Ταμείο Χρηματοπιστωτικής Σταθερότητας

Hellenic Financial Stability Fund

Guidelines on the Board of Directors' selection and appointment process in Greek Systemic Banks

February 2018

1. Introduction

The Board has ultimate and overall responsibility for the institution and defines, oversees, and is accountable for the implementation of the governance arrangements that ensure institution's effective and prudent management. Board's responsibilities[1] include setting, approving and overseeing the implementation of, amongst others, the overall business strategy and the key policies of the institution, the overall risk strategy including risk appetite[2] and risk management framework, internal governance and internal control framework, financial soundness and solvency, liquidity management, selection and suitability assessment of key-function holders, as well as, corporate and risk culture[3] and conflict of interest and compliance obligations.

The purpose of this document is to update the respective Guidelines, communicated in February 2016 to the Greek systemic Banks, in which the HFSF is a shareholder, in order to assist them to improve their Board nomination policies, whilst ensuring a formal and transparent selection and appointment process for Independent Non-Executive Directors; Non-Executive Directors and Executive Directors.

The Guidelines are organized in six major steps for the appointment of Board directors:

1. Identification and Evaluation of Needs;
2. Profile;
3. Search;
4. Selection;
5. Nomination;
6. Appointment.

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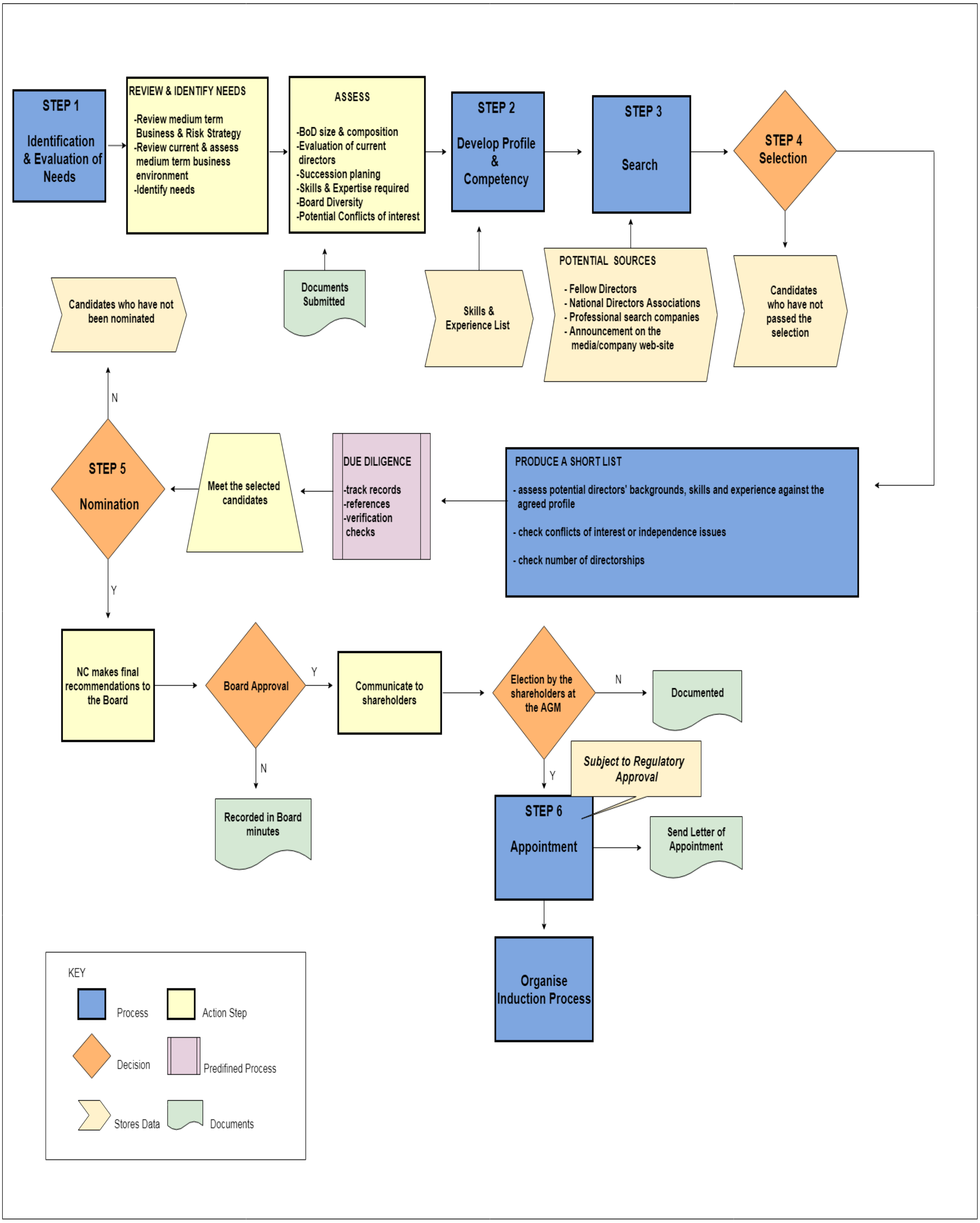
1 *For a detailed list of Board's and Board Committees' role and responsibilities please refer to Directive 2013/36/EU (Articles 76, 88, 91 and 95) and to European Banking Authority (EBA) "Guidelines on internal governance under Directive 2013/36/EU" (Chapter 4, Title II) – September 2017.*

