working closely with the Risk Committee to ensure that the Remuneration Policy is consistent with and promotes sound and effective risk management;
- Contributing actively in the process to identify the members of personnel whose professional activities have a material impact on the Bank's risk profile, in line with its responsibilities for the preparation of decisions regarding remuneration. Review and also approve, the exemptions made for those who do not have a material impact on the Bank's risk profile;
- Preparing decisions regarding remuneration, including those that have implications for the risk and risk management of the Bank and that are to be taken by the MB, in particular regarding the remuneration of the members of the MB in its management function, as well as of other identified staff;
- Assisting the MB in overseeing the effective implementation of the risk strategy by the Senior Executive Management including the establishment of sound remuneration policies and practices, assess the mechanisms and systems adopted to ensure that the remuneration system properly takes into account all types of risks, liquidity, capital levels and the likelihood and timing of earnings;
- Assessing the achievement of the performance targets and the need for ex-post risk adjustment, including the application of malus and clawback arrangements;
- Reporting on its main activities and results to the MB on a regular basis, but not less frequently than once per quarter;
- Conducting an annual self-assessment, and report conclusions and recommendations for improvements of its practices and changes thereafter to the MB;
- Circulating any minutes to the MB in advance of any MB meetings.

The Remuneration Policy is subject to review at least annually by the internal audit function in line with the Regulatory Framework. In 2017 an independent, ad-hoc review was carried out by the Head of Internal Audit, and the findings were submitted to the MB through the Audit Committee.

For the purposes of the Remuneration Policy, "remuneration" consists of all forms of payments or benefits, monetary or non-monetary, made directly or indirectly (for example, under a secondment arrangement) but on behalf of the Bank in exchange for services rendered by an Employee to the Bank ("Remuneration"). Remuneration is either Fixed Remuneration or Variable Remuneration: there is no third category of Remuneration. Also an Employee's Variable Remuneration is calculated by reference to that Employee's Fixed Remuneration.

The Bank since the year of 2016 has introduced the following in relation to the determination of the variable component of remuneration:

- A non-cash instrument – Restricted Stock Unit;
- Specific ratios for the purpose of Risk Alignment of Variable Remuneration;
- Explicit Deferral Requirements for Cash and Non-cash Awards to MRTs;
- Expanded requirements and criteria for the application of Malus and Clawback arrangements.

Where a variable remuneration is paid to an MRT who has an impact on the risk profile of the Bank, it is not a pure up-front cash payment but it contains a 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 MRT 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. Without prejudice to the general principles of the local legal framework the total variable remuneration shall be considerably contracted where subdued or negative financial performance of the Bank occurs, taking into account both current remuneration and deductions in payouts of amounts previously earned, including through malus or clawback arrangements. Whilst taking into account all legal and fiscal constraints, any up-front bonus payment shall be subject to clawback if it is later established that it resulted from fraudulent activities. Remuneration payable under deferral arrangements shall vest no faster than on a pro-rata spreading and the vested amount shall not be sooner than twelve months after the accrual.

Up to one hundred percent (100%) of the total variable remuneration shall be subject to malus or clawback arrangements. Ex-post risk adjustment (or performance adjustment) is used by the Bank such as malus or clawback arrangements. By using these mechanisms the Bank adjusts the remuneration of the employees in certain circumstances, as stated below. Ex-post risk adjustment is performance related and is a response to the actual risk outcomes of the employee's actions. These mechanisms enable the Bank to perform an analysis (similar to back testing) as to whether its initial decision regarding the deferred remuneration of an employee was correct. As a general rule, malus/clawback arrangements result in a reduction of the variable remuneration.

Control functions, namely, Internal Audit, Risk Management, Compliance and Information Security are compensated in accordance with their own objectives and not in relation to the performance of the business areas that they control. The remuneration of Employees engaged in control functions is also based on periodical salary surveys within the banking and financial services sector to ensure that individuals are compensated commensurately with their roles and duties in the Bank and independently of the areas they oversee. The remuneration of Employees in the Bank's internal control functions is not linked to the performance of the operational functions of the Bank which the relevant internal control function monitors and controls and is predominantly fixed. Operational functions are not permitted to determine the remuneration of control functions where this would result in a potential or actual conflict of interest.

The fees of the members of the Management Body are directly overseen by the Remuneration Committee and recommended by the Management Body to the shareholders of the Bank for approval. Members of the Management Body are compensated only with fixed remuneration.

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

The Bank on an annual basis translates its long-term objectives, which derive from its business and risk strategy, corporate values, risk appetite and long-term interests as well as from methods used within the Internal Capital Adequacy Assessment (ICAAP) into financial and non-financial performance and professional development targets for Chief Executive Officer, Senior Executive Management, Organizational Departments and Employees within such departments.

