

THE BOARD COMMITTEE MEMBERS' REMUNERATION: THEORY AND ADVANCED PRACTICES FOR BANKS

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Abstract

The paper investigates the issue of the board committee members' remuneration in banks. The authors came with conclusion that this issue of research is not explored enough by researchers in international context. Probably this is the major reason of such big black holes in the bank practices. The systems of remuneration for committee members in banks are still highly rigid and based rather on "pay for presence" than "pay for performance" principle. The authors developed an advanced system of remuneration for the board committee members with a set of new ratios which account the committee members' initiative and participation in the committee activity. The system has a variable structure and the problem of its rigidness has been solved through putting in the remuneration structure bonuses which take a huge part. The system has been applied methodologically for the audit committee member to assess his/her performance and set the remuneration.

Keywords: board committees, director remuneration, bonuses, fixed salary, audit committee

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The board committee members' remuneration: theory for banks

The issue of the board committee members' remuneration is a quite new area of research. Theory of corporate governance has paid attention to the issue of the executive remuneration and the board members' remuneration in a whole.

David Yermack (2004) studied incentives received by outside directors in Fortune 500 firms from compensation, replacement, and the opportunity to obtain other directorships. Previous research has only shown these relations to apply under limited circumstances such as financial distress. Together these incentive mechanisms provide directors with wealth increases of approximately 11 cents per \$1,000 rise in firm value. Although smaller than the performance sensitivities of CEOs, outside directors' incentives imply a change in wealth of about \$285,000 for a 1 standard deviation ("SD") change in typical firm performance. Cross-sectional patterns of director equity awards conform to agency and financial theories. Meanwhile, the study does not contain information regarding the specific role of the board committee members' remuneration in the bank performance.

David A. Becher & Terry L. Campbell II & Melissa B. Frye (2005) explored the link between directors compensation and bank regulation. Although deregulation leads to changes in the duties of boards of directors, little is known about changes in their incentives. U.S. banking deregulation and associated changes during the 1990s lends itself to a natural experiment. These industry shocks forced bank directors to face expanded opportunities, increased competition,

and an expanding market for corporate control. While bank directors received significantly less equity-based compensation throughout most of the 1990s, by 1999, their use of such compensation is indistinguishable from a matched sample of industrial firms. The study results suggest firms respond to deregulation by improving internal monitoring through aligning directors' and shareholders' incentives.

Alex Kostyuk (2003, 2005, 2006) investigated the issue of board committee members' remuneration in Ukrainian banks. Conclusions concerned a very weak activity of shareholders and supervisory board members in establishing the board committees. As a result the issue of board committee members' remuneration was still behind the scope of corporate governance in banks. Practices of those times evidenced the strong inclination of the banks to the fixed salary of the board committee members with a link to the principle "pay for presence" as the remuneration paid for the attendance of the committee meetings by its members. A link between the board committee members' remuneration and the bank performance has not been found.

Alex Kostyuk (2007, 2008) concluded on the remuneration amounts paid to the directors of Ukrainian banks for their participation in the board committees. It was found that the share of remuneration of the committee members in the total remuneration of a director is not more than 10 per cent that does not correspond to the worldwide practices.

Pietro Marchetti, Valeria Stefanelli (2009) developed and tested a model in which the outside directors' total cash compensation is related to the outsider's profile, as well as to the board and firm characteristics. Consistent with their model,

characteristics of the outsider's profile, in terms of his/her role and responsibility, meeting activities and length of service, are relevant. Only the director's popularity, as a part of his/her human capital, has a significant effect on his/her compensation. Their empirical results confirm the necessity to create a stronger link between the remuneration policies of the outsider directors and their contribution in a board, in terms of human capital. The remuneration policies adopted by firms should be linked to practices on corporate governance useful for helping outsiders contribute confidently to their work of the board and receive ongoing support and information so they can develop their understanding of the total environment within they work. Then, the authors suggest having recourse to qualifications and professional skills as well as to specific training or board induction programmes defined by firms themselves. Finally, the Combined Code should promote the adoption and spreading of such practices on market. At the same time the Combined Code does not contain recommendations regarding the methodological links between the committee member functions and their remuneration.