2 *Please refer, indicatively, to Financial Stability Board's (FSB) "Principles for an effective Risk Appetite framework" – November 2013 and to European Central Bank's "SSM supervisory statement on governance and risk appetite" – June 2016.*

3 *Please refer, indicatively, to the "Guidance on Supervisory Interaction with financial Institution on risk culture" FSB – April 2014.*

A formal and transparent selection and nomination process is essential to gain the confidence and trust of all stakeholders, improving Board effectiveness and enhance the understanding and efficiency of the process in practice. In particular, four important aspects should be disclosed: ownership structure, adequate information on the nominated candidates, the nomination process and finally the elections' results. The flow chart overleaf illustrates an indicative process for the selection and appointment of Board members, which is further analyzed in detail in the next sections.


STEP 1
Identification & Evaluation of Needs
REVIEW & IDENTIFY NEEDS
-Review medium term Business & Risk Strategy
-Review current & assess medium term business environment
-Identify needs
ASSESS
-BoD size & composition
-Evaluation of current directors
-Succession planing
-Skills & Expertise required
-Board Diversity
-Potential Conflicts of interest
STEP 2
Develop Profile & Competency
STEP 3
Search
STEP 4
Selection
Documents Submitted
Skills & Experience List
POTENTIAL SOURCES
- Fellow Directors
- National Directors Associations
- Professional search companies
- Announcement on the media/company web-site
Candidates who have not passed the selection
Candidates who have not been nominated
N
STEP 5
Nomination
Meet the selected candidates
DUE DILIGENCE
-track records
-references
-verification checks
PRODUCE A SHORT LIST
- assess potential directors' backgrounds, skills and experience against the agreed profile
- check conflicts of interest or independence issues
- check number of directorships
Y
NC makes final recommendations to the Board
Board Approval
Y
Communicate to shareholders
Election by the shareholders at the AGM
N
Documented
N
Recorded in Board minutes
Subject to Regulatory Approval
Y
STEP 6
Appointment
Send Letter of Appointment
Organise Induction Process
KEY
Process
Action Step
Decision
Predifined Process
Stores Data
Documents

2. Identification and Evaluation of Needs (Step 1)

The starting point in the appointment of new Board directors is a review of the institution's business strategy, within the applicable legal and regulatory framework, and the overall risk strategy, including the institution's risk culture, risk appetite and governance framework. It is crucial to review the context for each new appointment as strategy and business environment change and new challenges and risks arise. The Board and/or the Nomination Committee (NC) should have a clear view on the medium term strategic objectives, challenges and risks of the Bank in order to outline the necessary profile/competencies of the new directors. The composition, profile, skills and competencies of the Board shall be aligned as much as possible with the medium–term strategic objectives, challenges and risks that the Bank is facing or is going to face. For example if the strategic objectives include:

a) business growth through M&A, then people with investment banking experience might be needed,

b) organic growth in retail and / or corporate lending, then people with strong retail and/or corporate lending experience might be needed,

c) significant reduction of NPLs within a short time period, then people with work-out and change management, NPL management/collections and/or risk management experience might be needed,

d) the need of operational restructuring of the bank, then people with strong commercial banking experience focusing on operations and IT might be needed,

e) the need to drive growth by digital transformation i.e. by converting traditional "analog" businesses to "digital" ones using the potential of modern online technologies and data, then people with experience in financial technology, cyber security and cyber risk, "big data" management and digital operations might be needed,

f) efficient dealing with the new regulatory environment (ECB/SSM) and the respective challenges (e.g. CRD IV, SREP, ICAAP, ILAAP, GDPR, MIFID II), then people with strong risk management, compliance and regulatory policy experience might be needed.

