RCB

Pillar III
Disclosures 2014

2014

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Contents

1. Introduction

The Pillar III Disclosures of RCB BANK LTD (“the Bank”) and its subsidiary, Russian Commercial Trust Company (Jersey) Ltd (together, “the Group”) have been prepared in accordance with the Capital Requirements Regulation EU 575/2013 (CRR) and amended Capital Requirements Directive 2013/36/EU (CRD IV).

2. Scope of application

The requirements of CRR and CRD IV apply to RCB BANK LTD and its subsidiary. The principal activities of the Bank are the provision of banking services on the basis of the license granted by the Central Bank of Cyprus. The Bank’s subsidiary is involved in the provision of trust company services in Jersey. As of 31 December 2014, the subsidiary did not become fully operational. The Bank performs 100% consolidation of the subsidiary’s results for accounting purposes and for the purposes of these Disclosures. As of 31 December 2014 there were no current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the Bank and its subsidiary.

3. Risk management objectives and policies

Risk management organization

The Bank has a Risk Management Department (“RMD”) dealing with the various types of risks the Group faces. The RMD has three teams dealing with credit risk, market risk, operational risk and regulatory risk. The RMD reports to the Board of Directors (“BoD”), through the Risk Management Committee on a quarterly basis (through the quarterly risk management report) on the Group’s overall risk position.

The risk management of RCB has adequate system infrastructure, methods and measures, to ensure the identification, assessment, control and monitoring of risks and as well the calculation of the necessary economic capital to cover the risks assumed.

The Bank implements an appropriate and holistic risk management framework, which ensures that all material risks are identified and managed on a basis of adequate and effective policies, systems, processes and procedures. An integrated and institution-wide risk culture, based on a full understanding of the undertaken risks, is developed by the Banks through policies, examples, communication and training of staff regarding their responsibilities for risk. An effective risk appetite framework is used by the Bank to clearly articulate the aggregate level of risk and types of risk the Bank is willing to assume within its risk capacity to achieve its strategic objectives and business plan. The Management Body executes an oversight the Bank’s framework for the treatment of risk. In 2014 the Management Body activities were also supported by the Risk Management Committee.

The Bank sets its risk appetite and strategy specifically for each risk type through the policies, controls and procedures that are established and is communicated throughout the organization. These policies and procedures suggest the level of risk that the Bank can undertake considering the following:

- The business plan of the Bank;
- The level of the minimum required regulatory capital.

The risk control framework consists of qualitative and quantitative components. Qualitative elements include policies, procedures, authorities and reporting requirements. Quantitative components include risk measures and limits in a variety of forms (including stress tests and other risk quantification techniques). RCB’s management has set up a risk limit system which reflects the risk appetite of the Bank. The risk limit system has a two-level structure:

- First Level: Framework limits, approved by the MB;
- Second Level: Operating limits, approved by Credit, Assets, Liabilities, Committee.

The Group's risk management strategies and processes as well as the policies for hedging and mitigating the risks it faces are mentioned below.

3.1. Credit risk

3.1.1. Credit risk management

Credit risk is the risk of financial loss being incurred by the Group if a Group's customer or counterparty fails to meet its contractual obligations and arises principally from lending activities that lead to loans and advances and investment activities that bring debt securities in the Group's asset portfolio. There is also credit risk in derivatives and off-balance sheet financial instruments such as loan commitments and guarantees.

The Group's credit risk strategy is to maximize profits from credit granting activities with the minimum possible risk by exploring the opportunities (situated in an EU member state) and the Group's market expertise.

In the Cyprus market, RCB aims to address the demand to solid clients by granting credit facilities to carefully selected, financially strong and well positioned companies. Strengthening of the presence in Cyprus is aimed to further diversify the business and improve concentration levels in revenues and risks.

The Group's target market for credit granting will be confined to individuals and corporations of Russian (and other CIS countries) interests, incorporated in the Russian Federation, CIS, Europe or any other part of the world seeking the services of a bank operating in an EU member state.

The BoD is responsible for approving the credit risk strategy and policy of the Group while the Credit, Assets and Liabilities Committee ("CALCO") considers and decides on applications for granting credit facilities within the limits set by the BoD. The RMD assesses the adequacy and effectiveness of the credit risk management procedures followed by the Group, recommends changes where necessary and reports to the BoD and senior management on the credit risk position of the Group on a quarterly basis.

The Group manages credit risk exposures by performing an analysis of the borrower and assessing the adequacy of the collateral to be obtained under the credit transactions. In addition, a limit system exists for transactions with bank counterparties limiting the exposure of the Group to credit risk. All other credit transactions are carried out taking into consideration the limits imposed by the regulatory framework.

Credit risk arising from the banking activities is monitored on a continuous basis and is subject to at least an annual review. All new exposures and limits are approved by the CALCO.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposures to credit risk are subject to the detailed credit analysis performed by the Corporate Banking Department/Commercial Business Department/Commercial Lending (Cyprus) Department and the independent risk assessment carried out by the Risk Management Department prior to the issue of loans.

During 2014, the exposure to credit risk was low as the vast majority of the loans and advances to customers were collateralized by cash deposits. Credit risk and industry concentration within the credit mitigation taken cannot impact the Bank, as the majority of loans are collateralized by cash deposits.

The Group grants credit mainly to corporate counterparties. The Group assigns an internal risk rating for each borrower according to internal methodology. The methodology provides the internal ratings for borrowers after assessment of their financial status, for collateral rating based on assessment of the collateral.

3.1.2. Policies mitigating credit risk

The Group uses a number of credit risk mitigation ("CRM") tools in order to control credit risk such as:

- Collateral in the form of cash deposits;
- Other forms of collateral (e.g. securities, property);
- Limits;
- Risk participation agreements.

One of the methods applied for the reduction of credit risk is requesting and accepting collateral against credit transactions, whether from the Borrower himself or from a third party on the Borrower's behalf. In the event of Borrower default, the existence of collateral will allow the Bank to recover some of the losses it may incur. In general collateral (real estate property, non-tradable shares, etc.) is valued by an independent appraiser. The Bank has a panel of valuers approved by CALCO on an annual basis. The panel includes expertise in various areas of property sector appropriate to the lending business of the Bank. The Bank assigns internal collateral ratings to reflect the level of coverage of the credit transaction by the collateral (i.e. the amount of cash from the sale of the collateral which can be used to repay debt under the client's credit products). Accepting collateral against a credit transaction includes the following key phases:

- Negotiations with the client, definition of preliminary structure and composition of collateral;
- Collateral assessment;
- Making a decision on the collateral transaction;
- Preparation and approval of collateral documentation, signing credit and collateral documentation (including pledge acceptance);
- Collateral monitoring and revaluation.