Alex Kostyuk (2009) found that the weak development of the remuneration systems for the board committee members of Ukrainian banks is the result of weak development of the system of board committees and the lack of the well-developed national market for the independent directors who could demand for such kind of remuneration systems.

Mohammad Talha, Abdullah Sallehuddin Abdullah Salim, Shukor Masoud (2009) indicated that there is a positive relationship between directors' remuneration with board executive committee, remuneration committee, nomination committee and corporate governance committee. The result also indicates negative relationship between directors' remuneration with employees share option scheme committee. However, all these associations are not significant, except ownership structure that is used as a control variable. This result prompts a need to re-examine the effectiveness of corporate governance practice through establishment of board committee in determining directors' remuneration. At the same time this study does not contain a research on the effective structure of the board committee members' remuneration which could influence in the positive manner the board performance.

Anna Egan, Rebecca Maughan, Joseph Coughlan (2009) found that many of the directors interviewed by them acknowledged that the remuneration received for the position did not fully compensate for the personal liability they exposed themselves to and as such was not an appropriate determinant of motive. Instead nonexecutive directors interviewed presented motivations such as the valid contribution they had to offer, or merely viewed the acceptance of non-executive positions as part of the job.

Peter Hahn, Meziame Lasfer (2010) found the literature related to non-executive directors strongly supportive of some sort of remuneration that is a function of performance and effort to align non-executive directors with their duties and make boards more efficient in undertaking their duties. But the authors have not

mentioned what kind of non-executive work functions are considered, i.e. functions as the board members or committee members. These functions should be identified and clearly bordered.

Alex Kostyuk (2010) concluded on the issue of weak "pay for performance" link on the committees of the board of Ukrainian banks. Rigidity of the remuneration structure for the committee members are still valid and restrict the performance progress of the board in a whole.

The board committee members' remuneration: practices for banks

International practices for banks with regards to the board committee members' remuneration have many issues to differ from country to country. The first, most important issue is the amount of remuneration paid. It should lead to conclusion that the banks in countries following the Anglo-Saxon system of corporate governance featured by the UK, USA, Australia and Canada pay more to their board committee members than those located in Europe. Audit committee membership in Lloyds Banking Group plc. is paid at £20,000. At the same time, its French counterpart BNP Paribas which could be compared respectively by the amount of assets, pays much less to its board committee members. The remuneration is amount at EUR 5,946, including EUR 2,973 as the fixed portion and EUR 594.60 per meeting. The Chairmen of the Financial Statements Committee and the Internal Control, Risk Management and Compliance Committee are paid a fixed portion of EUR 15,000 and a variable portion of EUR 1,239 per meeting. Based on a recommendation submitted by Alain Joly, the directors' fees attributable to him as Chairman of the Compensation Committee and Chairman of the Corporate Governance and Nominations Committee were respectively of EUR 1,000 to EUR 2,973.

Another bank from Europe, Nordea, has the same approach. The remuneration to the board members shall be in 2010 as:

- The Chairman EUR 252,000,
- Deputy Chairman EUR 97,650 and
- Other members EUR 75,600.

In addition, remuneration shall be paid for committee meetings EUR 2,370 to the chairman of the committee and EUR 1,840 to other members per meeting. So, the share of remuneration of the board committee members in the total amount of the director remuneration is not more than 15 percent.

Probably, such remarkable difference in amounts of remuneration could be explained by the role the non-executive, independent directors play on the board. Their role is found through committee commitments. So, the demand for the committee members' remuneration systems grows in the Anglo-Saxon environment.

The second important issue in context of the board committee members' remuneration is its weak sensitivity to the financial crisis of 2007-2010. For example, the amount of fees payable to the members of the Board's Committees of BNP Paribas has also remained unchanged since 2005. It is likely to conclude that the

main attack is undertaken toward the executive directors and their remuneration during financial crisis.