Other areas to be assessed during this phase include: the size & composition of the Board taking into account legal, regulatory and contractual (e.g. Relationship Framework Agreement[4] "RFA") constraints, the evaluation of current directors, the board's succession planning, skills and experience required, Board gender diversity, and potential conflicts of interest.

The HFSF Corporate Governance Review Criteria define target size of the Board to be up to thirteen (13) members, including HFSF and State representative(s) as applicable, also presenting target structure in terms of the number of executive, non-executive and independent non-executive board members.

Nomination Committee, in line with Directive's 2013/36/EU (CRD IV) requirements, shall engage a broad set of qualities and competencies when recruiting Board members and for that purpose to put in place a policy promoting diversity on the management body. In addition, the joint ESMA and EBA guidelines[5] provide a non-exhaustive list of skills that institutions should consider using when performing their suitability assessments. The said list of Board members' required soft skills is provided in Appendix 1.

Apart from aforementioned skillset, Board members of the Greek systemic banks need to share the vision of bringing knowledge and international expertise in the Greek banking sector, thus helping Greek banks to operate in a challenging macroeconomic and banking environment.

3. Profile (Step 2)

It is essential to develop a detailed list of the criteria that the new director should possess. The NC should analyze the role and responsibilities of the board member and the knowledge, experience and competence which the role requires. Furthermore, Law 3864/2010 (the "HFSF Law"), as amended and in force, prescribes the areas of experience required by Board members of the banks that have received HFSF's capital support, namely banking, audit, risk management and distressed asset management.

[4] *Please refer to http://www.hfsf.gr/files/rfa/RFA_HFSF_revised.pdf*

[5] *Please refer to the "Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders under Directive 2013/36/EU and Directive 2014/65/EU" ESMA / EBA – September 2017*

Within this context the HFSF has developed set of minimum criteria (the "HFSF Corporate Governance Review Criteria", communicated to the banks in June 2016) that, among others, describe in detail the areas of experience required by the banks' Board members. In addition, as per the ECB's "Guide to fit and proper assessment[6]", the fitness and propriety of the management body, from a supervisory perspective, is assessed against five criteria: (i) experience; (ii) reputation; (iii) conflicts of interest and independence of mind; (iv) time commitment; and (v) collective suitability. HFSF's and ECB's lists of areas of experience required by the banks' Board members are provided in Appendices 2 and 3, respectively.

The NC should gather input from multiple stakeholders, including the entire Board, the major shareholders and, in some instances, the Management team. Through this discipline, the bank aligns itself around what it needs and expects from this critical role. Soliciting feedback from a variety of sources both within and outside the bank can provide clarity about the expectations. A clearly defined profile or competency matrix shall be developed, distinguishing between qualities that are needed and those that are merely desirable. When developing the profile or competency matrix, it is important to consider what evidence is needed to prove that the person has the attributes required. The NC should strive to ensure that the board is not dominated by any one individual or small group of individuals in a manner that is detrimental to the interests of the bank as a whole.

The profile, skills and competencies of each Board role (BoD Chairperson, BoD Committees' Chairpersons, Independent Non-Executive Directors, Non-Executive Directors, Executive Directors) should take into account not only legal and regulatory requirements (e.g. HFSF Law, HFSF RFA, ECB/SSM SREP Guidelines, EBA Guidelines), but also international best practices[7]. An indicative competency evaluation matrix is provided in Appendix 4.