It should be noted that the Bank carries out an impairment review of its financial assets on a regular basis and has adequate procedures and policies in place for the management of problematic loans and loan loss provisions.

3.2. Market risk

3.2.1. Market risk management

The Group takes on exposure to market risk, which is the risk of losses in on and off-balance-sheet positions arising from movements in the market variables. The main risks falling within the above definition are the risks pertaining to interest rate related instruments in the trading book and foreign exchange risk in the banking and trading books. The Group is not exposed to market risk arising from commodity prices.

The Group's strategy with regards to market risk is to minimize its exposure without compromising the Group's objectives of maximizing profits from its normal banking activities and servicing its customers. The Group sets limits on operations with specific types of instruments and activities for minimizing its market risk exposure.

The BoD is responsible for formulating and periodically reviewing the market risk strategy and setting the market risk appetite while the CALCO formulates the policies for the management of market risk, specifies market risk limits and reviews the market risk section included in the reports of the RMD. The RMD assesses the adequacy and effectiveness of the market risk management procedures followed by the Group, recommends changes where necessary and reports to the BoD and senior management on the market risk position of the Group on a quarterly basis.

There are currency and interest rate risk limits in place ensuring better management of market risks, as well as compliance with the relevant supervisory regulations.

The Group is mainly exposed to the following types of market risk:

- Currency risk; and
- Interest rate risk.

3.2.1.1. Currency risk

Currency risk is the risk that the changes in foreign exchange rates will affect the value of the Group's foreign exchange position and consequently the value of the Group's balance sheet.

Limits exist on the level of exposure by currency and in total for both overnight and intra-day positions which are monitored daily. Currently these limits for the net open positions in any one currency are set to be more restrictive than the supervisory ones. The limits on the overall net foreign exchange positions are set to be equal to the regulatory limits.

The Group does not hold open positions in any currencies with the view of profiting from exchange transactions. Any foreign currency positions are short-term and for operational purposes.

3.2.1.2. Interest rate risk

Interest rate risk in the trading book is the risk that changes in the market interest rates will adversely affect the value of the Group's trading portfolio. The capital requirements calculated for interest rate risk in the trading book are disclosed in Section 5.1.2 of this Report.

3.2.2. Policies for hedging and mitigating market risk

The Group minimizes the market risk it faces by entering into hedging transactions when necessary. The following financial instruments may be used as hedging instruments when a need arises:

- Interest rate swaps;
- Cross currency swaps;
- Options;
- Forward rate agreements;
- Forward foreign exchange contracts;
- Futures;
- Other financial instruments.

The Group aims for assets to be funded by liabilities that are of equal maturity and have the same type of interest rate.

Monitoring of the hedging transactions is performed by the Bank's Treasury Department. The effectiveness of the hedging transactions is checked in order to ensure that the limits in place are not violated at any time.

3.3. Concentration risk

Concentration risk is the risk arising from an uneven distribution of counterparties in credit or any other business relations or from a concentration in business sectors, geographical regions, countries or collaterals.

The Group follows the maximum limits on exposures prescribed in section 11(1) of the Banking Law and the limits prescribed in Article 395 of CRR.

In addition, the Group complies with sectoral and country limits set out in accordance with the internal methodology.

The Herfindahl Index is applied for the measurement and quantification of concentration risk. In 2014, the Group assesses capital needs for concentration risk as part of its Internal Capital Adequacy Assessment Process ("ICAAP").

3.4. Liquidity risk

3.4.1. Liquidity risk management

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due as a result of inability to liquidate assets, or obtain adequate funding, or will be unable to easily unwind or offset specific exposures due to the lack of liquidity in the market.

The Group's liquidity risk strategy is to ensure with a high degree of confidence that the Group is in a position to both address its daily liquidity obligations and withstand a period of liquidity stress affecting funding, the source of which could be bank-specific or market-wide.

The BoD is responsible for approving the liquidity risk strategy and policy of the Group while the CALCO formulates the policies for the management of liquidity risks and reviews the liquidity risk section included within the reports of the RMD. The RMD assesses the adequacy and effectiveness of the liquidity risk management procedures followed by the Group, recommends changes where necessary and reports to the BoD and senior management on the liquidity risk position of the Group on a quarterly basis.

The Group complies with the supervisory risk limits that exist for mitigating liquidity risk. In addition, the Group applies lower limits compared to the supervisory ones. An early warning indicators system is used for managing the liquidity risk. The management of the Group is informed of the liquidity position on a daily basis and appropriate decisions are taken in case any need arises.

The Group's cash flow management is based on the expected date of maturity rather than on contractual dates. Expected cash outflows match in general the expected cash inflows from assets.

3.4.2. Policies mitigating liquidity risk

To limit liquidity risk, the CALCO monitors the liquidity on a daily basis by:

- Managing future cash flows to ensure that requirements are met;
- Maintaining a portfolio of highly marketable securities that can easily be liquidated against any unforeseen interruption to cash flow; and
- Managing balance sheet liquidity ratios against internal and regulatory requirements.

3.5. Operational risk

3.5.1. Operational risk management

The strategy of the Group in respect of operational risk management is to minimize operational risk by establishing a strong system of internal controls within the Group, as well as using other mitigation tools, where internal controls are not considered adequate (i.e. insurance).

The strategy and policies for operational risk management are approved by the BoD. The senior management is responsible for the development of policies and procedures for managing operational risk and the RMD assesses the adequacy of the procedures and makes recommendations where necessary for updating or amending existing policies and procedures.

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. In 2014, the Group was managing operational risk through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The Group uses operational risk management software to support the operational risk management framework of the Group, allowing the Group to collect loss events. An important component of the operational risk management framework is the risk control self-assessment exercise which establishes accountability and represents a bottom-up assessment which depicts a more detailed operational risk profile, integrating business area and process perspectives. A number of key risk indicators are monitored against the thresholds on a regular basis.

3.5.2. Policies mitigating operational risk

The Group uses the following mitigation tools in respect of operational risk:

- Business continuity plan;
- Insurance;
- Outsourcing.