The third is the issue of the rigid structure of the remuneration of the board committee members. Thus, in *Danske Bank*, in addition to the basic fee, directors receive compensation for membership on one or more of the Board's committees. The board committee membership fee is fixed according to the same principles as the basic fee²³. The chairman of a board committee receives an extraordinary fee if he or she is not the chairman or a vice chairman of the Board. Board committee membership is compensated by an annual fee of DKr 200,000. If a Board committee chair is not the chairman or vice chairman of the Board of Directors, he or she receives an extraordinary additional fee of DKr 40,000. Rigidness of the remuneration system for board committee members finds itself in the lack of the best principles of remuneration such as "bonus" and "malus"².

The fourth is the different approach to fix the annual fees for membership in various board committees (see table 1). There are some rules in this context. The most evident is the leading role of the audit committee as the highest paid committee of the board. Probably, the following committees are remuneration and nomination committees. All these committees belong to the group of control (monitoring) committees and the relatively higher remuneration of its members gives evidence in the favor of the growing role of internal control in banks.

In February 2009, Paul Moore, the HBOS whistleblower and former head of risk at the bank, questioned the role played by non-executive directors before the current financial crisis. "I strongly believe the real underlying cause of all the problems [we now face] was simply this – a total failure of all key aspects of governance . . . The single most important change is that there has to be a proper balance of power between the executive and the non-executive. The non-executives need to be much more independent than they currently are". Probably, we should add that the non-executives should be remunerated in an appropriate manner.

Many shareholders believe that they have to pay non-executives more if they want better governance, Steve Tatton, editor of the IDS report, said, but the string of management failures in recent months will lead many to ask what these pay increases achieved.

It is doubtless, independent directors' remuneration practice varies in different banks in terms of each country (see table 1). That's why for identifying remuneration structure we will take preliminary proposition that independent director is a member of Audit Committee, took part in 4 Board meetings and 4 committee meetings. Results are shown in fig. 1. Certainly, such approach may be not so exact, but helps us to see some structure of remuneration and some differences from bank to bank.

²³ The basic fee of a director is set at a level that is on par with the rest of the market and reflects the competencies and contribution required in view of the Group's complexity, the extent of the responsibilities and the number of board meetings.

² In executive compensation, particularly at banks, *bonus-malus* refers to schemes where annual bonuses are held in escrow (do not immediately vest), and can be reduced retroactively (clawed back) in case of losses in future years.

Table 1. Remuneration of the independent directors in banks (USD)

	The Bank of East Asia, Limited, Hong Kong	Lloyd's, UK	National Australia Bank, Australia	UBS, Switzerland	Standard Bank Group, Africa	Siam Commercial Bank Public Company Limited, Thailand	Scotiabank, Canada	M&T Bank, USA	Privatbank, Ukraine	VTB, Russia
Remuneration payment form:	cash	cash	From 10 % to 40% -in shares	50/50 or 100% in shares	cash	cash	70000 paid in DDSU	50% or 100% pay in shares as director prefer	cash	cash
Remuneration for being a member of committee: Audit Committee	7700	21300	25000	86000	9600	1370 per month	6000	10000	-	-
Nomination Committee	3900	7000	-	86000	-	1000 per month	3000	-	-	-
Risk Committee	-	21300	25000	-	-	-	3000	-	-	-
Remuneration Committee	3900	21300	17500	86000	5400	1000 per month	3000	-	-	-
Participation in Board of Directors	25700	85000	190000	280000	60300	33000	30000	20000	-	-
Being a Chairman of Committee: Audit Committee	13000	71000	25000	515000	21000	2000 per month	30000	20000	-	-
Nomination Committee	6400	-	*	515000	-	1600 per month	10000	-	-	-
Risk Committee	-	-	-	-	-	-	10000	-	-	-
Remuneration Committee	6400	35500	*	515000	11700	1600 per month	10000	-	-	-
Being a Chairman of the Board of Directors	39000	-	475000	-	270000	38000	-	-	-	-
Payments for attendance Board of Directors/Supervisory Board meetings	-	-	*	-	-	-	1500	2000	-	-
Payments for attendance committee meetings: Audit Committee	-	-	*	-	-	400	1500	3000	-	-
Nomination Committee	-	-	*	-	-	270	1500	1000	-	-
Risk Committee	-	-	*	-	-	-	1500	-	-	-
Remuneration Committee	-	-	*	-	-	270	1500	1000	-	-
Payments periodicity	year	year	year	year	year	month, year	year	year	year	Year

