



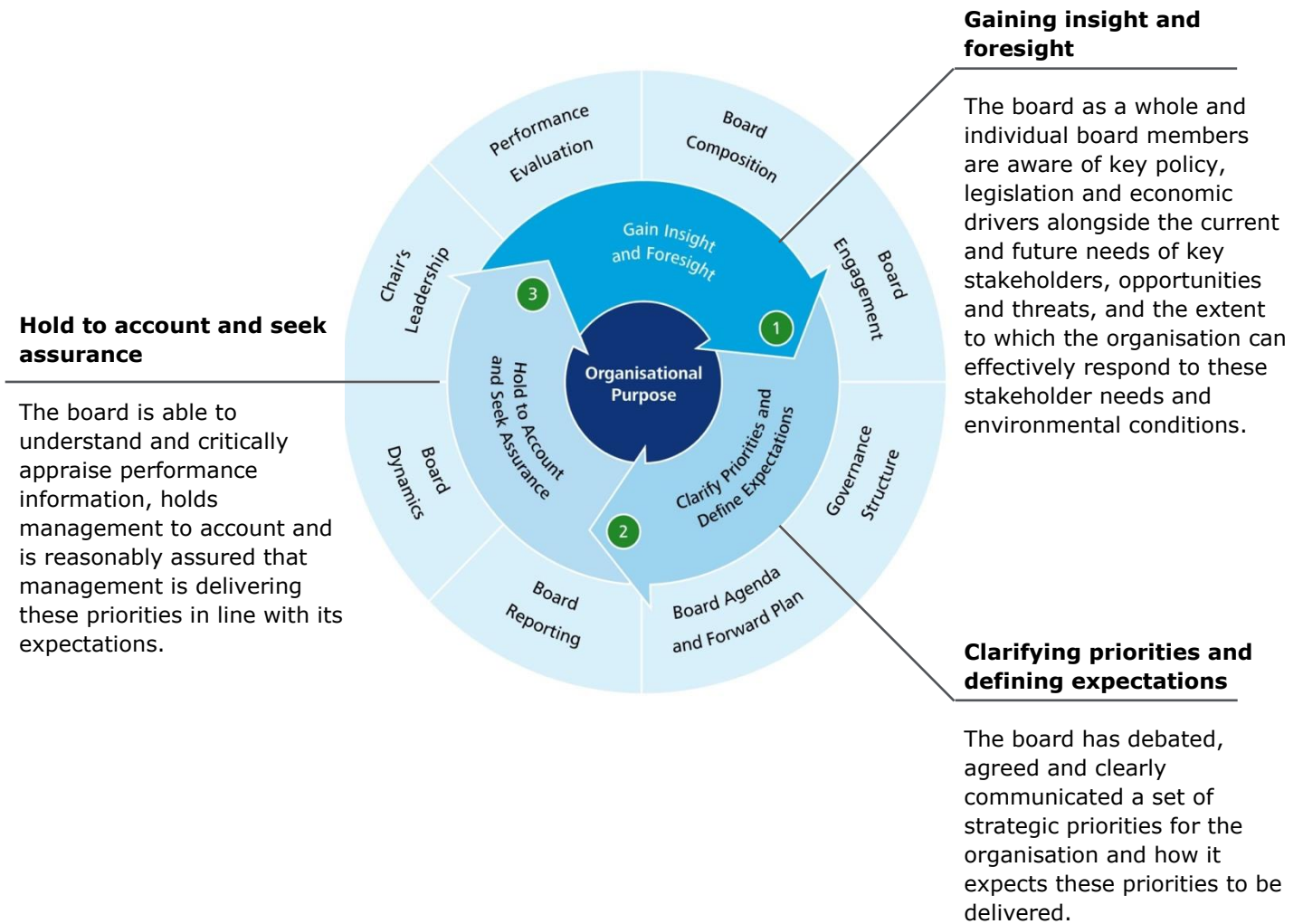
Board Evaluation

Is your Board ready for SREP governance reviews?