4. Own funds

4.1. Summary

The Group's own funds are divided into two tiers:

- Tier 1 capital includes share capital, retained earnings and reserves created by appropriations of retained earnings. The book value of intangible assets is deducted in arriving at Tier 1 capital; and
- Tier 2 capital may include qualifying subordinated loan capital, collective impairment allowances and capital instruments, subordinated loans and share premium resulting from the issue of instruments included in Tier 2 capital, provided that they meet specific regulatory requirements. As of 31 December 2014, included within the Bank's Tier 2 capital was the qualifying subordinated loan capital.

4.2. Original and additional own funds

The original and additional own funds of the Group as at 31 December 2014 were as follows:

	US$000
Common Equity Tier 1	
Share capital	23.308
Share premium	150.710
Retained earnings	330.359
Less: intangible assets	(1.913)
Additional Tier 1 capital	**0**
Total Tier 1 capital	**502.464**
Tier 2 capital	
Subordinated loan capital	88.603
Total Tier 2 capital	**88.603**
Total regulatory capital	**591.067**

Share capital and share premium include the Bank's newly issued ordinary shares. The regulatory approval for the inclusion of these instruments into Tier 1 capital of the Bank is currently in process and is expected to be finalised shortly after the issuance of these disclosures.

The share capital and share premium of the Bank, increased on 24 November 2014 with the issue of 2.468.136 shares of €1,71 each of total consideration of US$124.222 thousand (US$50,33 per share) giving rise to a share premium of US$118.984 thousand. The subordinated loan capital included within Tier 2 capital has an original maturity of seven years, is recognized initially at fair value, net of transaction costs incurred and is gradually reduced during the last five years before the repayment date currently amounting to $88.6m. The rights of the lender under the subordinated debt are at all times subordinated to the rights of all other creditors of the Bank.

As of 31 December 2014, the Tier 1 was in excess of the minimum regulatory requirements specified in CRR Article 465.

According to the CRR Article 437, a reconciliation between the regulatory capital items and the balance sheet in the audited financial statements should be disclosed. Below you will see variances come from retained earnings, which for regulatory purposes are not yet included in the Tier 1 capital, and from subordinated loan which the eligible amount that can be included in the Tier 2 should be amortised according to CRR Article 64.

	Financial Statements US$000	Pillar III Disclosures US$000	Variance US$000
Own Funds Reconciliation			
Share Capital	23.308	23.308	-
Share Premium	150.710	150.710	-
Retained Earnings	371.448	330.359	(41.089)
Intangible Assets	(1.913)	(1.913)	-
Subordinated loan	100.471	88.603	(11.868)
Total Own Funds	**644.024**	**591.067**	**(52.957)**

According to the CRR Articles 437 and 492 please find in Annex I the Transitional Own Funds Disclosure Template and in Annex II a description of the main features of the Common Equity Tier 1 and Tier 2 instruments issued.

5. Minimum required own funds for credit, market and operational risks

5.1. The Group's approach to assessing the adequacy of its internal capital

The section below presents an overview of the minimum capital requirements as of 31 December 2014. The risks included are credit risk, market risk and operational risk. The Group is not exposed to any securitization positions, thus there are no corresponding minimum requirements for specific interest rate risk of securitization positions to be disclosed within this section. Furthermore, any equities within the Banks portfolio are included in the trading book, thus any disclosures related to equities not included within the trading book are not relevant. As at 31 December 2014, the Bank did not hold any equities in the trading book.

For calculation of Pillar 1 risks, the internal capital method is the regulatory capital method in accordance to the CRR and CRD IV. Any risks not covered within this document are covered under a separate document (i.e. the ICAAP).

The Group uses the following approaches in assessing its capital adequacy:

5.1.1. Credit risk - Standardized Approach (Articles 114-134 of CRR)

The Group separates each of its exposures (assets, exposure values of derivative contracts and off balance sheet items) to the relevant exposure classes listed below.

(E01) Exposures to Central Governments or Central Banks;
(E02) Exposures to regional governments or local authorities - not applicable to the Group as at 31 December 2014;
(E03) Exposures to public sector entities;
(E04) Exposures to multilateral development banks - not applicable to the Group as at 31 December 2014;
(E05) Exposures to international organizations - not applicable to the Group as at 31 December 2014;
(E06) Exposures to institutions;
(E07) Exposures corporates;
(E08) Retail exposures;
(E09) Exposures secured by mortgages on immovable property - not applicable to the Group as at 31 December 2014;
(E10) Exposures in default;
(E11) Exposures associated with particularly high risk - not applicable to the Group as at 31 December 2014;
(E12) Exposures in the form of covered bonds - not applicable to the Group as at 31 December 2014;
(E13) Exposures representing securitisation positions - not applicable to the Group as at 31 December 2014;
(E14) Short-term claims on institutions and corporate - not applicable to the Group as at 31 December 2014;
(E15) Exposures in the form of units or shares in collective investment undertakings ("CIU") - not applicable to the Group as at 31 December 2014;
(E16) Equity exposures; or
(E17) Other items.

A risk weight is assigned to each of the exposures above based on tables and explanations regarding the risk weighting process provided in the CRR.

Where credit risk mitigation applies for a specific exposure, the fully adjusted value of the exposure which takes into account an adjusted value of the collateral is calculated in accordance with the CRR.

Once the risk weighted exposures are calculated for all the exposure classes, these are multiplied by 8% in order to result in capital requirements regarding credit risk according to Article 438 of CRR.

8% of the risk weighted exposure amounts for each exposure class as specified in Article 112 of CRR, regarding credit risk as at 31 December 2014

	US$000
Exposure class	
Central Governments or Central Banks	19
Public Sector Entities	-
Institutions	4.882
Corporates	136.762
Retail items	41
In Default	2.508
Regulatory high-risk categories items	-
Other items	3.337
	147.549

Within the asset classes of Institutions and Corporates, capital requirements of US$647 thousand relate to counterparty credit risk and exposure to financial guarantees amount to $15.234 thousand.

5.1.2. Market risk - Standardized approach

5.1.2.1. Position risk - Traded debt securities

Position risk is split into general and specific risk.

- **General risk**

General risk is calculated using the maturity-based approach. Under this approach, the traded debt securities are assigned a risk weight according to their maturity and coupon rate. The CRR splits the maturity bands into 3 zones. Thereafter, the exposure amount falling in a specific maturity band is multiplied by the risk weight applicable for that band in order to calculate the long or short position.

After the calculation of all positions, the matched and unmatched weighted positions are assigned a risk capital charge (from 10% to 150%). The level of risk capital charge to be assigned to each of the matched positions depends on the maturity zone in which the position falls. All unmatched positions are assigned 100% risk capital charge.