-- the sum is impossible to identify or such committee is not supported in bank, or bank has other committees

* - perhaps this sum was included somewhere earlier (e.g. amount of remuneration for being a member of committee already includes money for attendance each committee meeting)

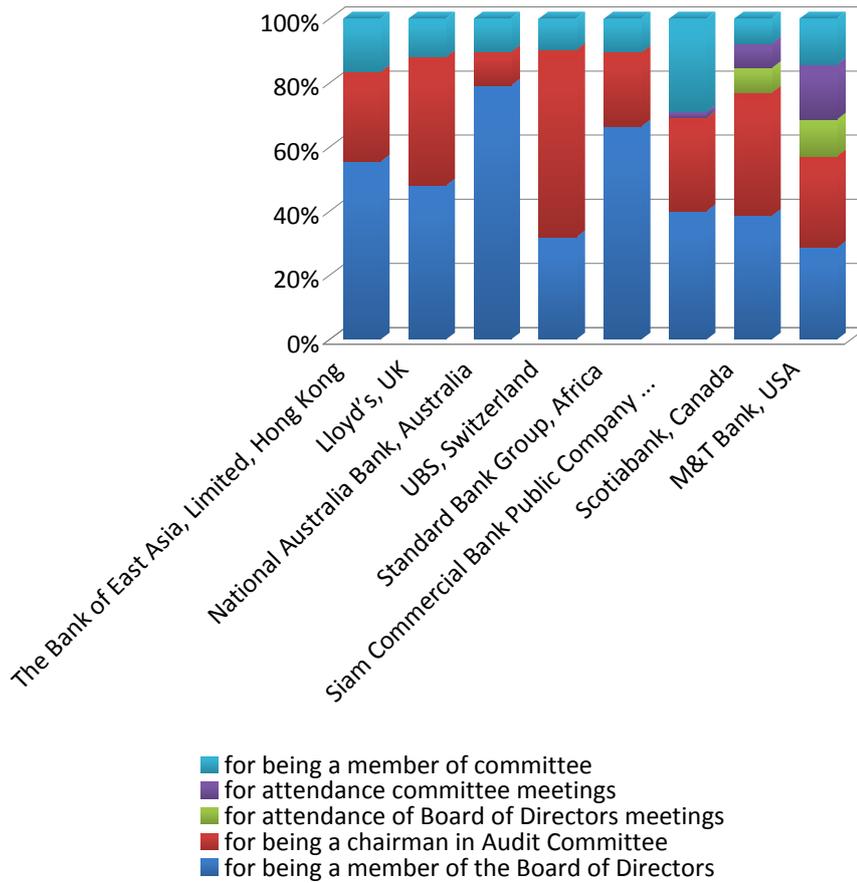


Figure 1. Structure of the independent director remuneration

The most structured the remuneration systems are in banks in the USA and Canada. At the same time it is hardly possible to conclude on the factors putting essentials to these findings.

The next figure gives a chance to fix the structure of the remuneration of independent directors in banks.

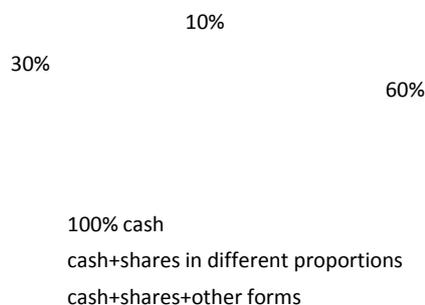


Figure 2. Remuneration payment structure in banks

The most banks are still inclined to pay in cash. At the same time the trend of the last decade is the growing share of the stock components of the remuneration. Stock remuneration is paid for getting the targeted performance of the bank in a whole or as a fixed stake of stock to be paid out. The participation of the directors as the board committee members and their performance are not considered as a well-targeted goal that takes the remuneration system to its rigid state back.

