Remuneration Policy and Practices

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 clients, 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 BoD has established a Remuneration Committee (hereinafter the “RC”) comprised of 3 members. The Chairman of this Committee and one of its members are independent directors.

The RC is guided by the “Terms of Reference of the Remuneration Committee” (hereinafter the “RC Terms of Reference”) as approved by the BoD. The RC reviews this Policy at least annually to ensure that it is compliant with the policies and procedures for remuneration adopted by the Senior Executive Management in its supervisory function.

The Bank’s remuneration framework is designed to ensure that reward is clearly and measurably linked to performance, and in accordance to results achieved. However, the Policy ensures that the control functions i.e. Internal Audit, Risk Management, Compliance and Information Security are adequately compensated in accordance with their own objectives and not in relation to the performance of the business areas they control.

The Policy is transparent and is available to any interested stakeholders.

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. A standard deviation to this practice applies to front line employees whose performance is directly linked to business development and sales targets. The variable component of their remuneration is up to 30% and is payable on a quarterly basis based on the achievement of their departmental and personal targets.

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 CEO and the Senior Executive Management.

Forms of Remuneration

The components of total remuneration are:

a. Fixed remuneration

The fixed remuneration component 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.

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

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

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.

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. In addition, malus or clawback may be applied, inter alia, in the following situations where an employee:

i. Participated in or was responsible for conduct which resulted in significant losses to the institution;
ii. Failed to meet appropriate standards of fitness and propriety.

The RC 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.