To calculate the capital requirements for the general risk, the matched and unmatched weighted positions are multiplied by the relevant risk capital charge.

- **Specific risk**

Specific risk is calculated using a table which separates the issuers of the traded debt securities into 4 categories according to their credit quality steps. The credit quality steps are calculated based on the credit rating assigned by the external rating agency to the issuers of the securities. Each of the risk ratings relates to a specific credit quality step.

A risk capital charge is assigned to the traded debt securities based on the category in which they fall.

Finally, in order to calculate the capital requirements for the specific risk, the positions falling in each category are multiplied with the risk capital charge applicable for that category.

5.1.2.2. Position risk - Equities

Position risk is split into general and specific risk.

- **General risk**

The capital requirements against general risk are the overall net position multiplied by 8%.

- **Specific risk**

The capital requirements against specific risk are the overall gross position multiplied by 8%.

As at 31 December 2014, the Bank did not have any exposures to equities.

5.1.2.3. Position risk - Foreign exchange risk

Regarding foreign exchange risk, assets, liabilities and off balance sheet items (namely, irrevocable guarantees that are certain to be called) as well as forward positions under forward exchange contracts, are separated by original currency (except the USD which is the functional currency and hence does not affect the FX position). Then the long/short positions are calculated for each currency which are added together to end up into an aggregate long and short position. The higher of the total of the net long positions and the total of the net short positions is the Group's overall net foreign exchange position.

As per the CRR, if the overall net foreign exchange position is less than 2% of the Group's own funds, no capital requirements exist, otherwise, capital requirements arise. There were no capital requirements for foreign exchange risk as at 31 December 2014, since the overall net foreign exchange position was less than 2% of the Group's own funds.

5.1.2.4. Minimum capital requirements for market risk

	US$000
Position risk - traded debt instruments in the trading book	2.825
Position risk - equities in the trading book	-
Foreign exchange risk - banking and trading book	-
Total	**2.825**

5.1.3. Operational risk, basic indicator approach (Article 315 of CRR)

Under the basic indicator approach, the Group calculates capital requirements for operational risk by applying 15% on the average over three years of the sum of net interest income and net non-interest income. The average is based on the last three 12-monthly observations at the end of the financial year.

As at 31 December 2014, the capital requirements calculated in accordance with Article 315 of CRR amounted to US$41.982 thousand.

5.1.4. Additional capital requirements relating to excesses on limits for large exposures

As at 31 December 2014, there were no additional own fund requirements relating to any excesses on limits for large exposures.

5.2. Summary of the minimum required own funds for credit risk, market risk, operational risk and credit valuation adjustment

	US$000
Credit Risk	147.549
Market Risk	2.825
Operational Risk	41.982
Credit Valuation Adjustment	35
Total	**192.392**

The Group capital adequacy ratio as at 31 December 2014 was 24,6%.

6. Counterparty credit risk

Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the cash flows of the transaction. In the context of these disclosures, the transaction concerns derivatives (forward foreign exchange contracts).

6.1. Internal capital and credit limits for counterparty credit exposures

The assignment of internal capital required for credit risk is made by considering the figure derived from the derivatives by applying the mark-to-market method. According to this method, the current replacement cost of all derivative contracts with positive values is obtained and an add-on is applied to account for the potential future credit exposure, being calculated using specific factors according to type of transaction and residual maturity. For the description of credit limits for counterparty credit risk exposure, please refer to Section 3.1.1 of the Report.

6.2. Policies with respect to wrong-way risk exposures

A wrong-way risk exposure arises when an exposure to a counterparty is adversely correlated with the probability of default ("PD") of that counterparty. Wrong-way risk is not anticipated to be material. As a result of this, the Group does not currently measure the above mentioned risk.

6.3. Gross positive fair value of contracts

As of 31 December 2014, the gross positive fair value of derivative contracts was US$2.464 thousand.

6.4. Exposure value under mark-to-market method

The exposure value of derivatives is calculated as the sum of the positive mark-to-market values of the derivatives and the potential future exposure of the derivative calculated as per Article 274 of CRR.

As at 31 December 2014, the Group's total derivative exposure value was US$8.120 thousand, resulting in capital requirements of US$8.083 thousand.

7. The Group's exposure to credit risk

7.1. Definitions

A financial asset is considered to be past due when the obligor has failed on any material credit obligation to the institution for more than 90 days.

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Group would not otherwise consider;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral;
- Debt service coverage ratio is below 1.1;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - Adverse changes in the payment status of borrowers in the group; or
  - National or local economic conditions that correlate with defaults on the assets in the group.

7.2. Approaches and methods adopted for determining value adjustments and provisions

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment to the extent applicable to the Group given the nature of its operations, the small number of loans and availability of the necessary data. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the borrower' ability to pay all amounts due according to the contractual terms (for example, on the basis of a credit risk evaluation or grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). The characteristics chosen are relevant to the estimation of future cash flow for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. However, loss probabilities and other loss statistics differ at a group level between (a) assets that have been individually evaluated for impairment and found not to be impaired and (b) assets that have not been individually evaluated for impairment, with the result that a different amount of impairment may be required.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

During 2014 a provision reversal amounting to $2.818 thousand incurred.

7.3. Total amount of exposures without taking into account credit risk mitigation, pre credit conversion factors

Credit risk exposures by class without credit risk mitigation as at 31 December 2014

	Central Governments or Central Banks US$000	Public Sector Entities US$000	Institutions US$000	Corporates US$000	Retail US$000	In Default US$000	Other items US$000	Total US$000
Exposure Type								
Cash and balances with central banks	765.484	-	-	-	-	-	-	765.484
Loans and advances to banks	-	-	266.118	-	-	-	-	266.118
Loans and advances to customers	-	298.360	-	8.506.141	730	54.803	-	8.860.034
- of which SME	-	-	-	407.934	-	-	-	
Securities financing transactions	-	-	-	128.476	-	-	-	128.476
Derivative financial instruments	-	-	46	8.074	-	-	-	8.120
Other credit related liabilities	-	-	-	-	-	-	44.068	44.068
Total	**765.484**	**298.360**	**266.164**	**8.642.691**	**730**	**54.803**	**44.068**	**10.072.300**