The new approach to set remuneration for the board committee members in banks

System of indicators for an assessment of work of committees of the Board and their members

The base of the system of compensation of the Board of director committee members is the system of indicators for an assessment of work of committees of the Board and their members for a year. The system of indicators assesses initiative and productivity of participation of each committee member of board of directors, solving one of the most actual problems in organization of work of Board committees - *a problem of low initiative of directors in the process of preparation and carrying out committee meetings.*

For the purpose of solving specified above problem, the following system of indicators is offered.

Table 2. System of indicators for an assessment of work of committees of the Board and their members

I.N.	Group of indicators	Calculation formula
Assess of committee work as a whole		
1	RAI – ratio of absolute initiative	Number of questions discussed by the committee at its meetings during a year / Number of the committee meetings during a year
2	RII – ratio of indirect initiative	(Number of questions discussed by the committee at its meetings a year / Number of questions discussed by all committees at its meetings a year) * 100 %
3	RAR – ratio of absolute result	(Number of suggestions made by the committee and further approved by the board of directors / Number of questions discussed by the committee at its meetings a year) * 100 %
4	RIR – ratio of indirect result	(Number of suggestions made by the committee and further approved by the board of directors / Number of suggestions made by all committees and further approved by the board of directors) * 100 %
<i>table 2 continued</i>		
Assess of committee member work		
5	PR – participation ratio	(Number of the committee meetings with participation of the committee member / Annual number of committee meetings) * 100 %
6	IR – initiative ratio	(Number of questions suggested by the committee member at the committee meetings during a year / Number of questions discussed by the committee at its meeting a year) * 100 %
7	ARR 1 – absolute result ratio 1	(Number of questions suggested by the committee member at the committee meetings during a year and further approved by the committee / Number of questions suggested by the committee member at the committee meetings during a year) * 100 %
8	ARR 2 – absolute result ratio 2	(Number of questions suggested by the committee member, approved by the committee and further approved by the board of directors / Number of questions suggested by the committee member at the committee meetings during a year) * 100 %
9	IRR 1 – indirect result ratio 1	(Number of questions suggested by the committee member, approved by the committee and further approved by the board of directors / Number of questions suggested by all members of the committee, approved by the committee and further approved by the board of directors) * 100 %
10	IRR 2 – indirect result ratio 2	(Number of questions suggested by the committee member, approved by the committee and further approved by the board of directors / Number of questions suggested by all members of all committees, approved by the committees and further approved by the board of directors) * 100 %

Using offered above indicators gives the chance to assess initiative and productivity degree committee as a whole and its each member. Moreover, by results of calculation of the given indicators it is possible to prove a difference at a rate of material compensation which it is necessary to pay to each member of committee for a year.

The offered calculation procedure of the size of material compensation of the board of directors' committee member has the following form:

1. Calculation of indicators for an assessment of work of committee.

2. Calculation of annual actual fixed salary of the director for participation in the committee meeting.

2.1. Calculation of basis of annual actual fixed salary of the director for participation in the committee meeting.

2.2. Bonus calculation on indicator RII.

2.3. Bonus calculation on indicator RAR.

2.4. Bonus calculation on indicator RIR.

3. Calculation of indicators for an assessment of work of committee member.

4. Calculation of bonus dimension for a committee member.

4.1. Calculation of bonus basis.

4.2. Calculation of bonus dimension of an initiative ratio.

4.3. Calculation of bonus dimension of an absolute result ratio - 1

4.4. Calculation of bonus dimension of an absolute result ratio - 2

4.5. Calculation of bonus dimension of an indirect result ratio - 1

4.6. Calculation of bonus dimension of an indirect result ratio - 2

5. Calculation of the dimension and structure of material compensation of committee member.

Using the given technique, we will calculate the size of material compensation for a member of one of the board of directors committees - audit committee.

