Compliance with Articles 88 to 96 of CRD IV for the year ended 31 December 2016

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

Governance arrangements (Article 88 of the CRD IV)

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

Compliance with Article 88(1) of the CRD IV

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

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

The members of the Board, together with their short CVs, can be accessed here.

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

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

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

Compliance with Article 88(2) of the CRD IV

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

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

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

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

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

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

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

Disclosures pursuant to Articles 89 - 90 of the CRD IV

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

			31/12/2016 Amounts in EUR000
	RCB Bank Ltd	RCB Bank Ltd, Luxembourg Branch	Total
Geographical location	Cyprus	Luxembourg	-
Turnover (gross interest and commission income)	396.921	15.670	412.591
Number of employees on a FTE basis	348	9	357
Profit before tax	93.842	3.189	97.031
Tax on profit	-14.224	-1.141	-15.365
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. Further details as regards the members of the Board knowledge and expertise can be accessed here.

- During the year 2016, each member of the Board had:
  - at all times sufficiently good repute and possessed sufficient knowledge, skills and experience to perform his/her duties;
  - acted with honesty, integrity and independence of mind to effectively assess and challenge the decisions of the senior management where necessary and to effectively oversee and monitor management decision-making; and
  - committed sufficient time to perform his/her functions in the Bank including the preparation for Board meetings.

The above have been confirmed in the "Evaluation Report on the Performance of the Management Body as a whole, its committees and individual members" prepared by the Chairman of the Board, Mr Panayiotis Loizides. The report was discussed and approved at the Nominations Committee meeting on March 15, 2017 and was further approved by the Board on March 24, 2017. Furthermore, each Committee undertook a self-assessment for the year 2016 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: the self-assessments for the Nominations Committee and the Remunerations Committee were approved in the board meeting held on the March 24, 2017 and the self-assessment questionnaires for the Audit Committee and the Risk Committee were approved in the board meeting held on the April 26, 2017.

The Bank devoted adequate human and financial resources to the induction and training of the Board members since all the new members of the Board appointed during the year 2016, have attended induction trainings by the heads of Internal Control Functions. The members of the Board also attended seminars on regulatory compliance and AML as well as on their responsibilities arising from CRD IV.

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

i. one executive directorship and two non-executive directorships; or
ii. four non-executive directorships.

The following shall count as a single directorship:

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

The members of the Board submit to the Board annually declarations through which they notify any changes as regards their participation in other entities. The declarations received for the year 2016, did not create any conflicts of interest.

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

Compliance with Articles 92 - 95 of the CRD IV

The Remuneration Policy (hereinafter the "Remuneration Policy") of the Bank 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 ("MB") and Senior Executive Management. In creating the Remuneration Policy, account has been taken on the scale of the Bank, the size and the complexity of its activities.

The Management Body approves the Remuneration Policy and maintains oversight of its application.

The MB has established a Remuneration Committee (hereinafter the "RC") which as at 31 December 2016 comprised of 4 members who were appointed by the MB, who have collectively appropriate knowledge, expertise and professional experience concerning remuneration policies and practices, risk management and control activities, namely with regard to the mechanism for aligning the remuneration structure to the Bank's risk and capital profiles. The RC members, including the Chairperson of the RC, are all Independent Directors. During 2016, the RC held 6 meetings and its activities were guided by the "Terms of Reference of the Remuneration Committee" as approved by the MB.

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 and practices of the Bank are subject to a central and independent internal review, at least annually. In 2016 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.

The Bank is committed to ensuring that the Remuneration Policy is consistent with the objectives of the Bank's business and risk strategy, corporate culture and values, long-term interests and the measures used to avoid conflicts of interest and promotes sound and effective risk management. As such, one of the main underlying principles of the Remuneration Policy is that by design, and in its implementation, it curbs and discourages excessive or unnecessary risk-taking within the Bank. In so doing, the Bank can maintain a sound capital base where overall remuneration at the Bank is included in its capital and liquidity planning. The remuneration practices are aligned with their overall risk appetite, taking into account all risks, including reputational risks and risks resulting from the mis-selling of products. The revised Remuneration Policy has been approved in its entirety by the Committees and the MB in 2017, in accordance with the provisions of the European Banking Authority Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU, and disclosures under Article 450 of Regulation (EU) No 575/2013 of 21 December 2015, applicable as from January 2017.

For the purposes of the Remuneration Policy, "remuneration" consists of all forms of payments or benefits, monetary or non-monetary, made directly or indirectly but on behalf of the Bank in exchange for services rendered by an Employee to the Bank. Remuneration is either Fixed or Variable, and there is no third category of Remuneration. An employee's Variable Remuneration is calculated by reference to that Employee's Fixed Remuneration. In particular, the Bank has introduced the following for the 2016 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% - 60% 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 pay-outs 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 remuneration of the heads of control functions is directly overseen by the Remuneration Committee, and its involvement and oversight is evident by the minutes of its meetings held throughout the reporting year.

Independent Directors of the Bank, who are members of the Management Body, receive an annual fixed fee, and no variable remuneration is paid to them.

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.

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 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, the cost of tied-up capital that is associated to risks undertaken, are set by the Bank's Senior Executive Management. 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 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 Bank does not have a specific policy in place for early termination of a contract and, should such an early termination occur, the applicable labour legislation is adhered to. Nonetheless, payments related to the early termination of a contract reflect performance achieved over time and are designed in a way that does not reward failure.

The Bank does not offer remuneration to "buy out" a person from a previous contract of employment, and in the event that such case occurs, the Bank does so in accordance with all applicable law and requirements, including without limitation, section 9 of the EBA Guidelines.

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

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