7.4. Average amount of exposures without taking into account credit risk mitigation, pre credit conversion factors

Average credit risk exposures by class without credit risk mitigation for 2014

	Central Governments or Central Banks US$000	Public Sector Entities US$000	Institutions US$000	Corporates US$000	Retail US$000	In Default US$000	Other items US$000	Total US$000
Exposure Type								
Cash and balances with central banks	1.095.348	-	-	-	-	-	-	1.095.348
Loans and advances to banks	-	-	217.635	-	-	-	-	217.635
Loans and advances to customers	-	385.044	-	6.880.449	1.194	61.646	-	7.328.333
- of which SME	-	-	-	508.909	-	-	-	
Securities financing transactions	-	-	-	35.145	-	-	-	35.145
Derivative financial instruments	-	-	9.524	3.310	-	-	-	12.834
Other credit related liabilities	-	-	-	-	-	-	49.214	49.214
Total	**1.095.348**	**385.044**	**227.159**	**6.918.904**	**1.194**	**61.646**	**49.214**	**8.738.509**

7.5. Geographic distribution of exposures, pre credit conversion factors

Credit risk exposures by geographical area as at 31 December 2014

	Central Governments or Central Banks US$000	Public Sector Entities US$000	Institutions US$000	Corporates US$000	Retail US$000	In Default US$000	Other items US$000	Total US$000
Geographical area								
Cyprus	765.484	-	5.956	2.923.911	592	39.521	41.468	3.776.932
Europe	-	-	206.277	1.015.446	19	7.206	909	1.229.857
Russia	-	-	-	3.484.794	108	394	465	3.485.761
America	-	-	51.958	-	-	-	-	51.958
Other countries	-	298.360	1.973	1.218.540	11	7.682	1.226	1.527.792
Total	**765.484**	**298.360**	**266.164**	**8.642.691**	**730**	**54.803**	**44.068**	**10.072.300**

7.6. Distribution of exposures by industry, pre conversion factors

Credit risk exposures by industry as at 31 December 2014

	Central Governments or Central Banks US$000	Public Sector Entities US$000	Institutions US$000	Corporates US$000	Retail US$000	In Default US$000	Other items US$000	Total US$000
Industry								
Chemical	-	-	-	2.605.373	-	-	-	2.605.373
Finance	-	-	-	1.860.268	-	42.200	-	1.903.616
Banks and Financial Institutions	765.484	-	266.164	129.486	-	-	-	1.159.987
Oil	-	-	-	1.134.765	-	-	-	1.134.765
Ferrous metals	-	-	-	952.103	-	-	-	952.103
Real Estate and Building Construction	-	298.360	-	791.161	-	-	-	1.089.521
Telecommunications and Media	-	-	-	289.970	-	-	-	289.970
Individuals	-	-	-	231.467	730	2.043	-	234.239
Retail Trade	-	-	-	101.425	-	-	-	101.425
Energy	-	-	-	108.618	-	-	-	108.618
Other	-	-	-	136.407	-	10.560	44.068	191.035
Gas	-	-	-	99.744	-	-	-	99.744
Coal Mining	-	-	-	93.559	-	-	-	93.559
Non-ferrous metals	-	-	-	69.012	-	-	-	69.012
Leasing	-	-	-	39.334	-	-	-	39.334
Total	**765.484**	**298.360**	**266.164**	**8.642.691**	**730**	**54.803**	**44.068**	**10.072.300**

7.7. Residual maturity breakdown of all the exposures, pre conversion factors

Credit risk exposures by residual maturity as at 31 December 2014

	Central Governments or Central Banks US$000	Public Sector Entities US$000	Institutions US$000	Corporates US$000	Retail US$000	In Default US$000	Other items US$000	Total US$000
Residual maturity								
On demand and less or equal 1 month	765.241	-	260.868	364.913	402	-	20.694	1.412.118
More than 1 month and less or equal 3 months	-	37.082	5.296	647.939	62	-	-	690.379
More than 3 months and less or equal 6 months	-	63.521	-	269.759	79	-	-	333.359
More than 6 months and less or equal 1 year	-	97.000	-	1.547.667	48	-	-	1.644.715
More than 1 year	-	100.757	-	5.812.413	139	-	-	5.913.309
Overdue	-	-	-	-	-	54.803	-	54.803
Maturity undefined	243	-	-	-	-	-	23.374	23.617
Total	**765.484**	**298.360**	**266.164**	**8.642.691**	**730**	**54.803**	**44.068**	**10.072.300**

7.8. Impaired exposures and past due exposures by counterparty, pre conversion factors

Impaired exposures and past due exposures by counterparty type as at 31 December 2014

	Neither past due nor impaired US$000	Past due but not impaired US$000	Impaired US$000	Specific provisions as of 31/12/2014 US$000
Type of counterparty				
Central Government or Central Bank	765.484	-	-	-
Public Sector Entities	298.360	-	-	-
Institutions	266.164	-	-	-
Corporates	8.642.692	-	52.760	22.921
Retail	730	384	1.659	730
Other items	44.068	-	-	-
Total	**10.017.498**	**384**	**54.419**	**23.651**

7.9. Impaired exposures and past due exposures by geographical area, pre conversion factors

Impaired exposures and past due exposures by geographical area as at 31 December 2014

	Neither past due nor impaired US$000	Past due but not impaired US$000	Impaired US$000	Specific provisions as of 31/12/2014 US$000
Geographical area				
Cyprus	3.737.411	384	39.137	13.603
Europe	1.222.650	-	7.206	2.115
Russia	3.485.367	-	394	251
America	51.958	-	-	-
Other countries	1.520.112	-	7.682	7.682
Total	**10.017.497**	**384**	**54.419**	**23.651**

8. Standardized approach

8.1. Names of the nominated ECAIs and exposure classes for which ECAIs are used

The Group uses external ratings established by Fitch, Standard & Poor's and Moody's.

The use of the credit assessments for the determination of risk weights is made in accordance with Article 138 of CRR.

The Group uses the external ratings for the following exposure classes which are relevant to the Group:

- Claims or contingent claims on Central Governments or Central Banks;
- Claims or contingent claims on institutions;
- Claims or contingent claims on corporates.

8.2. Process used to transfer credit assessments onto items not included in the trading book

The Group first classifies its exposures into the classes listed above. In accordance with the provisions of the CRR, a credit quality step is then allocated to the exposures based on the applicable credit rating in accordance with the regulatory provisions, which is then used to derive at a risk weight in accordance with specific tables included in the CRR.

8.3. Association of the external rating of each ECAI with the credit quality steps

The Group complies with the standard association of the external rating of each nominated ECAI with the credit quality steps prescribed in Article 136 of CRR.