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[6] *Please refer to ECB's "Guide to fit and proper assessment" – May 2017*

[7] *Please refer, indicatively, to "Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders under Directive 2013/36/EU and Directive 2014/65/EU" ESMA / EBA – September 2017,"Corporate governance principles for banks" BCBS – July 2015, "Guide to fit and proper assessments" SSM – May 2017, "Banking Conduct and Culture" G30 – July 2015.*

4. Search (Step 3)

Establishing a large pool of available candidates is essential to achieving well-balanced and effective Boards. Boards need to reduce their reliance on the traditional approach of using solely personal contacts and networks, or recommendations by advisers or external auditors. Relying exclusively on abovementioned sources limits the pool of potential candidates, may lead to proposed candidates who do not have the right competencies and may result to the phenomenon of “group think” caused by a lack of diversity in Board composition. Boards should consider using other sources for identifying potential candidates, such as recruitment consultants who specialize in director recruitment or “board match” type services offered by professional bodies such as national associations of bank or corporate directors. In case of the employment of an executive search firm, HFSF strongly recommends a transparent and clear policy which lays out the steps to follow for the said firm’s selection. Finally, the HFSF strongly recommends Banks to follow an open and transparent, through media publications and/or Bank’s web-site, process for creating a solid pool of candidates.

5. Selection (Step 4)

The list of potential candidates should be reviewed to narrow the search and produce a short list. The NC should make an initial assessment of prospective candidates’ suitability. A merit selection and appointment process requires an assessment of potential directors’ background, skills and experiences against the agreed profile.

The NC should determine if there are any candidates that should be taken off the list because of a) conflicts of interest, b) independence issues, c) limited time to devote as they already participate in many boards or d) any other reason which should be documented. With the pared down short list, the NC should then carry out a detailed due diligence. Track records, references and profiles of candidates should be carefully assessed and it is also recommended that verification checks are made through alternative sources i.e. past colleagues, bankers, national associations of bank or corporate directors, credit bureaus and penal record.

The selection criteria should, at a minimum, take into account the relevant regulatory framework, as well as, relevant Laws (e.g. L.4261/2014, L.2190/1920, L3864/2010) as in force and the signed RFA with the HFSF. The long and short lists of candidates should be produced by the NC without any interference from other Board members or the senior management or any other third party.

When the shortlisting process has been finalized, the NC should meet with the candidates and meetings with the CEO and other Directors could be organized. It is important for both sides to make assessments of character, commitment and fit. The NC should only recommend a candidate that has indicated his/her strong willingness to serve as a director and has agreed to comply, if elected, with the expectations and requirements of Board service. The candidate shall be informed in detail about his/her responsibilities, including, particularly for international Board members, information on tax and legal issues, and commit on the amount of time that shall devote.

6. Nomination (Step 5)

Upon completion of its assessment, the NC will recommend the best candidate(s) to the Board according to the number of seats available. The Board should then consider, discuss and approve the nomination of the candidate(s). If, for any reason, the Board does not approve the NC's recommendation, then the NC will be asked to make another recommendation.

7. Appointment (Step 6)

Upon appointment, a letter of appointment, signed by the Chairman should be sent to the selected director setting out in detail the terms of his/her appointment which will be subject to regulatory approval. The Bank should put in place a detailed Directors' induction process in order the new Director(s) to be promptly and efficiently informed about all aspects of Bank's and its subsidiaries operations, organizational and governance structures, internal control framework, as well as, the relevant legal, regulatory and macroeconomic environment.

REFERENCES

1. Basel Committee on Banking Supervision: "Corporate governance principles for banks" – July 2015

2. European Banking Authority: "Guidelines on internal governance under Directive 2013/36/EU" – September 2017

3. European Central Bank: "SSM supervisory statement on governance and risk appetite" – June 2016

4. European Central Bank: "Guide to fit and proper assessment" – May 2017

5. European Securities and Markets Authority / European Banking Authority: "Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders under Directive 2013/36/EU and Directive 2014/65/EU"– September 2017

6. Financial Stability Board: "Principles for an effective Risk Appetite Framework" – November 2013

7. Financial Stability Board: "Guidance on Supervisory Interaction with financial Institution on risk culture" – April 2014.