Let's introduce following indicators for calculation:

1. Annual number of questions discussed by all committees at its meetings a year - 120;

2. All meetings of all committees of the board a year - 40;

3. Number of suggestions made by all committees and further approved by the board of directors - 14;

4. Forecasted remuneration of the director for participation in a committee meeting – 1800 USD;

5. Number of the committee meetings during a year - 4;

6. Number of the committee meetings with participation of the director - 3;

7. Number of questions discussed by the committee at its meetings during a year - 20;

8. Number of questions suggested by director at the committee meetings during a year - 4;

9. Number of questions suggested by director at the committee meetings during a year and further approved by the committee - 2;

10. Number of questions suggested by the committee member, approved by the committee and further approved by the board of directors - 1;

11. Number of questions suggested by all members of the committee, approved by the committee and further approved by the board of directors - 4.

At the first stage it is necessary to calculate indicators of an assessment of audit committee performance with director participating.

Calculation of indicators for assessment of audit committee performance

Table 3. System of indicators for assessment of audit committee performance

I.N.	Group of indicators	Calculation formula	Indicator value
Assess of committee work as a whole			
1	RAI – ratio of absolute initiative	Number of questions discussed by the committee at its meetings during a year / Number of the committee meetings during a year	5
2	RII – ratio of indirect initiative	(Number of questions discussed by the committee at its meetings a year / Number of questions discussed by all committees at its meetings a year) * 100 %	16,66 %
3	RAR – ratio of absolute result	(Number of suggestions made by the committee and further approved by the board of directors / Number of questions discussed by the committee at its meetings a year) * 100 %	20 %
4	RIR – ratio of indirect result	(Number of suggestions made by the committee and further approved by the board of directors / Number of suggestions made by all committees and further approved by the board of directors) * 100 %	28,57 %

At the second stage it is necessary to identify annual actual fixed salary of the director for participation in the committee meeting which will be used further for bonus calculation.

Calculation of annual actual fixed salary of the director for participation in the committee meeting

a) Calculation of basis of annual actual fixed salary of the director for participation in the committee meeting

The formula for calculation of basis of annual actual fixed salary of the director for participation in the committee meeting:

$$BAFS = ((RAI / (ACN / ACM)) * FRCM$$

Where BAFS - basis of annual actual fixed salary of the director for participation in the committee meeting;

RAI - ratio of absolute initiative;

ACQ - annual number of all questions discussed by all committees of the board;

ACM - all meetings of all committees of the board a year;

FRCM - forecasted remuneration of the director for participation in a committee meeting (USD)

$$BAFS = ((5 / (120 / 40) * 1800 = 3000 \text{ USD.}$$

b) Bonus calculation on indicator RII

The formula for bonus calculation on indicator RII has the following form:

$$RRII = (RII * BAFS) / 100 \%$$

Where, RRII - RII remuneration;

RII - ratio of indirect initiative;
BAFS - basis of annual actual fixed salary of the director for participation in the committee meeting.

$$RRII = (16,66 \% * 3000) / 100 \% = 499 \text{ USD.}$$

c) Bonus calculation on indicator RAR

The formula for bonus calculation on indicator RAR has the following form:

$$RRAR = (RAR * BAFS) / 100 \%$$

Where, RRAR - RAR remuneration;

RAR - ratio of absolute result;

BAFS - basis of annual actual fixed salary of the director for participation in the committee meeting.

$$RRAR = (20 \% * 3000) / 100 \% = 600 \text{ USD.}$$

d) Bonus calculation on indicator RIR

The formula for bonus calculation on indicator RIR has the following form:

$$RRIR = (RIR * BAFS) / 100 \%$$

Where, RRIR - RIR remuneration;

RIR - ratio of indirect result;

BAFS - basis of annual actual fixed salary of the director for participation in the committee meeting.

$$RRIR = (28,57 \% * 3000) / 100 \% = 857 \text{ USD.}$$

Table 4 illustrates structure of the annual actual fixed salary of the director for participation in the audit committee meeting.

Table 4. Structure of the annual actual fixed salary of the director for participation in the audit committee meeting

I.N.	Group of indicators	Calculation formula	Bonus for participating in committee meetings, USD
Assess of committee work as a whole			
1	RRII - RII remuneration	$RRII = (RII * BAFS) / 100 \%$	499
2	RRAR - RAR remuneration	$RRAR = (RAR * BAFS) / 100 \%$	600
3	RRIR - RIR remuneration	$RRIR = (RIR * BAFS) / 100 \%$	857
	AFS – actual fixed salary of the director for a committee meeting	Sum of lines 1, 2, 3	1956

It is necessary to notice, that the size of the actual fixed salary of the director for a committee meeting will vary depending on indicators of an assessment of work of committee as a whole.

