



Ταμείο Χρηματοπιστωτικής Σταθερότητας  
Hellenic Financial Stability Fund

# NEDs Remuneration Principles

Hellenic Financial Stability Fund

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## EXECUTIVE SUMMARY

The purpose of this document is to present the principles on which remuneration of non-executive directors (“NEDs”) in the Greek systemic banks should be based within the wider context of the ongoing development of corporate governance. The actual legal/regulatory restrictions applying to the Greek systemic banks have been taken into consideration. The executive Board of Directors (“BoD” or “board”) members’ remuneration is not subject of research in this paper.

This HFSF initiative is part of its strategic objectives to continue its efforts to provide and promote best practices and standards aiming at improving the corporate governance framework and Board performance of the Greek systemic banks.



## PROPOSED REMUNERATION PRINCIPLES FOR NEDS

**The Remuneration Committee should have the necessary synthesis, expertise and/or support in order to design appropriate remuneration models.**

It is recommended that the committee's members should have past experience in similar committees in EU banks, and knowledge of the regulatory framework<sup>1</sup> and practices applying on remuneration. It is noted that the remuneration of the banking sector is highly regulated, so this awareness is an asset.

**Banks should consider defining suitable NEDs roles and developing the profile and characteristics that better serve their strategy and business model.**

The bank's size, the complexity of activities, the financial situation and the local practices should be taken into consideration. This is in line with the approach of the European framework, which does not define the exact qualifications and knowledge that the NEDs should dispose, but, rather accepts that the specification of the competences and skills of the NEDs should have, must be made by the companies themselves, depending on the activities, size, and environment in which they operate<sup>2</sup>.

There is a critical need for NEDs participating in the BoDs of the Greek systemic banks, to primarily perform a strategic advisory and resource acquirer role<sup>3</sup> rather than a traditional monitoring/controlling role in the BoD.

- ✓ **The strategic advisory role** refers to the board's contribution in core areas such as loans and operations restructuring, in areas of future business focus for the bank, as well as in developing business e.g. business model, optimization of footprint, digital banking, development of innovative payment systems (as competition from payment institutions is growing etc.).
- ✓ **The resource acquirer** role refers to the board's contribution in improving the bank's connection to the markets, institutional investors and regulators, as well as to attract experts at the executive management level.

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<sup>1</sup> In the EU banking industry, the remuneration area is mainly regulated by the relevant provisions of Directive 2013/36/EU (CRD IV) on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and EU Regulations 575/2013 and 604/2014. The EBA guidelines on sound remuneration policies fulfil the mandate given to the EBA under Articles 74(3) and 75(2) of Directive 2013/36/EU to issue guidelines on sound remuneration policies for all staff and for staff whose professional activities have a material impact on institutions' risk profile. Additionally, Greek systemic banks fall under the provisions of Law 3864/2010 on remuneration. Furthermore, the Communication from the Commission (2013/C 216/01) of the application, from 1 August 2013, of the state aid rules to support measures in favor of banks in the context of the financial crisis should be applied within the remuneration policies. Complementary to the above, the BoG Governor's Act 2650/2012 sets remuneration rules for credits institutions including NEDs. An additional legal framework applies to remuneration rules on listed companies.

<sup>2</sup> Recommendation 2005/162/EC, explanatory report, point 16.

<sup>3</sup> According with the resource acquirer role, the directors are a way of identifying and acquiring tangible and intangible resources on behalf of the firm (mainly external contacts with stakeholders).



**The NEDs' roles remuneration should reflect not only the experience and the expertise, but also the effort contributed to the Bank, while respecting regulatory guidelines.**

To the extent that the roles, described above, are undertaken by BoD members with deep experience, extended networking and expertise in the specific fields, important to the strategic orientation, decision making and external relations of the bank, then, increasing remuneration of such members could be considered. However, any improvement of remuneration on the above basis should be linked to the principles analyzed below, so as to connect the anticipated value contribution of those individuals with the actual time and initiatives taken. Remuneration packages should be designed taking into consideration existing limitations.

In principle, membership in Audit and Board Risk Committees and potentially Remuneration Committees, should be remunerated in better terms compared to other committees, due to the increasing responsibility of members in these Committees.

The Chairman (and the Vice Chairman, if any) should be remunerated at a distinct and higher level compared the members of the BoDs Committees.

Additional responsibilities and/or missions assigned to NEDs by the BoD or a BoD Committee may be taken into consideration for setting remuneration levels. The time and the quality of time spent (eg physical presence or not, active involvement and issues raised, external meetings with stakeholders) by the NEDs should be considered for their remuneration.

**Fees should not compromise the independence of the directors.**

Fee levels should not be so high that independent NEDs would be hesitant to challenge management. The manner in which fees are paid should not compromise, or even be perceived as compromising, their independent oversight and judgement. Variable remuneration should be avoided. Improvement of the “routine employment packages” could be considered (e.g. travel insurance).

**Annual evaluation models of effective boards should be developed and linked to remuneration, assigning to the defined characteristics of NEDs the respective weight.**

In the context of the annual BoD evaluation, KPIs and targets should be set for the BoD and the Committees in order to have the proven connection between goals achievement and remuneration.



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### **Remuneration policies should be transparently disclosed**

The remuneration policy of the NEDs should be clearly disclosed, in order to promote clarity and transparency to stakeholders. It is recommended that the remuneration policy of the BoD be disclosed in the Annual Report of the Bank, together with the link of the policy to the bank's strategy. This disclosure should further include the total cost of Board remuneration.