8. Financial Stability Board: " Thematic Review on Corporate Governance-Peer Review Report", April 2017

9. G20/OECD "Principles of Corporate Governance" – 2015

10. Global Network of Director Institutes: "Renewing the Board" – November 2015

11. Global Network of Director Institutes: "Guiding Principles of Good Governance" – May 2015

12. Group of Thirty: "Toward Effective Governance of Financial Institutions" – 2012

13. Institute of Corporate Directors: "Directors' Responsibilities in Canada" – October 2014

14. Mauritius Institute of Directors: "Best Practice Guidelines For the Appointment of Board Members" – September 2012

APPENDIX 1

Non-exhaustive list of skills that institutions should consider using when performing their suitability assessments, as per the "Joint ESMA and EBA Guidelines on the assessment of suitability of members of the management board and key function holders under Directive 2013/36/EU and Directive 2014/65/EU"

a) **Authenticity:** is consistent in word and deed and behaves in accordance with own stated values and beliefs. Openly communicates his or her intentions, ideas and feelings, encourages an environment of openness and honesty, and correctly informs the supervisor about the actual situation, at the same time acknowledging risks and problems.

b) **Language:** is able to communicate orally in a structured and conventional way and write in the national language or the working language of the institution's location.

c) **Decisiveness:** takes timely and well-informed decisions by acting promptly or by committing to a particular course of action, for example by expressing his or her views and not procrastinating.

d) **Communication:** is capable of conveying a message in an understandable and acceptable manner, and in an appropriate form. Focuses on providing and obtaining clarity and transparency and encourages active feedback.

e) **Judgement:** is capable of weighing up data and different courses of action and coming to a logical conclusion. Examines, recognizes and understands the essential elements and issues. Has the breadth of vision to look beyond his or her own area of responsibility, especially when dealing with problems that may jeopardize the continuity of the undertaking.

f) **Customer and quality-oriented:** focuses on providing quality and, wherever possible, finding ways of improving this. Specifically, this means withholding consent from the development and marketing of products and services and to capital expenditure, e.g. on products, office buildings or holdings, in circumstances where he or she is unable to gauge the risks properly owing to a lack of understanding of the architecture, principles or basic assumptions. Identifies and studies the wishes and needs of customers, ensures that customers run no unnecessary risks and arranges for the provision of correct, complete and balanced information to customers.

g) **Leadership:** provides direction and guidance to a group, develops and maintains teamwork, motivates and encourages the available human resources and ensures that members of staff have the professional competence to achieve a particular goal. Is receptive to criticism and provides scope for critical debate.

h) **Loyalty:** identifies with the undertaking and has a sense of involvement. Shows that he or she can devote sufficient time to the job and can discharge his or her duties properly, defends the interests of the undertaking and operates objectively and critically. Recognises and anticipates potential conflicts of personal and business interest.

i) **External awareness:** monitors developments, power bases and attitudes within the undertaking. Is well-informed on relevant financial, economic, social and other developments at national and international level that may affect the undertaking and also on the interests of stakeholders and is able to put this information to effective use.

j) **Negotiating:** identifies and reveals common interests in a manner designed to build consensus, while pursuing the negotiation objectives.

k) **Persuasive:** is capable of influencing the views of others by exercising persuasive powers and using natural authority and tact. Is a strong personality and capable of standing firm.

l) **Teamwork:** is aware of the group interest and makes a contribution to the common result; able to function as part of a team.

m) **Strategic acumen**: is capable of developing a realistic vision of future developments and translating this into long-term objectives, for example by applying scenario analysis. In doing so, takes proper account of risks that the undertaking is exposed to and takes appropriate measures to control them.

n) **Stress resistance**: is resilient and able to perform consistently even when under great pressure and in times of uncertainty.

o) **Sense of responsibility**: understands internal and external interests, evaluates them carefully and renders account for them. Has the capacity to learn and realises that his or her actions affect the interests of stakeholders.

p) **Chairing meetings:** is capable of chairing meetings efficiently and effectively and creating an open atmosphere that encourages everyone to participate on an equal footing; is aware of other people's duties and responsibilities.

APPENDIX 2

Areas of experience required by banks' board members, as per the HFSF's Corporate Governance Review Criteria

a) Banking: commercial or corporate banking; retail banking; investment banking; private banking.

b) Banking supervision, financial stability, risk management, treasury operations within a Central Bank or relevant Supervisory Authority.

c) Asset Management.

d) Specialized Financing: consumer finance; leasing, credit cards; factoring.

e) Risk Management: credit risk, market risk, operational risk etc.

f) International risk advisory firm.

g) Private equity.

h) Insurance / Reinsurance.

i) Distressed Asset Management / NPLs.

j) Audit (International Audit firm limited to Audit engagements in financial institutions).

k) Rating agencies working on financial institutions.