8.4. Exposure values before and after credit risk mitigation

8.4.1. Exposures to Central Governments or Central Banks

The exposures in this asset class relate to exposures of the Group to the Central Bank of Cyprus amounting to US$765.241 thousand and deferred taxation and VAT exposures to the Cyprus Government amounting to US$243 thousand. No credit risk mitigation exists for exposures falling under this category. The risk weight assigned for the exposures to the Central Bank of Cyprus is 0% in accordance with the CRR as they are exposures to a Central Bank of a Member state (i.e. the Central Bank of Cyprus) denominated and funded in the domestic currency of that Central Bank (i.e. in Euros). The remaining exposure, which is a Deferred Tax Asset that does not rely on future profitability, is assigned a risk weight of 100%.

8.4.2.Exposures to Institutions

Exposure to institutions treated based on the Articles 119-121 of CRR. Exposures to institutions are risk weighted in accordance with the credit quality step that corresponds on the credit assessment of a nominated ECAI. A preferential treatment is applicable for exposures to institutions of up to three months residual maturity. In accordance with Article 121 of CRR exposures to institutions for which a credit assessment by a nominated ECAI is not available, shall be assigned a risk weight according to the credit quality step to which exposures to the central government of the jurisdiction in which the institution is incorporated are assigned. For exposures to unrated institutions with an original effective maturity of three months or less, the risk weight shall be 20%. The following table shows the exposures to institutions before and after credit risk mitigation, pre conversion factors.

		Exposure values	
Credit quality step	Rating mapping*	Before CRM US$000	After CRM US$000
1	AAA to AA-	-	-
2	A+ to A-	204.231	204.231
3	BBB+ to BBB-	157	157
4	BB+ to BB-	-	-
5	B+ to B-	-	-
6	CCC+ and below	5.956	5.956
N/a	Unrated	55.820	55.820
		266.164	**266.164**

***Ratings are based on the rating agency Fitch**

The majority of exposures falling under this category included in the Group's banking book are assigned a risk weight of 20% in accordance with the CRR since they have an original effective maturity of less than 3 months. The amount of exposures in this asset class that are assigned a 20% risk weight is US$260.052 thousand, which includes the entire amount of exposures to unrated institutions as these are all of original effective maturity of less than 3 months.

8.4.3. Exposures to Corporates

The following table shows the exposures to corporates before and after credit risk mitigation, pre conversion factors.

		Exposure values	
Credit quality step	Rating mapping*	Before CRM US$000	After CRM US$000
1	AAA to AA-	-	-
2	A+ to A-	-	-
3	BBB+ to BBB-	9.890	9.890
4	BB+ to BB-	251.910	251.910
5	B+ to B-	43.339	43.339
6	CCC+ and below	39.252	39.252
N/A	Unrated	8.298.300	1.543.951
		8.642.691	**1.888.342**

***Ratings are based on the rating agency Fitch**

All exposures to unrated corporates in this class are assigned a risk weight of 100% or the risk weight of its central government, whichever is the higher.

8.5. Exposure values before and after credit conversion factors

In accordance with Article 111 of CRR, the exposure value of an off-balance sheet item is a percentage of its value. The percentages, also known as credit conversion factors, depend on the risk category in which the off-balance sheet item is classified (full risk-100%, medium risk-50%, medium/low risk-20% and low risk-0%). The following table shows the exposure values of off-balance sheet items by exposure class, before the application of credit conversion factors (before and after credit risk mitigation) and after the application of credit conversion factors.

	Exposure values		
		Pre CCF	Post CCF
	Before CRM US$000	After CRM US$000	After CRM US$000
Institutions	607	607	607
Corporates	314.845	314.350	91.935
Retail	57	57	57
	315.509	**315.014**	**92.599**

9. Operational risk

9.1. Approaches for the assessment of own funds requirements

The Group uses the Basic Indicator Approach for the assessment of own fund requirements for operational risk.

10. Exposure to interest rate risk on positions not included in the trading book

10.1. Nature of interest rate risk, key assumptions and frequency of measurement

Interest rate risk in the banking book (repricing risk) is the risk that arises from timing differences in the maturity (for fixed-rate instruments) and repricing (for floating-rate instruments) of Group's assets, liabilities and off-balance sheet positions. In the scenario of an interest bearing asset of fixed interest, funded by a variable rate liability, the margin between the two would be affected by a move in market interest rates.

The Group has established interest rate risk limits in relation to its banking book. The limits reflect the risk appetite of the Group regarding loan transactions in terms of acceptable interest rate margins for specified maturities.

The Group currently measures the effect of a change of 200 b.p. in interest rates on the Group's earnings and economic value in accordance with the supervisory stress test scenario. The maximum limit for the change in the economic value of the Group as a result of the change in the interest rates is set to be equal to the supervisory limit of 20% of the Group's regulatory capital. As of 31 December 2014, this limit was not exceeded by the Group.

In addition, the Group performs on a quarterly basis non-supervisory stress testing by applying exceptional but plausible changes in interest rates (during this test, different parallel shifts of the yield curve and the yield curve twists are considered).

Interest rate risk in the banking book forms part of Pillar II, for the purposes of calculating Group capital requirements.

The basic rules that are followed are in accordance with the guidelines provided by the Central Bank of Cyprus and are as follows:

All interest bearing assets and interest bearing liabilities of a non-trading nature are classified into specified time bands per currency. The classification into the time bands is based on the remaining maturity until the next re-pricing date. Then, the difference between assets and liabilities in each time band is calculated for each currency ending up in a gap. All time bands together, comprise the basis for the calculation of interest rate risk in the banking book, calculated under both the earnings and the economic value approach.

The stress test is based on the assumption that accrued interest and adjustments for the effective interest rate method are non-interest bearing and therefore excluded from the analysis. In addition, deposits are allocated to the maturity bands in such a way so as to match them with the corresponding loans for which they serve as collateral.

10.2. Variation in earnings and economic value

	Increase/(decrease) in earnings		
	Currencies		
	USD US$000	RUR US$000	EUR US$000
Stress scenario			
+200 b.p.	+6.023	+43	+1.988
-200 b.p.	-6.023	-43	-1.988

10.2.1. Variation in earnings

It should be noted that the variation in earnings is affected by the fact that non-interest bearing assets which are not included in the analysis are funded by interest bearing liabilities resulting in an increase in the gap on which the change in the interest rates is applied.

10.2.2. Variation in economic value

The change in economic value of the Group as at the end of 31 December 2014 by applying a 200 b.p. change in interest rates was a decrease of US$25.401 thousand (4,3% of the Group's own funds).