Calculation of indicators for assessment of work of audit committee member

At the third stage we will calculate indicators for assessment of work of audit committee member.

Table 5. System of indicators for an assessment of audit committee member work

I.N.	Group of indicators	Calculation formula	Indicator value
Assess of committee member work			
1	PR – participation ratio	(Number of the committee meetings with participation of the committee member / Annual number of committee meetings) * 100 %	75 %
2	IR – initiative ratio	(Number of questions suggested by the committee member at the committee meetings during a year / Number of questions discussed by the committee at its meeting a year) * 100 %	20 %
3	ARR 1 – absolute result ratio 1	(Number of questions suggested by the committee member at the committee meetings during a year and further approved by the committee / Number of questions suggested by the committee member at the committee meetings during a year) * 100 %	50 %
4	ARR 2 – absolute result ratio 2	(Number of questions suggested by the committee member, approved by the committee and further approved by the board of directors / Number of questions suggested by the committee member at the committee meetings during a year) * 100 %	25 %
5	IRR 1 – indirect result ratio 1	(Number of questions suggested by the committee member, approved by the committee and further approved by the board of directors / Number of questions suggested by all members of the committee, approved by the committee and further approved by the board of directors) * 100 %	25 %
6	IRR 2 – indirect result ratio 2	(Number of questions suggested by the committee member, approved by the committee and further approved by the board of directors / Number of questions suggested by all members of all committees, approved by the committees and further approved by the board of directors) * 100 %	7, 1428 %

At the fourth stage we will calculate the bonus dimension for an audit committee member.

Calculation of bonus dimension for an audit committee member

a) Calculation of bonus basis.

$$BB = ((AFS * CM) * PR) / 100 \%$$

Where BB - bonus basis;

AFS - actual fixed salary for participation in a committee meeting;

CM - number of committee meetings a year;

PR - participation ratio

$$BB = ((1956 * 4 * 75 \%) / 100 \%) = 5868 \text{ USD}$$

b) Calculation of bonus dimension of an initiative ratio.

$$BIR = (BB * IR) / 100 \%$$

Where BIR - IR bonus;

BB - bonus basis;

IR - initiative ratio.

$$BIR = (5868 * 20 \%) / 100 \% = 1173 \text{ USD.}$$

c) Calculation of bonus dimension of an absolute result ratio - 1

$$BARR 1 = (BB * ARR 1) / 100 \%$$

Where BARR 1 - ARR 1 bonus;

BB - bonus basis;

ARR 1 - absolute result ratio 1.

$$BARR 1 = (5868 * 50 \%) / 100 \% = 2934 \text{ USD.}$$

d) Calculation of bonus dimension of an absolute result ratio - 2

$$BARR 2 = (BB * ARR 2) / 100 \%$$

Where BARR 2 - ARR 2 bonus;

BB - bonus basis;

ARR 2 - absolute result ratio 2.

$$BARR 2 = (5868 * 25 \%) / 100 \% = \text{USD}1467$$

e) Calculation of bonus dimension of an indirect result ratio - 1

$$BIRR 1 = (BB * IRR 1) / 100 \%$$

Where BIRR 1 - IRR 1 bonus;

BB - bonus basis;

IRR 1 - indirect result ratio 1.

$$\text{BIRR 1} = (5868 * 25 \%) / 100 \% = \text{USD}1467$$

f) Calculation of bonus dimension of an indirect result ratio - 2

$$\text{BIRR 2} = (\text{BB} * \text{IRR 2}) / 100 \%$$

Where BIRR 2 - IRR 2 bonus;

BB - bonus basis;

IRR 2 - indirect result ratio 2.

$$\text{BIRR 2} = (5868 * 7,1428 \%) / 100 \% = \text{USD}419$$

The structure of bonus compensation of the director for work in audit committee is illustrated in table 6.

