The 2021 New ESG Priorities of Bank Boards in Greece

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The 2021 New ESG Priorities of Bank Boards in Greece

- ✓ The meaning of ESG
- ✓ Why ESG is here to stay
- ✓ NBG initiatives on all three aspects of ESG
- ✓ The regulatory perspective and the role of company Boards
- ✓ What does the future have in store?

What are the ingredients of ESG?

It began with "E" and evolved towards "ESG"

Three key ESG factors, which responsible investors use to measure the Sustainability & Ethical Impact of an Investment on a Business or Company:

E — Environmental

- climate change
- greenhouse gas emissions
- resource depletion, including water waste and pollution
- deforestation

S — Social

- working conditions, slavery & child labor
- Local & indigenous communities
- Conflict/humanitarian crises
- health and safety
- employee relations and diversity

G — Governance

- board diversity and structure
- executive pay
- bribery and corruption
- fair tax strategy

Is ESG a temporary concern that will go away?

- No!, ESG is here to stay. A decades-old global effort is behind it
- Why now? Although the need to focus on our Common Planet Future was a UN worry for decades, global politics seemed to reach consensus in 2015

- **UN AGENDA 2030 (Sept 2015)**
  17 Sustainable Development Goals (SDGs) applying to all nations
- **THE PARIS AGREEMENT, UNFCC (Dec 2015)**
  A universal legal agreement (195 countries) to keep global temperature increase below 2°C and to pursue efforts to limit it to 1.5°C relative to pre-industrial levels
- **UNEPFI (since 1992)**
  Partnership: (**UN** with **financial sector**)
  - **350 members – banks, insurers, and investors**
  - Principles for Responsible Banking (PRB) launched in September 2019, with more than 130 banks collectively holding USD 47 trillion in assets, or 1/3 of the global banking sector.

- **EU ACTION PLAN 2018**
  1) Reorienting capital flows towards a more sustainable economy
  2) Sustainability into risk management
  3) Transparency and long-termism
- **EUROPEAN GREEN DEAL** (2019)
  How to make Europe **net-zero** emitter by **2050.**
- **European Green Deal Investment Plan** (EGDIP) (2020)
  Mobilize at least €1 trillion in sustainable Investment over the next decade.

Forthcoming:

1-12 November 2021: Conference of the Parties (COP) 26 (in Glasgow)

- The recovery from the Pandemic goes through sustainability.

ESG: Increasingly Important for all Stakeholders

Stakeholders

- Employees
- Regulators
- Shareholders
- Local communities
- Consumers
- Customers
- Investors
  - Increasingly intergrading ESG analysis across their funds
  - Increasing perception that climate risks will have impact on valuations
  - New ESG and Green funds being launched
  - Investors more open to new ESG bond structures

Financial Times on June 5, 2021:
"Sustainable investing boom and net zero pledges drive ESG talent war"

ESG raters

- The **first ESG** Index was launched in 1990
- Today, there are **over 1,000 ESG indexes for ESG** products and measurement tools
- FTSE4Good Index, ISS ESG, MSCI, NASDAQ, DISO World, Eco Vadis

ESG Providers

- As of 2016, there were **more than 125 ESG data providers**, (according to The Global Initiative for Sustainability Ratings)

NBG initiatives on the "E" of ESG

- **NBG's journey from a bank financing Renewable energy projects to a catalyst for sustainable growth**

Past
Active in Renewable energy financing

- Renewable Energy loan portfolio in **2017 at €0.5bn**
- Environmental and Social Management Policy in force: Key principles adopted
- Limited measures to mitigate climate change

Present
Supporting Green oriented Growth

- Renewable Energy Loan portfolio in **2020 at €1.0bn**
- **€150mn** loan origination linked to climate change mitigation with EIB
- **€500mn** first green senior bond issuance in the Greek market
- **€50mn** in residential properties' energy efficiency loans
- Reduction of the Bank's energy consumption, UNEP Finance Initiative and endorsement of Principles for Responsible Banking

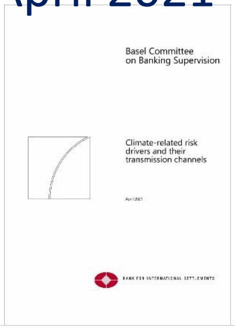
Future
Leading bank in climate change mitigation

- Renewable Energy Loan portfolio in **2023 at >€2.0bn**
- **Fully fledged ESG framework** covering strategy, governance, risk management & risk appetite, stress testing and disclosures