An effective board and well functioning corporate governance structure is a crucial element to safeguarding your business and is the foundation on which sustainable long-term success can be built. A regular external assessment of the effectiveness of your board is an excellent way of adding value to the organisation and ensuring effective decision making at the top of the organisation.

Our framework

We understand that effectiveness is more than structures and processes. It is also about the dynamics and behaviors of the individuals that comprise the Board and its Committees. Our framework focuses on how the Board discharges its key roles and the enablers that support the Board in fulfilling its responsibilities.





Core assessment tools

Documentation review

A thorough document review is essential to provide evidence and insight into the parameters within which the Board and the organisation are working, existing strengths and development areas, and any barriers to existing working practices.

Our review will include, at a high level, board and board committee management information, agendas and minutes, terms of reference, governance manual, board skills matrix and succession plan.

Board observation

This provides the opportunity to see the “board in action” and is extremely valuable in assessing board dynamics, the interaction between directors, the extent of challenge and debate, as well as considering individual members’ contributions.

Observing the board is also a crucial part of our assessment of the chairman’s leadership.

We are also able to form a view of how the board papers are used by the directors.

Individual interviews

We would meet with every member of the board, as well as individuals who, although not members of the board, interact with or present to the board on a regular basis (“stakeholder interviews”).

Interviews enable us to understand individual perspectives on Board effectiveness and provides Interviewees with an opportunity to step back and reflect on how the organisation is run and what could be improved.

In-depth assessment tools

Board survey

We find that issuing a survey to Board members is a valuable process, enabling reporting of key themes and ensuring that interviews with directors are targeted.

The survey seeks strengths and areas for development to light and highlight Board members' opinions. Individual responses are shared on an anonymous basis. The survey can be used in future assessments for year on year comparisons.

Board committee observations

By also observing a number of board committee meetings we have the opportunity to consider the information flows between the board and board committees as part of our assessment of the effectiveness of individual committees.

In addition we can expand our review to cover board committee effectiveness.

If incorporated into the review, we apply the relevant elements of our framework to each of the board committees and to the governance structure supporting the board.

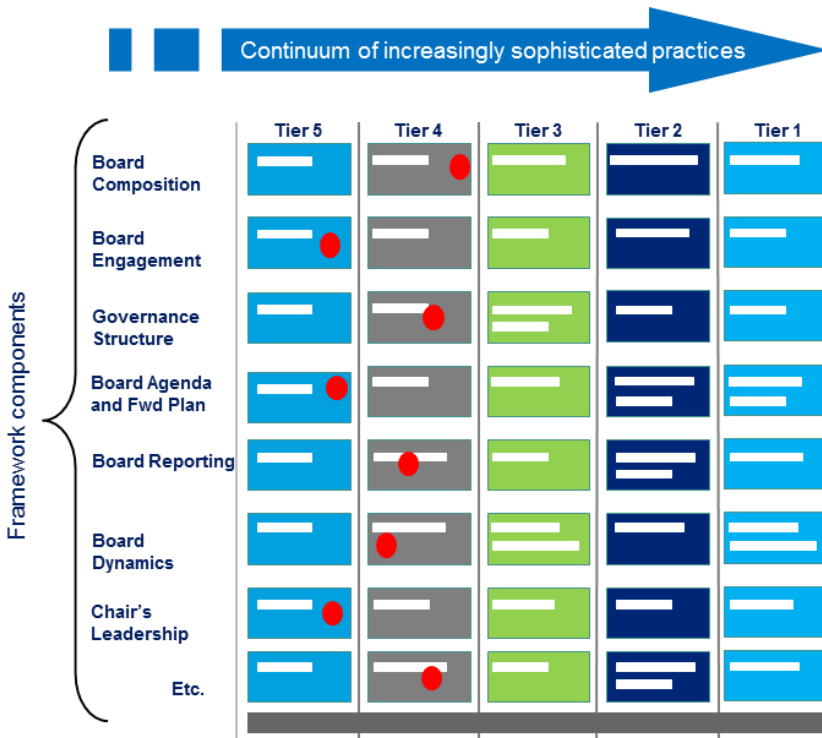
Case studies

In order to "get under the skin" of whether governance has been operating effectively and as intended, with your help we select two issues, transactions or significant decisions and understand the circumstances, escalation, approvals, and decisions in connections with these case studies.