Performance Targets are defined at the beginning of the accrual period by the immediate supervisors of Employees and all the departments of the Bank (including the Management Body for the Chief Executive Officer) in consultation and alignment with the Risk Management Department.

Targets for MRTs and other Heads of Departments within the Bank are set via Key Performance Indicators (KPIs), which differ depending on the business unit/profit centre 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 that is associated to risks undertaken, are set by the Bank's Senior Executive Management. More specifically the Bank uses following criteria:

- Net profit;
- Return on Equity;
- RAROC;
- Strategy implementation;
- Compliance and conduct;
- Net interest income;
- Net fee & commission income;
- Volume of deposits;
- Volume of loans;

- Number of new NPLs;
- Implementation of new products and strategic initiatives;
- Other qualitative and quantitative indicators reflecting key duties and responsibilities of particular department/unit/employee.

Targets for the remaining personnel are set on departmental and unit level by direct supervisors using the Management by objectives approach. After the end of the accrual period the Bank conducts the appraisal of actual performance of personnel vis-à-vis target setting. For this reason the participation in the annual employee appraisal is compulsory for all employees. The appraisals are also reviewed by the Bank's Senior Executive Management.

For the calculation of the 2017 annual bonus, the Bank has used the following approach:

Award = (Gross Monthly Base Salary Factor) * (Grade Factor) * (Length of Service Factor) * (Performance Factor) * (Bonus Pool Factor)

Where:

- "Award" - total gross amount to be awarded to Employee as a bonus for 2017 year;
- "Gross Monthly Base Salary Factor" - average amount of gross monthly fixed salary paid to Employee during the last three months of 2017;
- "Grade Factor" - a factor representing the standard bonus amount in terms of monthly salaries for the grade and position of the Employee;
- "Length of Service Factor" - multiplier representing duration of work of the Employee in 2017. If the Employee worked for less than 90 calendar days, the factor is zero, if from 91 to 365 then it is pro-rata calculation to the number days employed in 2017;
- "Performance Factor" - a factor representing the overall result of the Performance Appraisal (i.e. A++, A+, A, B, C);
- "Bonus Pool Factor" - a factor representing the level of achievement of strategic goals on the bank and/or on the business line/business unit level;

The Bank counterbalances the incentives of the Award of Variable Remuneration with measures to incentivize sound risk management. In particular:

- Established risk sensitive performance criteria for the assessment of Employees and operational functions, for example:
 - Volume of new NPLs;
 - Risk-Adjusted Return on Capital (RAROC);
 - Other KPIs related to market and operational risks (for example: # of significant system errors led to unavailability of the core banking system).
- Ensured that a proposed award out of the Bank-wide bonus pool does not lead the Bank to a negative financial performance (net loss) and/or a breach of capital and liquidity requirements to which the Bank is subject; and that no other ratios are breached, including each of the following:
 - Common Equity Tier I Ratio;
 - Total Capital Adequacy Ratio;
 - Liquid Assets Ratio;
 - Liquidity Coverage Ratio.

In order to conservatively take into account all material risks at the Bank's and business unit levels, and to achieve sound breakdown of undertaken risks by business units and different types of risks, the Bank uses the same measurement methods and risk allocation approaches as used within the ICAAP.

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

In addition to the information provided above, the KPIs clearly measure performance, and are linked to the strategic objectives of the Bank. Ultimately, they monitor the execution of the business strategy.

Through the application of KPIs, the Bank's aim is to equip decision-makers with the information they need to make informed decisions that lead to improvements, to comply with external and internal reporting requirements and to guide and direct people's behaviours and actions in relation to performance. Results from KPIs are used to set goals, to objectively assess the achievement of these goals, and to provide feedback on any unwanted variance between achievements and goals. KPI results are linked to reward and recognition structures.

All employees of the Bank are categorised by grades. The classification of employees, and the assignment of a grade, is based on their management and organisational 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 corporate mobile phone, 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 requirements for Severance payments in case of early termination of an Employee's employment agreement are covered under the Remuneration Policy of the Bank, which applies to all Employees. Should such an early termination occur the Bank complies with all applicable laws, including local labour laws. Payment in such a case reflects performance over time and is neither a reward for performance nor penalty for failure.

The Bank does not offer remuneration to "buy out" a person from a previous contract of employment and in case the Bank does so, the provisions of the applicable law and regulations, including without limitation, section 9 of the EBA Guidelines will be followed.

Personal hedging strategies are not allowed by the employees of the Bank, as it is prohibited to transfer the downside risks of variable remuneration to another party through hedging or certain types of insurance.