11. Remuneration policy and practices

11.1. Remuneration policy

The Remuneration Policy (hereinafter the "Policy") of RCB Bank Ltd (hereinafter "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 Policy. The Policy includes all levels of the Bank and all categories of employees. The application of the principles set out in the Policy and thus the exact form of the Policy takes account of the nature and scale of the Bank and the complexity of its activities. The said principles are applied both at solo and group levels and are applied in a proportionate way.

The Policy has been approved by the Board of Directors (hereinafter the "BoD").

As a matter of principle, the Bank supports levels of remuneration and compensation necessary to attract, retain and motivate high quality people required to lead, manage and serve the Bank in a competitive environment. The Bank considers that appropriate levels of remuneration and compensation are essential to enhance the long-term interests of the Bank's stakeholders, including its shareholders.

The Bank strives to ensure that remuneration packages reflect the relevant duties and responsibilities, are fair and equitable, and incorporate rewards clearly and measurably linked to performance both on an individual and on a corporate basis.

The 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 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 implemented a formal, rigorous and transparent procedure for the appointment of members of the BoD and encourages gender diversity. The members of the Board of Directors have a broad knowledge and expertise in the areas of banking, financial services, law, accounting and international relations. Further, the BoD and its Committees have the appropriate level of skills, experience, independence and knowledge to enable them to discharge their respective duties and responsibilities effectively. The assessment process and selection criteria are in line with the Bank's Assessment of the Suitability of Members of the Management and Key Function Holders Policy as well as relevant Central Bank of Cyprus Directives and subsequent clarifications. In line with the requirements of the Directive regarding the fitness and probity of the members of the management body issued by the Central Bank of Cyprus and subsequent clarifications, RCB's members of the Board directorships do not exceed the maximum number allowed by the Central Bank of Cyprus.

11.2. Terms of Reference of the Compensation/Nominations/Internal Governance Committee

The BoD has established a Compensation/Nominations/Internal Governance Committee (hereinafter the "CNIGC") comprised of 3 members who are appointed by the BoD, of which both the Chairman and one other of the members are independent directors.

The CNIGC is guided by the "Provisions for the Compensation/Nominations/Internal Governance Committee" (hereinafter the "CNIGC Provisions") as approved by the BoD.

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

- Formulates proposals for approval by the BoD regarding the remuneration of the Senior Executive Management and other personnel whose duties may involve increased risk taking;
- Oversees the remuneration of the Senior Executive Managers and other personnel whose duites may involve increased risk taking and ensures their remuneration is in line with the approved by the BoD Policy;
- Ensures compliance of the Policy with the regulatory and legal framework;
- Reports on its activities and results to the BoD on a regular basis, but not less frequently than once a quarter.

11.3. Measurement of performance

The Bank recognizes that its personnel are its human resources and one of its key assets. The professional growth and development of its people are central to achieving the Bank's mission and strategy. With this in mind, the Bank holds overall appraisal of its personnel. The purpose of the appraisal is the systematic analysis of weak and strong sides of an employee's performance. The appraisal is conducted by the persons to whom employees report.

Participation in the End of Year Employee Appraisal is compulsory for all employees.

Appraisals are reviewed by the management, who then consult with the employee and/or his/her immediate supervisor where necessary, to decide whether any action needs to be taken in any particular case.

Over and above the monthly salary, an additional percentage is paid to some employees in the form of monthly performance-based bonus. Whether 100%, 75%, 50% or 25% of the monthly performance based bonus is to be deducted is determined by the employee's immediate supervisor by completing the Monthly Appraisal Questionnaire.

The Employee Appraisal Questionnaires 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 Appraisal Questionnaires, individual as well as collective performance could also be evaluated based on measurable performance criteria. These Key Performance Indicators (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, achievement of business targets set by the Bank's Senior Executive Management are among the KPIs used for the measurement of performance.

The Bank may also pay each employee a discretionary annual bonus based on the employee's grade and performance (established through a review of the employee appraisals and the individual and collective KPIs combined with the expert opinion and feedback of each employee's immediate supervisor), the performance of the department concerned and on the overall performance of the Bank. The amounts are determined by the collective decision of the Senior Executive Management.

11.4. Forms of Remuneration

The components of total remuneration are:

A. Fixed remuneration

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

B. Variable remuneration

The majority of employees have a variable component to their remuneration in addition to their fixed remuneration. There is a proportionate ratio between fixed remuneration and variable remuneration. The relation between fixed and variable remuneration is of reasonable proportion. Employees should not have to rely on their variable remuneration. The variable portion is clearly connected to the work and performance of the individual, the performance of his/her department and the overall performance of the Bank. The goals are based on factors that support the Bank's long-term strategy. The variable component varies across the Bank's business areas and management levels and can range from 0% to 50% of the total annual compensation.

The variable remuneration does not consist of shares or equivalent non-cash instruments or any other instruments as the Bank doesn't have such instruments in place.

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.

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.

Malus is a method for the implementation of risk adjustment and reducing the value of a part of the deferred remuneration, taking into account risk outcomes of the underlying performances of the institution as a whole, the business unit and, where possible, the staff member. A clawback typically operates in the case of established fraud or misleading information.

The CNIGC is responsible for the ex-post risk adjustment of the remuneration of all employees, taking into account the following:

a. Evidence of misbehaviour or serious error by the employee (e.g. breach of code of conduct and other internal rules, especially concerning risks);
b. Whether the Bank subsequently suffers a significant downturn in its financial performance;
c. Whether the Bank and/or the department/unit in which the employee works suffers a significant failure of risk management;
d. Significant changes in the Bank's economic or regulatory capital base.

It is the responsibility of the Senior Executive Management to submit to the CNIGC any information relating to the above.

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. If the variable component reaches a particularly high amount, at least 60% of the amount shall be deferred.

Remuneration payable under deferral arrangements shall vest no faster than on a pro-rata spreading and the vested amount shall not be sooner than 12 months after the accrual.

C. **Severance Pay**

The Bank does not have a policy in place for early termination of a contract and, should such an early termination occur, the applicable labor 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. The Bank did not award any such payments in the year 2014.

11.5. Personnel Categories

The personnel of the Bank are divided into the following categories:

a. Executive Directors and Chief Executive Officer
b. Senior Executive Management
c. Other Risk Takers
d. Relevant Persons (the Relevant Persons are the same as the Other Risk Takers)
e. Control Functions
f. Heads of Departments/Units
g. Other Employees

The number of staff employed by the Bank at 31 December 2014 was 259 (2013: 235). The number of identified risk takers being remunerated EUR1 million or more for 2014 amounted to 4 employees, with 1 employee being in the pay band from EUR1 million to EUR1,5 million, and 3 employees being in the pay band from EUR2 million to EUR2,5 million.