This technique can be useful and provide insight into how the organisation operates during a period of pressure, and importantly provides an evidenced-based way of demonstrating the board's effectiveness.

Deloitte Tier Structure Model (TSM)

We use a Tier Structure Model, which sets out a continuum of increasingly sophisticated practices, ranging from poor practice (Tier 5) to market-leading (Tier 1). Clients value this approach because it is easy to understand, it clearly sets out a target best practice state which they can aspire to achieve; and for repeat reviews, it enables the board to visually track its progress from the last review.



Benefits of the Tier Structure Model

The content of the TSM 1 is based on:

- Our extensive experience of working with Boards;
- Our interpretations of PRA and FCA requirements, and;
- Best practice guidance, such as statements of effective practice issued by the Financial Reporting Council, the Financial Skills Partnership and the Basel Committee on Banking Supervision.

Given the qualitative basis of the assessment we have provided descriptors in tiers 1, 3 and 5 to enable evidence based judgement and differentiation within the assessment.

The TSM clearly depicts the current state of a Board’s effectiveness against each of the components within our framework.




Why Deloitte?

Deloitte has considerable experience working with boards and board committees, from small entities through to listed and regulated organisations. We have undertaken reviews as part of banks’ regular evaluations as well as at the request of regulators.

We tailor our tools to your needs, allowing us to ensure that the review is proportionate to the complexity of your business.

We are a team of banking specialists with an in-depth knowledge of the Maltese banking industry and challenges faced by boards. In particular, we have a comprehensive understanding of the applicable regulatory requirements, guidance and expectations, in particular CRD IV requirements and expected SREP supervision.

The SREP governance areas are set out below. The areas which are fully or partly addressed by a Deloitte Board Evaluation exercise are indicated using a ‘thumbs-up’ below:

Overall governance framework	Corporate and risk culture	Organisation and functioning of management body	Remuneration policies and practices	Internal control framework	Risk management framework	Information systems and BCP	Recovery planning arrangement
							
The assessment of the organisational structure of the institution as well as the suitability of the management body.	The adequacy of the risk and corporate risk culture taking into account the scale & complexity of the business.	The assessment of the: 1) oversight of the internal governance framework; and 2) efficacy of the interaction between management and the supervisory functions.	The alignment of the remuneration guidelines and policy of the institution, with its risk strategy and compliance with CRD IV art. 94 and EBA Guidelines 2017.	The review of the independence and effectiveness of the compliance and internal audit functions.	Institution-wide assessment of the: 1) effectiveness of the role of the CRO; 2) risk appetite framework & strategy; and 3) stress testing capabilities.	The suitability of information and communication systems and risk data aggregation capabilities.	The assessment of the institution’s recovery plans, based on the findings from the internal governance assessment



Supervisory review and evaluation process

Board Evaluation key contacts



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Mark's area of specialisation is banking regulation. He provides regular risk and regulatory training to Boards of Directors and Management of various banks, and is currently involved in various advisory engagements such as SREP transformations of banks' business models, internal governance, and ICAAP processes. Mark has acted as advisor to various Regulators including the European Central Bank (ECB), Malta Financial Services Authority (MFSA), and the Bulgarian National Bank (BNB).



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Natasha is a financial services governance specialist with 15 years of relevant experience in the industry. Natasha leads our UK and EMEA FS Governance Practice and brings strong insight into the practical challenges associated with developing and implementing robust governance frameworks. Her recent experience includes conducting board evaluations of a number of financial services firms including UK listed firms, major retail banks and international banks.



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James is a financial services specialist with eight years' relevant experience in the industry, initially within the private equity and venture capital spheres and more recently across banking, insurance, asset and wealth management. He has particular expertise in the fields of board governance, strategic change and structural reform. James leads Deloitte's financial services non-executive director briefing and induction programme where he prepares incoming senior individuals for their new regulatory and board roles.

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