Regulators on top of the banks regarding "E"

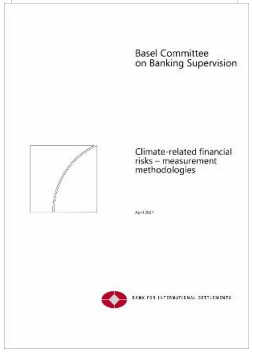
- **In Europe,**
  - In line with **ECB's Guide on Climate-related and Environmental Risks,** banks are expected to progressively incorporate Climate & Environmental risks in their policies, procedures and forward-looking approaches, plus improve disclosures
  - Final **EBA Report** expected in **2025** on the classification and prudential treatment of assets from a sustainability perspective

- **The Basel Committee on Bank Supervision** released publications in April 2021



1. Climate-related risk drivers and their transmission channels

Explores how climate-related financial risks arise and affect both banks and the banking system.



2. Climate-related financial risks – measurement methodologies

Provides an overview of conceptual issues related to climate-related financial risk measurement

The two reports conclude that **climate risk drivers can be captured in traditional financial risk categories.**

NBG initiatives on the "S" of ESG

Personnel (Respect of human rights / Code of Ethics)

- Focus on **diversity/gender equality**, with high representation of women at all levels
  - GMs & AGMs: Female: 30% Male:70%
  - Managers: Female: 40% Male:60%
  - Bank: Female: 52% Male:48%
- Equal opportunities, Personal Development and Training, Health and Safety

Customers

- **EIB loan programs** for Climate Action & Female Empowerment (€50m) and for Agriculture & Bioeconomy (€100m)
- **Microfinancing** via EaSI Guarantee scheme (€20m disbursements in 2020)
- **Protection of customers data and privacy**
- Provision and development of **safe and reliable products and services**
- Application of **fair and ethical practices in supply chain**

Society

- Active support of **public health** incl. Covid-19 response (c.€15m in 2015-20)
- NBG's **"Responsibility" Corporate Social Action program**, based on 3 core lines of action: **the Community, the Cultural Heritage and the Environment**
  NBG Cultural Foundation and its Historical Archive (c.€13m in 2015-20)
- **NBG Business Seeds** program to foster entrepreneurship, now in its 12th year
- Creation of Initiative 1821-2021 with 15 other foundations marks 200th anniversary since the Greek revolution through > 130 science & cultural events

NBG special Covid-19 era initiatives on the “S” of ESG

During 2020, key priority was the health and safety of customers, employees, and other stakeholders. This was achieved through:

- Ensuring that the majority of our employees at the central units were able to work remotely
- Issuing multiple communications to educate the staff on COVID-19
- Shifting to digital banking platforms to ensure nation-wide service offerings to customers.
- Redirecting resources to prepare for the necessary financial support to customer base to mitigate the COVID-19 emergency implications.
- Donations for the public health -Active support of public health incl. Covid-19 response (c.€15m in 2015-20)

NBG initiatives on the "G" of ESG

- Increased number of Independent Directors
  - well above the minimum set by Law 4706/2020
  - 54% of Board members being Independent (7 out of a total of 13 members)
- First Bank in Greece to introduce the role of **Senior Independent Director**
  - a growing practice internationally, further enhancing Board independence
- Highly diverse Board
  - 6 different nationalities (Greek, French, Belgian, Dutch, Indian, Romanian) on a Board of 13 members,
  - 31% women on the Board (4 out of 13 members), i.e., above the regulatory minimum of 25%,
  - diversity in terms of banking background with specific areas of expertise on the Board, e.g., Audit, Finance, Risk, Economics, Human Resources, IT
- Introduction of Diversity Policy, aligned to best practices, setting the means by which diversity principles are monitored on an ongoing basis under the oversight of the Corporate Governance and Nominations Committee, which is competent to formulate proposals to the Board of Directors and can suggest specific-measurable objectives

NBG initiatives on the "G" of ESG (continued)