APPENDIX 3

Assessment of the fitness and propriety of members of the management body against the "experience" criterion, as per the ECB "Guide to fit and proper assessment"

Practical and theoretical experience
Members of the management body must have sufficient knowledge, skills and experience to fulfil their functions (Article 91(1) of the CRD IV). The term "experience", used hereafter in a broad sense, covers both practical, professional experience gained in previous occupations and theoretical experience (knowledge and skills) gained through education and training.

Function-specific and minimum requirements
The principle of proportionality is inherently applicable, as the level of experience required depends on the main characteristics of the specific function and of the institution. The more complex these characteristics are, the more experience will be required.

All members of the management body are expected to possess, as a minimum, basic theoretical banking experience that allows them to understand the institution's activities and main risks. The level and nature of the experience required of a member of the management body in its management function may differ from that required of a member of the management body in its supervisory function, in particular if these functions are performed by separate bodies.

Basic theoretical experience covering the following areas is expected (although for some positions it can be obtained through specific training):

- financial markets;
- regulatory framework and legal requirements;
- strategic planning, and an understanding of a credit institution's business strategy or business plan and implementation thereof;
- risk management (identifying, assessing, monitoring, controlling and mitigating the main types of risk of a credit institution) including experience directly related to the responsibilities of the member;
- accounting and auditing;
- assessing the effectiveness of a credit institution's arrangements, ensuring effective governance, oversight and controls;
- interpreting a credit institution's financial information, identifying key issues
- based on this information and appropriate controls and measures.

Additional experience might be deemed necessary based on relevant factors, e.g. the function applied for, the nature, size and complexity of the entity, or other factors that need to be taken into account in the specific case. For example, for a director who is also the CRO, CFO, Compliance officer, Chair of the Audit Committee or Chair of the Risk Committee, specialized experience in the relevant area needs to be identified.

APPENDIX 4

Indicative Competency Evaluation Matrix
(indicative competencies/areas to be considered)

Competency / Area	Score/ Rating	Weight	Final Score
1. Audit and Compliance - performance and regulatory standards; examination & auditing procedures			
2. Board & senior management performance - setting and evaluating criteria and standards of performance of the Board, directors, CEO, senior management			
3. Operations -business model; key components of operations (people, physical and technical infrastructure), operational risks, business continuity			
4. Financial Literacy / expertise - understanding and interpreting financial statements (IFRS) and financial performance indicators			
5. Governance and Ethics - Board roles and responsibilities; structure; decision making powers; Board policies and process; Committees (mandates; structure; process), Corporate Governance best practices evolution			
6. Leadership - Leadership traits; skills and effective professional and personal attributes			
7. Regulatory environment Banks prudential supervision framework (SSM, CRD IV), BRRD & financial services Legislation and guidance on Governance; regulatory bodies/organizations			
8. Risk & Capital Management Oversight; Risk Strategy/ Governance, Non Performing Exposure management - Financial and operational risks monitoring & control, risk appetite and culture, capital allocation & planning, risk			

adjusted performance measurement, stress testing, restructuring solutions, collections strategies, NPL sales			
9. Strategy - Strategic planning concepts; process; importance of clear strategic direction; monitoring of business/restructuring plan, budget implementation			
10. Information Technology, IT Strategy, Big Data management, Digital transformation, Fintech - Networking; banking systems; database management; web-enabled services, hardware; software			
11. Mergers and Acquisitions/Capital Markets/ Investment Banking - M&A strategies; Investment/Divestment strategies, Fixed income & equity markets, Proprietary trading			
12. Executive Recruiting & Human Resource Management -Recruitment; hiring criteria and practices; performance evaluation, remuneration alignment with risk profile/appetite, voluntary retirement schemes			
13. Lending business -Retail, Wholesale, Products, NPL Management			
14. Legal Corporate & banking legal framework, legal framework regarding distressed assets, Capital markets			
15. Other competencies; areas of expertise			

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