Table 6. Structure and the bonus amounts of audit committee member

I.N.	Name of indicator	Bonus amounts, USD
1	BIR - IR bonus	1173
2	BARR 1 - ARR 1 bonus	2934
3	BARR 2 - ARR 2 bonus	1467
4	BIRR 1 - IRR 1 bonus	1467
5	BIRR 2 - IRR 2 bonus	419
6	Total	7460

With the help of realization specified above system of indicators bank will manage to achieve an optimum parity between the variable and fixed compensation of committees' members in favour of domination of variable elements (bonuses) in structure of material compensation for work in committees at level 55 / 45. Thus, initiative and productivity of directors during the activity of committees in greater measure will define the dimension of material compensation of the director.

Calculation of the dimension and structure of material compensation for director participation in audit committee activity

It is necessary to notice, that a total value of compensation as fixed, in the form of compensation for

participation in committee meetings, and variable, in the form of bonus for participation, will be USD13328, that in turn makes about 15-20 percent from the general annual compensation of board of directors member. Director participation in 2-3 committees increases the given indicator to level of 45-60 percent. Thus, it will be possible to achieve proportionality in the ratio material compensation of the director for participation in committees work and board of directors meetings that will essentially increase motivation of board directors to accept active, and the main - productive participation in committees work, forming from them complete system.

The special attention should be paid on structure, the size and periodicity of payments of material compensation of the director for participation in committee work (Table 7).

Table 7. The size and periods of payments of remuneration of audit committee member

I.N.	Form of remuneration	Amount, USD	Time for payment
	(Fixed salary of the director for participation in a committee meeting	5400	After each committee meeting (by USD1800)
	Bonus	7460	In the beginning of the year, following the accounting
	Annual total extra salary for the participation in the committee meetings	468 (FRCM – AFS)	In the beginning of the year, following the accounting
	Total for a year	13328	



Figure 3. Structure of the remuneration of the audit committee member

Fixed salary, i.e. forecasted remuneration of the director for participation in a committee meeting. The size of the fixed salary depends exclusively on numbers of committee meetings in which the director took part.

Extra salary, i.e. a difference between forecasted remuneration of the director for participation in a committee meeting and fixed salary for participation in a committee meeting, is paid to the director also in the first quarter of the year following for accounting for the same reason - indicators for calculation of the actual fixed compensation can be calculated only after end of fiscal year. The size of the extra salary depends exclusively on the initiative and productivity of committee, i.e. all committee members in aggregate, in comparison with the similar indicators of other committees of council.

Bonus, i.e. bonus compensation, is paid to the director in the first quarter of the year following for accounting for the reason, that indicators for bonus calculation can be calculated only after end of fiscal year. The size of the award depends exclusively on initiative and productivity of participation of each director-participant of committee in committee work.

Thus, material compensation of board of directors committee member gets the form of system, with accurately defined:

1. Tools, namely the fixed salary, bonus and extra salary;
2. Structure in which variable tools dominate;
3. Periodicity of payments of material compensation within the limits of the allocated tools.

The developed system of remuneration of the board of directors committee members can be used not only by

boards of directors within the limits of unitary model, but also by the supervisory boards within the limits of model of double boards that testifies that this is universal system of material compensation which is based on principles of initiative and productivity of participants of boards of directors committees.

Conclusion

Non-executive directors whose independent status delivers value to the bank, makes the bank transparent. It is very important to underline and follow during financial crisis. At the same time non-executive directors should deliver value to the board through performing their functions as the board committee members. In this context the remuneration paid to the committee members plays a primary role in putting the essentials to the bank market value. Theory of corporate governance pays a weak attention to this issue. Therefore, the practices of banks with the regard to the committee members' remuneration are not developed enough to maximize the committees and board performance. Rigidity of the structure of the board committee members' remuneration is a major barrier for improving the committee performance. The advanced system of the remuneration, based on fixed elements and bonuses as well, should be developed as soon as possible. Such sort of the system has been developed by authors and introduced first to the reading audience. It is intended to banks and financial companies and remarkable contributed to the existing practice of the board committee members' remuneration.

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