- Introduction of Methodology on determining the compositions of Board Committees, foreseeing limits like:
  - Every Board member shall serve on at least one, but preferably no more than three/four committees
  - Cross participation shall be permitted only up to 60% of the total number of Committee members
- Policies such as: Remuneration, Anti-Bribery, AML/CFT, Whistleblowing, etc.
- Board **annual evaluation** Policy and exercises carried out, covering the Board and Board Committees and individual performance, to be carried out as per the Policy in collaboration with an external consultant at least every three years
- Introduction of **Board Suitability Policy**, fully aligned to the guidelines of the European Banking Authority and the SSM Guide on Fit and Proper, to be further tabled for approval by the Annual General Meeting, ongoing assessment of suitability on both an individual and collective basis
- Ongoing monitoring of best practices and introduction of enhanced governance arrangements, over and above regulatory provisions, which are stricter for banks
- Adoption of Corporate Governance Code, aligned to best practices, initiative for the upcoming introduction of a new Internal Regulation, incorporating the provisions of Law 4706/2020

Greek Corporate Governance Law 4706/2020

Law published on 17.7.2020

Entry into force of corporate governance provisions on 17.7.2021

Amended provisions on Audit Committee: Immediate entry into force upon Law publication

Challenges

- ❖ Increased compliance cost, especially for smaller entities, (new BoD Committees, several internal documents and procedures, increased disclosures)
- ❖ Difficult to recruit directors who meet enhanced independence and fit & proper criteria, including diversity criteria

Opportunities

- ✓ More efficient BoD structure / Enhancement of decision – making within the BoD by strengthening the role of iNEDs and promoting diversity
- ✓ Enhancement of transparency and thus of reliability/credibility of companies
- ✓ Avoidance of conflicts of interests within the BoD (through the enhancement of independence criteria & annual review/ confirmation of their fulfillment)

Concluding Remarks

- ✓ ESG is here to stay
- ✓ Year 2021 marks the beginning of new era of improved governance for Greek listed companies
- ✓ The governance law will likely be followed by complementary laws on increased disclosure, transparency and companies' overall ESG behavior
- ✓ Banks have a lead in conforming with the laws due to their strict supervision by SSM
- ✓ In the future, Governance laws and transparency laws are likely to trickle down to SMEs as well
- ✓ Such a development would be beneficial for the Greek financial sector and the economy since an improved company information flow would facilitate the much-needed healthy credit expansion

Thank you for your attention!

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APPENDIX

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Annex. Law 4706/2020: Main Corporate Governance Provisions

Law published on 17.7.2020

Entry into force of corporate governance provisions on 17.7.2021

Amended provisions on Audit Committee: Immediate entry into force upon Law publication

- **Suitability Policy for Board ("BoD") members**:
  - Gender quota $\geq$ 25% of BoD members

- **Strengthening the role of Independent Non-Executive Directors ("iNEDs)**:
  - **minimum proportion of iNEDs**: at least 1/3 iNEDs, instead of the previous requirement for 1/3 Non-Executive Directors
  - **enhanced BoD independence criteria** (previous Law 3016/2002 applied criteria only to BoD member and not to closely associated persons as well, BoD member/closely associated person has not served as BoD member for more than 9 financial years in total) - requirement for at least annual BoD review/confirmation of members' Independence
  - **iNEDs' representation**: mandatory representation of at least 2 iNEDs in BoD sessions approving Financial Statements or matters requiring General Meeting increased quorum/majority

Annex. Law 4706/2020: Main Corporate Governance Provisions

Law published on 17.7.2020

Entry into force of corporate governance provisions on 17.7.2021

Amended provisions on Audit Committee: Immediate entry into force upon Law publication

- Clarification of roles of **Executive** and **Non-Executive** Directors
- Requirement for **Non –Executive Chair** or, alternatively, **Non-Executive Vice - Chair**
- Obligation to establish **Nomination & Remuneration BoD Committee(s)**
- Obligation for a **periodic evaluation** by the Board of Directors **of the corporate governance system** at least every 3 financial years
- Obligation for ensuring adequate and effective operation of the **Internal Control System**, which is subject to **periodic – every 3 years – independent assessment**
- Additional provisions concerning organization, functioning and responsibilities of the Internal Audit Unit
- Obligation for implementation of a **Corporate Governance Code** by a reputable organization
- Obligation for an **extensive Internal Regulation**, which is subject to external audit review. Said obligation also applies to significant subsidiaries

Annex. Law 4706/2020: Main Corporate Governance Provisions

Law published on 17.7.2020

Entry into force of corporate governance provisions on 17.7.2021

Amended provisions on Audit Committee: Immediate entry into force upon Law publication

- **Information to investors:**
  - Disclosure of **detailed info on BoD member nomination**, 20 days prior to the General Meeting (updated analytical CVs posted throughout BoD tenure)
  - Operation of **Shareholder Services** Unit for prompt info
  - Operation of **Corporate Announcements** Unit
- **Deviations in the use of raised capital:**
  - Decisions on deviation in the use of above 20% of total capital raised (whereas L. 3016 referred to “material deviation”) cannot be made prior to the lapse of a 6-month period from the completion of the raise of capital
- **Disposal of company’s assets:**
  - GM decision on disposal of company’s assets shall require increased quorum/majority

- **Amendments to Article 44 of L. 4449/2017 on the Audit Committee**
  - In addition to GM, BoD may also appoint Committee members from the Board. GM retains competence to determine the tenure, number and skills required for Audit committee members.