The total remuneration of the Executive Directors, Chief Executive Officer and Senior Executive Management (headcount of 5) for 2014 was EUR8.392 thousand including a variable compensation of EUR3.076 thousand. As of 31 December 2014, outstanding deferred remuneration amounted to EUR1.532 thousand (non-vested). Deferred remuneration awarded during the year was EUR1.205 thousand, and deferred remuneration paid out amounted to EUR163 thousand. There were no amounts reduced through performance adjustments and no new sign-on or severance payments. The total remuneration of Other Risk Takers (headcount of 2) for 2014 was EUR813 thousand including a variable compensation of EUR41 thousand. As of 31 December 2014, outstanding deferred remuneration amounted to EUR27 thousand (non-vested). There was no deferred remuneration awarded during the year, and deferred remuneration paid out amounted to EUR13 thousand. There were no amounts reduced through performance adjustments and no new sign-on or severance payments.

Appendices:

Annex I

Transitional Own Funds Disclosure Template

		Amount US$000
Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	174.018
	- of which: Instrument type 1 - Share Capital	23.308
	- of which: Instrument type 2 - Share Premium	150.710
	- of which: Instrument type 3	-
2	Retained earnings	330.359
3	Accumulated other comprehensive income (and other reserves)	-
3a	Funds for general banking risk	-
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-
	Public sector capital injections grandfathered until 1 January 2018	-
5	Minority interests (amount allowed in consolidated CET1)	-
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**504.377**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	
8	Intangible assets (net of related tax liability) (negative amount)	(1.913)
9	Empty set in the EU	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-
11	Fair value reserves related to gains or losses on cash flow hedges	-
12	Negative amounts resulting from the calculation of expected loss amounts	-
13	Any increase in equity that results from securitised assets (negative amount)	-
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-
15	Defined-benefit pension fund assets (negative amount)	-
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-
20	Empty set in the EU	-
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-
20b	- of which: qualifying holdings outside the financial sector (negative amount)	-
20c	- of which: securitisation positions (negative amount)	-
20d	- of which: free deliveries (negative amount)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-

		Amount US$000
22	Amount exceeding the 15% threshold (negative amount)	-
23	- of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-
24	Empty set in the EU	-
25	- of which: deferred tax assets arising from temporary differences	-
25a	Losses for the current financial year (negative amount)	-
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required preCRR	
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(1.913)**
29	**Common Equity Tier 1 (CET1) capital**	**502.464**
30-36	Additional Tier 1 (AT1) capital: instruments	-
37-42	Additional Tier 1 (AT1) capital: regulatory adjustments	-
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-
44	Additional Tier 1(AT1) capital	-
45	**Tier 1 capital (T1 = CET1 + AT1)**	**502.464**

Tier 2 (T2) capital: instruments and provisions

46	Capital instruments and the related share premium accounts	88.603
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-
49	- of which: instruments issued by subsidiaries subject to phase out	-
50	Credit risk adjustments	-
51	**Tier 2 (T2) capital before regulatory adjustments**	**88.603**

Tier 2 (T2) capital: regulatory adjustments

52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-
54a	- of which new holdings not subject to transitional arrangements	-
54b	- of which holdings existing befores 1 January 2013 and subject to transitional arrangements	-
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-
56	Regulatory adjustments applied to Tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-

		Amount US$000
	- Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc	-
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-
	- Of which items to be detailed line by line, e.g. reciprocal cross holdings in at1 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc	-
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	-
	- Of which: possible filter for unrealised losses	
57	Total regulatory adjustments to Tier 2 (T2) capital	-
58	**Tier 2 (T2) capital**	**88.603**
59	**Total capital (TC = T1 + T2)**	**591.067**
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-
	- Of which: Items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liablity, indirect holdings of own CET1, etc)	-
	- Of which: Items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc)	-
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own t2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc)	-
60	**Total risk weighted assets**	**2.404.899**

Capital ratios and buffers

61	**Common Equity Tier 1 (as a percentage of total risk exposure amount)**	**20,89%**
62	**Tier 1 (as a percentage of total risk exposure amount)**	**20,89%**
63	**Total capital (as a percentage of total risk exposure amount)**	**24,58%**
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	-
65	- of which: capital conservation buffer requirement	-
66	- of which: countercyclical buffer requirement	-
67	- of which: systemic risk buffer requirement	-
67a	- of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	-
69	[non relevant in EU regulation]	-
70	[non relevant in EU regulation]	-
71	[non relevant in EU regulation]	-

Amounts below the thresholds for deduction (before risk weighting)

72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-

		Amount US$000
74	Empty set in the EU	-
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	-
	Applicable caps on the inclusion of provisions in Tier 2	
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)	
80	Current cap on CET1 instruments subject to phase out arrangements	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
82	Current cap on AT1 instruments subject to phase out arrangements	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on T2 instruments subject to phase out arrangements	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

Annex II

Capital Instruments main features template		Tier 1
1	Issuer	RCB Bank Ltd
2	Unique identifier	N/A
3	Governing law(s) of the instrument	Law of England
	Regulatory treatment	
4	Transitional CRR rules	N/A
5	Post-transitional CRR rules	N/A
6	Eligible at solo/(sub-)consolidated/solo&(sub)consolidated	Yes
7	Instrument type	Ordinary Shares
8	Amount recognised in regulatory capital*	US$ 174 million
9	Nominal amount of instrument	€18.471 thousand
9a	Issue price	€1,71 nominal per share
9b	Redemption price	N/A
10	Accounting classification	Equity
11	Original date of issuance	Multiple
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons/dividends	
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A

Capital Instruments main features template		Tier 1
23	**Convertible or non-convertible**	
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	N/A

***Share capital and share premium include the Bank's newly issued ordinary shares. The regulatory approval for the inclusion of these instruments into Tier 1 capital of the Bank is currently in process and is expected to be finalised shortly after the issuance of these disclosures.**

Annex III

Part Eight of Regulation (EU) No 575/2013 allows institutions to omit one or more of the required disclosures ("disclosures waivers") if information provided by such disclosures is not regarded as material or if it would be regarded as proprietary or confidential. The bank, as a private company considers that disclosing in public some items listed in Titles II and III of CRR Part Eight would undermine its market wide competitive position and confidentially agreements.

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