Annex. Implications for the banking sector

Limited Impact for the banking sector from the introduction of the new Corporate Governance Law

- **Banks already regulated** – most provisions already present by means of:
  - Greek Law 4261/2014 (transposing CRD IV with BoD Committee requirements, i.e., BoD member knowledge/ skills/reputation
  - BoG Acts (No. 2577/2006 incl. Corp. Governance & Internal Control System requirements, Exec. Committee Act No. 142/2018 on fit & proper assessment
  - EBA Guidelines (EBA/GL/2017/11 on internal governance, EBA/GL/2017/12 on the assessment of the suitability of members of the management body & key function holders)
  - Greek Law 3864/2010 (HFSF Law) introduced enhanced eligibility criteria for BoD members of systemic banks, i.e., requirement for at least 3 independent non-executive expert members with no relationship for many years with Greek banks

- **L. 4706/2020** stipulates that more specific corporate governance provisions can be added, as is the case of banks

Annex. Milestones for Bank Supervisory developments and mandates

2020

- **ECB Guide** on climate-related and environmental risks management and disclosure
- **EU Taxonomy:** EU classification system for sustainable activities
- Revision process: **Shareholder rights Directive 2017/828 SRDII**
- Final **EBA Guidelines** on **Loan Origination and Monitoring**
- Consultation paper on **draft ITS on Pillar III disclosure** – ESG disclosure
- Consultation paper on **ESA's RTS on consumer and investor disclosures**
- Discussion paper on **EBA Report** on incorporation of ESG risk into risk management and supervision

2021

- **Adaption of EC2019/2088:** Sustainability-related disclosures in the financial services sector "Non-Financial Disclosure Regulation"
- Adaption by ESA's of the **EC2019/2089 "the Low Carbon Benchmark Regulation"** after the application of EU2019/2088
- EBA assessment of the potential inclusion in the supervisory review and evaluation performed by competent authorities of ESG risks in the context of **Directive (EU) 2019/878**
- **Application of Loan Origination & Monitoring Guidelines** to newly originated loans
- Final **EBA Report** on **incorporation of ESG risk into risk management and supervision**
- **Final draft ITS on Pillar III disclosure** – ESG disclosure

2022 - 2024

- **ECB climate stress test**
- **Disclosure of Environmental, Social and Governance risks (ESG risks)** in the context of Pillar III requirement for large institutions which have issued securities that are admitted to trading on regulated market of any Member State
- **Application of Loan Origination & Monitoring Guidelines** to loans that have been renegotiated
- Discussion paper on **classification and prudential treatment of assets** from a sustainability perspective

June 2024

Implementation of Corporate Sustainability Reporting Directive **(CSRD)**

June 2025

- **Final EBA Report** on classification and prudential treatment of assets from a sustainability perspective

NOTE

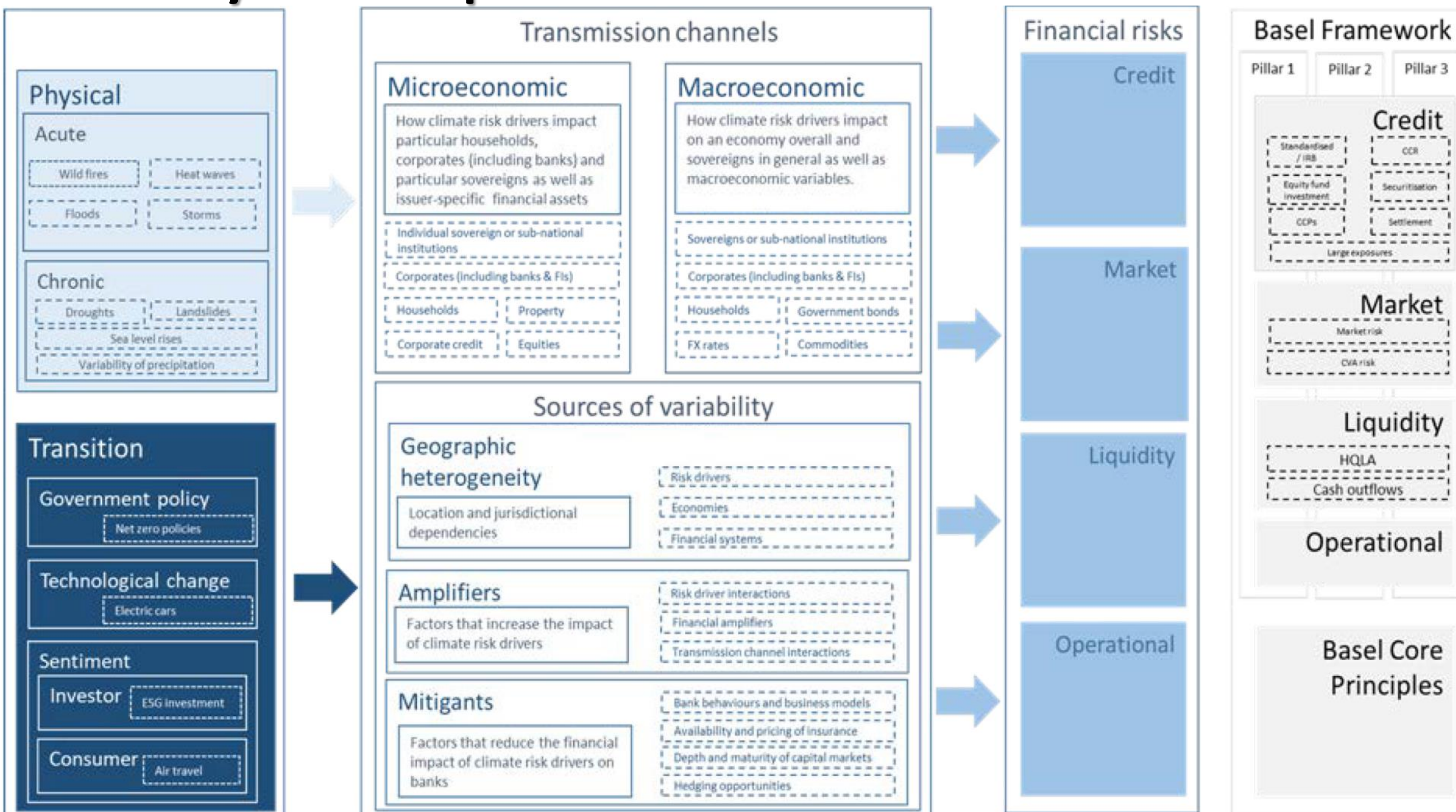
Frontloaded Regulatory Directives' releases, revisions and mandates (2020-21)

Expected additional Supervisory workload

Annex. BCBS in April 2021: Risk drivers and financial risks

- In April 2021, the Basel Committee on Banking Supervision released two reports on
  - a) Climate-related risk drivers and their transmission channels, and
  - b) Climate-related financial risks and their measurement methodology

Summary of 1st report:



Annex. Climate-related risk drivers: Physical & transitional

Summary of risk-drivers (or sources of risk):

Physical Risks	Sub-categories/examples
Extreme weather events	Tropical cyclones/typhoons, floods, winter storms, heat waves, droughts, wildfires, hailstorms
Ecosystem pollution	Soil pollution and degradation, air pollution, water pollution, marine pollution, environmental accidents
Sea-level rise	Chronic sea-level rise or sea surges
Water scarcity	Drought or insufficient supply of water
Deforestation/desertification	Deforestation caused extinction of species, changes to climatic conditions, desertification, and displacement of populations
Transition Risks	**Sub-categories/examples**
Public policy change	Energy transition policies, pollution control regulations, resource conservation regulations
Technological changes	Clean energy technologies, energy saving technologies, clean transportation, and other green technologies
Shifting sentiment	Changes in consumer preference for certain products, changes in investor sentiment on certain asset classes
Disruptive business models	New ways to run businesses that can rapidly gain market shares from traditional businesses (e.g., virtual meetings that significantly reduce business travels; vertical farming that challenges traditional farming)

- **The report also describes the transmission channels from the risk drivers to the typical bank risk categories on which regulators impose the Basel III Capital Adequacy Requirements**

Annex. BCBS in April 2021: Climate-related financial risks

Summary of 2nd report:
(emphasizes methodology)